



Gero & Evaul

Certified Public Accountants and Consultants
A Partnership of Professional Associations

Dear Clients & Friends,

Whether you are a landlord or a tenant, some of the non-residential leasehold improvements that you make now may qualify for favorable depreciation and property expensing rules that have not applied to most other building improvements in the past.

Specifically, so long as you didn't begin construction before Sept. 9, 2010, improvements that you make that are (1) "qualified leasehold improvement property" (described below) and (2) placed in service after Sept. 8, 2010 and before Jan. 1, 2012 (Jan. 1, 2013 for certain projects) are generally eligible for 100% bonus depreciation. That means that the full cost of the improvements is presently deductible.

Note also that even if you did begin construction of qualified leasehold improvement property before Sept. 9, 2010, the property can generally qualify for (1) 50% bonus depreciation in the year that the improvements are placed in service (the placed-in-service year) if placed in service before Jan. 1, 2013 (Jan. 1, 2014 for certain projects) and (2) depreciation of the remaining 50% of the cost of the improvements in the placed-in-service-year and over the next 14 years if the improvements are placed in service before Jan. 1, 2012 (the next 38 years if placed in service after Dec. 31, 2011).

These special rules are a dramatic departure from the general rule that deductions for the cost of non-residential buildings, or improvements to the buildings, are allowed over a 39-year period.

Many, but not all, improvements made under a lease meet the requirements for being qualified leasehold improvement property. These requirements include, but aren't limited to, the requirements that the improvements be to an interior portion of the building, not enlarge the building, not be attributable to internal structural framework and not be placed in service three years or sooner after the building was first placed in service. We are available to help you determine whether any improvements that you have in mind meet the requirements. Also, we can help you identify improvements that, although attached to the building, are, for depreciation purposes, considered to be machinery or equipment and, thus, where 100% bonus depreciation may not apply, qualify for depreciation periods considerably shorter than 15 years.

Please contact us at your convenience if you are interested in working with us to take advantage of the tax breaks for qualified leasehold improvement property. We look forward to talking to you about this or any other tax matter.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Gero & Evaul', written over a horizontal line.

Gero & Evaul