

April 29, 2019

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Senate Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
House Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Chuck Schumer
Senate Minority Leader
U.S. Senate
Washington, DC 20510

Dear Speaker Pelosi, Majority Leader McConnell, Minority Leader McCarthy, and Minority Leader Schumer:

The undersigned organizations and companies urge all House and Senate members to cosponsor the Restoring Investment in Improvements Act (S. 803/H.R. 1869) – bipartisan, bicameral legislation that promotes investment in local businesses, job creation, and other important economic and community benefits. Consistent with years of bipartisan efforts to encourage such activity, the bill returns qualified improvement property or “QIP” (generally, improvements to the interior of existing nonresidential buildings) to a 15-year depreciation recovery period and restores its eligibility for accelerated bonus depreciation.

Due to an unintentional drafting error, QIP was inadvertently deleted from the Internal Revenue Code’s list of 15-year depreciation categories, and thus defaulted to a Modified Accelerated Cost Recovery System (“MACRS”) recovery period of 39 years. As a result, under current law, QIP also is ineligible for bonus depreciation. Thirty-nine years is far longer than the actual useful life of QIP. Further, the cash flow and tax exposure ramifications of the erroneous tax treatment of QIP are significant, particularly for small business owners and franchisees.

To put it into perspective, in 2018, instead of being able to write off 100 percent of QIP investments under current law’s accelerated bonus depreciation provisions or roughly 47 percent under the bipartisan PATH Act of 2015 (when 40 percent bonus depreciation would have applied to all QIP, and restaurant, retail and leasehold properties would have had a 15-year recovery period), businesses were only able to write off *2.5 percent* last year and must depreciate the remainder over the next *38 years*.

Notably, current law was scored as if the QIP mistake were not made (i.e., as if it retained its 15-year recovery period established in the PATH Act). Therefore, there is ***no budget impact to restore QIP depreciation to 15 years.***¹

¹ A related mistake left QIP with a 40-year Alternative Depreciation System (“ADS”) recovery period, rather than 20 years. The Restoring Investment in Improvements Act also would correct that mistake (again, without any budget impact).

There are many compelling reasons, in addition to the “zero” cost, for Congress to act as quickly as possible to address this problem. Current law is slowing investments in QIP and commercial renovation projects—the opposite of lawmakers’ longstanding goal to *grow* such investments and fuel related economic activity. Not surprisingly, it is causing numerous negative ripple effects for individuals and businesses, including on job creation, sales of QIP products and building supplies, property values, building occupancy and rental income, cost-saving energy efficiency gains, and even on fire safety. Specific examples of such consequences include, among others:

- Significant cash flow disruptions for businesses—especially small businesses and franchisees (who are often obligated to remodel on a particular schedule)—that have already planned and committed to substantial renovation projects, which may result in these businesses having to make trade-offs in other areas such as hiring and employee pay/benefits;
- Businesses refraining from purchasing or leasing vacant stores or other leasehold spaces that require improvements, which means foregoing *permanent jobs* that would be generated with new businesses moving in and other benefits of revitalizing our communities;
- Loss of construction jobs associated with commercial renovation projects;
- Delays in store and restaurant remodeling projects and, by extension, negative impact on these businesses’ ability to attract customers and compete with newer market entrants; moreover, this creates safety concerns because, in some cases, installations of fire sprinkler systems also are delayed (creating a more perilous situation in the case of fire);
- Hampering of building owners’ ability to offer “improvement dollars” in their lease terms to retain existing commercial tenants or attract new tenants;
- Declining sales for QIP product suppliers (e.g., lighting and other improvements, lumber and building supplies, etc.), including high-quality products supplied or manufactured in the U.S.; and
- Less investment in energy-efficient QIP products, which save businesses substantial operating costs in the long term (as much as 50 to 90 percent through upgraded lighting and controls alone) and reduce energy consumption.

Every day the mistake in current law persists means foregoing significant investment in QIP and a loss of related economic activity and other benefits to our communities. Restoring QIP’s 15-year depreciation period is a top priority for each of us. We respectfully request that members cosponsor the bipartisan Restoring Investment in Improvements Act (S. 803/H.R. 1869) to support our businesses and industries that are being negatively impacted with respect to commercial improvements and QIP investments.

Thank you for your continued support of American families and businesses. We look forward to working with you to ensure passage of this important legislation as soon as possible.

Sincerely,

Businesses & Local Associations:

Delaware North
(City, State)

Red Rock Resorts
(City, State)

National Trade Associations:

Agricultural Retailers Association
Congressional Fire Services Institute
Nareit
National Fire Sprinkler Association

cc: The Honorable Chuck Grassley, Chairman, Senate Finance Committee
The Honorable Ron Wyden, Ranking Member, Senate Finance Committee
The Honorable Richard Neal, Chairman, House Ways & Means Committee
The Honorable Kevin Brady, Ranking Member, House Ways & Means Committee
Honorable members of the U.S. Senate
Honorable members of the U.S. House of Representatives