

105TH CONGRESS
2D SESSION

H. R. 3500

To amend the Internal Revenue Code of 1986 to provide a shorter recovery period for the depreciation of certain leasehold improvements.

IN THE HOUSE OF REPRESENTATIVES

MARCH 18, 1998

Mr. SHAW introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide a shorter recovery period for the depreciation of certain leasehold improvements.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. RECOVERY PERIOD FOR DEPRECIATION OF**
4 **CERTAIN LEASEHOLD IMPROVEMENTS.**

5 (a) 10-YEAR RECOVERY PERIOD.—Subparagraph
6 (D) of section 168(e)(3) of the Internal Revenue Code of
7 1986 (relating to 10-year property) is amended by striking
8 “and” at the end of clause (i), by striking the period at
9 the end of clause (ii) and inserting “, and”, and by adding
10 at the end the following new clause:

1 “(iii) any qualified leasehold improve-
2 ment property.”.

3 (b) QUALIFIED LEASEHOLD IMPROVEMENT PROP-
4 ERTY.—Subsection (e) of section 168 of such Code is
5 amended by adding at the end the following new para-
6 graph:

7 “(6) QUALIFIED LEASEHOLD IMPROVEMENT
8 PROPERTY.—

9 “(A) IN GENERAL.—The term ‘qualified
10 leasehold improvement property’ means any im-
11 provement to an interior portion of a building
12 which is nonresidential real property if—

13 “(i) such improvement is made under
14 or pursuant to a lease (as defined in sub-
15 section (h)(7))—

16 “(I) by the lessee (or any subles-
17 see) of such portion, or

18 “(II) by the lessor of such por-
19 tion,

20 “(ii) such portion is to be occupied ex-
21 clusively by the lessee (or any sublessee) of
22 such portion, and

23 “(iii) such improvement is placed in
24 service more than 3 years after the date
25 the building was first placed in service.

1 “(B) CERTAIN IMPROVEMENTS NOT IN-
2 CLUDED.—Such term shall not include any im-
3 provement for which the expenditure is attrib-
4 utable to—

5 “(i) the enlargement of the building,

6 “(ii) any elevator or escalator,

7 “(iii) any structural component bene-
8 fitting a common area, and

9 “(iv) the internal structural frame-
10 work of the building.

11 “(C) DEFINITIONS AND SPECIAL RULES.—

12 For purposes of this paragraph—

13 “(i) COMMITMENT TO LEASE TREAT-
14 ED AS LEASE.—A commitment to enter
15 into a lease shall be treated as a lease, and
16 the parties to such commitment shall be
17 treated as lessor and lessee, respectively.

18 “(ii) RELATED PERSONS.—A lease be-
19 tween related persons shall not be consid-
20 ered a lease. For purposes of the preceding
21 sentence, the term ‘related persons’
22 means—

23 “(I) members of an affiliated
24 group (as defined in section 1504),
25 and

1 “(II) persons having a relation-
2 ship described in subsection (b) of
3 section 267; except that, for purposes
4 of this clause, the phrase ‘80 percent
5 or more’ shall be substituted for the
6 phrase ‘more than 50 percent’ each
7 place it appears in such subsection.”

8 (c) REQUIREMENT TO USE STRAIGHT LINE METH-
9 OD.—Paragraph (3) of section 168(b) of such Code is
10 amended by adding at the end the following new subpara-
11 graph:

12 “(G) Qualified leasehold improvement
13 property described in subsection (e)(6).”.

14 (d) ALTERNATIVE SYSTEM.—The table contained in
15 section 168(g)(3)(B) of such Code is amended by inserting
16 after the item relating to subparagraph (D)(ii) the follow-
17 ing new item:

 “(D)(iii) 10 ”.

18 (e) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to qualified leasehold improvement
20 property placed in service after the date of the enactment
21 of this Act.

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