



**WALT TCHIRKINE**, *Tax Stockholder*

wtchirkine@rina.com • 510-893-6908

475 14th Street, Suite 1200 • Oakland, CA 94612

**www.rina.com**

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**Our landlord paid for improvements to our retail operation. Are there any tax consequences to us?**

A

It depends on whether you “own” those improvements under the lease. If so, the amount paid by the landlord is income to you and the improvements are depreciated over their useful life (generally 15 years). However, IRC Section 110 allows you to exclude from gross income any amount used for qualifying construction of leasehold improvements. The lease must not exceed 15 years and the amounts excluded must be expended for qualifying long term real property in the year received or within 8 1/2 months after year end. A reimbursement received for amounts expended in an earlier year can also be excluded provided no depreciation deductions were claimed. Qualifying leasehold improvements expended in excess of landlord allowances may qualify for the 50% bonus depreciation and 15 year depreciation recovery period provided required conditions are met.