Cover & Rossiter
Certified Public Accountants

CARES Act BULLETIN #CR-03

Technical Correction to Restore Faster Write-Offs for Interior Building Improvements

The CARES Act makes a technical correction to the 2017 Tax Cuts and Jobs Act (TCJA) that retroactively treats:

(1) a wide variety of interior, non-load-bearing building improvements (qualified improvement property (QIP)) as eligible for bonus depreciation (and hence a 100% write-off) or for treatment as 15-year MACRS property; or,

(2) if required to be treated as alternative depreciation system property, as eligible for a write-off over 20 years. The correction of the error in the 2017 Tax Law restores the eligibility of QIP for bonus depreciation, and in giving QIP 15-year MACRS status, restores 15-year MACRS write-offs for many leasehold, restaurant and retail improvements. Please see the example below for potential tax savings opportunities created by such technical correction.

Example
A commercial real estate lessor (C-corporation) spent $7.3 million for interior building improvements for a couple of tenants. The newly-fitted space was placed in service on December 1, 2018. Under the TCJA, the Company treated the leasehold improvements as 39-year property for its 2018 income tax return.

The Company reached out to Cover & Rossiter to take advantage of the CARES Act, where qualified improvement property is reclassified as 15-year property and, therefore, 100% bonus depreciation is allowed for the property. Cover & Rossiter's recommendation was to perform a cost segregation study. The table below summarizes the depreciation expenses with and without cost segregation. Depending on whether the Company filed its 2019 return or not, the Company would be able to enjoy the tax savings by amending its 2018 return or filing an automatic accounting method change as part of its 2019 tax return. **The bottom line cash savings would be $911,897.**

	Under the TCJA (Without cost segregation)	Under the CARES Act (With cost segregation
Total cost	$7,251,112	$7,251,112
Classification of assets:		
39-year property	$7,251,112	$2,901,001
15-year property	-	$2,610,400
7-year property	-	-
5-year property	-	$1,739,711
Depreciation taken in 2018 for assets placed in service in 2018	$7,746	$4,350,111
Net benefit from cost segregation	-	$4,342,365
Cash savings (federal rate of 21%)		**$911,897**

Please reach out to Cover & Rossiter if you have questions or would like to discuss your particular situation.