



## TRANSACTION ADVISORY SERVICES

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#### About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the Firm primarily serves clients in the healthcare, energy and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at [navigant.com](http://navigant.com).

# POTENTIAL REAL ESTATE BENEFITS FROM DECEMBER 2015 TAX LAW

On December 18, 2015 President Obama signed into law a package of tax extenders called "The Protecting Americans from Tax Hikes Act of 2015," (the "Act"). The Act modifies, extends, or makes permanent several depreciation provisions or deductions relating to construction and renovation projects.

## WHAT THIS MEANS TO YOU

- Bonus depreciation allowance extension and expiration
- Permanent 15-year recovery for qualified leasehold, restaurant, and retail property
- Extension of Energy Policy Act ("EPAct") 179D deduction for 2015 and 2016 relating to energy efficient commercial building construction and renovation

This article will demystify the above provisions and explain the potential benefits of a cost segregation study as it pertains to depreciation provisions and deductions.

### Bonus Depreciation Allowance Extension and Expiration

The Act extends bonus allowance for assets acquired for first use in 2015 through 2019. The bonus allowance will be 50% for 2015 through 2017, 40% for 2018, 30% for 2019, and will be phased out entirely after 2019 except for certain property with a longer production period. In addition, the provision allows taxpayers to opt out of bonus allowance to accelerate Alternative Minimum Tax ("AMT") credits.

Eligible property for bonus depreciation includes newly constructed or original use property with a recovery period of twenty years or less (real or personal), qualified leasehold improvements, certain computer software, and water utility property. Property acquired after first installation, such as an acquisition of an existing building, does not qualify for bonus allowance.

### Permanent 15-year Recovery for Qualified Leasehold, Restaurant, and Retail Property

The Act makes permanent the 15-year recovery period for qualified leasehold improvement property, restaurant property, and retail improvement property. Each is subject to the following limitations:

Qualified leasehold property is any improvement made pursuant to a lease to an interior portion of a building that is nonresidential real property and placed in service more than three years after the date the building was first placed in service. Work relating

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to elevators/escalators, common area work, internal structural framework or building enlargement are excluded. This provision does not apply when the landlord and tenant are related parties.

Qualified restaurant property is any section 1250 property that is a building or an improvement to a building, if more than 50% of the building's square footage is devoted to the preparation of, and seating for on-premises consumption of, prepared meals.

Qualified retail improvement property are qualified leasehold improvements that are specific to retail establishments that are open to the public and primarily in the business of the sale of goods to the general public and not services. Examples include clothing, furniture, grocery, jewelry, and consumer product stores.

It is important to note that qualified restaurant and qualified retail improvement property are not eligible for bonus depreciation unless it also satisfies the definition of qualified leasehold improvement property.

### **Extension of EAct 179D Deduction for 2015 and 2016 Relating to Energy Efficient Commercial Building Construction and Renovation**

EAct 179D provides a deduction for taxpayers who construct a new building or renovate an existing building to certain energy efficiency standards. The deduction provides up to \$1.80 per square foot of qualified area. For 2015, the American Society of Heating, Refrigerating and Air-Conditioning Engineers ("ASHRAE") standard was ASHRAE 90.1 2001. For 2016, the ASHRA standard is ASHRAE 90.1 2007, which provides a 25% improvement over the 2001 standard, primarily in lighting requirements

### **COST SEGREGATION STUDY POTENTIAL BENEFITS**

Since 2001, bonus allowance has varied between 30% and 100% and expired from 2005 to 2007. A cost segregation study may identify elements of construction or renovation that qualify for bonus allowance depending on the year placed in service and can be recovered over 5-, 7-, and 15-year periods. Projects completed in 2015 may be analyzed for the timely-filed current tax return to maximize eligible depreciation deductions. The potential benefit of a cost segregation study generally falls in the range of 2% to 4% of the project cost and reflects the tax cash flow net present value of the accelerated depreciation compared with recovering the investment over 39 years.

For prior-year projects where the taxpayer has already filed a tax return, the Internal Revenue Service ("IRS") allows a cost segregation study to be performed and the new depreciation claimed by filing IRS Form 3115, which does not require amending the prior tax return.

In 2013, the IRS issued new tangible property regulations regarding the deductibility of repair and renovation expenditures as well as the capitalization of new property. To enable a taxpayer to deduct qualified repairs, a cost segregation study identifies the key components of the building and structure to provide the cost basis from which future deductions can be made. This is a very complex area that requires consideration of many issues, not least of which is your election to use or not use bonus allowance.

### **HOW NAVIGANT CAN HELP**

Navigant offers comprehensive services to assist clients in creating, delivering and protecting value. Our experts deliver valuation services for financial, tax reporting and stewardship requirements including Fixed Asset Review and Cost Segregation studies that are designed to maximize eligible federal depreciation deductions. Our professionals utilize a variety of valuation standards, approaches and methodologies to provide our clients with thorough valuations that enable them to make informed business decisions. We have the breadth and depth of collective experience across many industries, which enable us to customize our approach to the unique needs of each client.

We would welcome an opportunity to review your construction or renovation project budget to estimate the potential benefit of a cost segregation study and to review reporting requirements for future deductible repairs.