

Tax provisions that enjoy widespread bipartisan support but are not permanent provisions of the tax code are customarily renewed and extended by Congress in legislation commonly referred to as “tax extenders” legislation. Among those “tax extenders” that are of primary concern to the commercial real estate industry are the temporary provision allowing for 15-year qualified leasehold improvements depreciation, and the provision regarding the expensing of costs involved in the remediation of brownfields.

The 15-year qualified leasehold improvement depreciation and the brownfields remediation expensing provisions have expired. Unless renewed by Congress, this will result in increased capital costs to commercial real estate owners and developers, creating disincentives to clean up contaminated brownfields sites. These provisions are wise public policy and NAIOP supports making them a permanent feature of the tax code in any comprehensive tax reform effort. However, Congress needs to reinstate these expired provisions now in tax extenders legislation, as it continues its work toward passing comprehensive tax reform legislation over the next several years.

### **NAIOP Supports Passage of Tax Extenders Legislation Important to Commercial Real Estate:**

**Qualified Leasehold Improvement Depreciation** is the ability to deduct the cost of the customized improvements a building owner makes to a rental space to configure it for a tenant’s needs. The current 15-year depreciation schedule for qualified leasehold improvements, which is temporary and must be periodically reauthorized, has already expired and reverted to a 39-year depreciation schedule. Failure to renew the 15-year qualified leasehold improvement depreciation will result in higher capital costs, creating disincentives for building owners to upgrade and modernize the space for their tenants. The provision must either be made a permanent feature of the tax code or be included in tax extenders legislation.

- Qualified leasehold improvement depreciation of 15-years more closely reflects the economic reality of the modern commercial real estate market.
- Increased investment in leasehold improvements has substantial positive impacts upon economic growth.

- The provision should be made permanent. Having to extend 15-year qualified leasehold improvement depreciation creates needless uncertainty for the commercial real estate industry, and creates disincentives for owners to upgrade tenant space.

**Brownfields Remediation Expensing** allows for the expenses incurred in the cleanup of a brownfield site to be immediately expensed by a developer, and provides an important incentive to revitalizing contaminated properties across the country. Brownfields expensing expired at the end of 2011 and has not been renewed. Congress needs to reinstate the brownfields expensing provision this year, and the provision should be made a permanent feature of the tax code.

- There are an estimated 500,000 brownfield sites in the United States that need to be redeveloped.
- On average, \$1 of public investments in brownfields leverages \$8 in total investments.
- As much as \$2 trillion of real estate may be undervalued due to the presence of contamination.
- Congress should add a "carry forward" provision to allow the expensing deduction to be used in future years, when taxable income from many of these redevelopments is earned.