

LEASEHOLD IMPROVEMENTS ACT

HON. E. CLAY SHAW, JR.

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 24, 1999

Mr. SHAW. Mr. Speaker, as a Member of Congress, I am continually seeking sound policy changes that will make and keep our economy productive, create jobs and improve the overall quality of life for Americans. It is my belief that an important element of a productive economy is modern, efficient and environmentally responsible space for Americans to work, shop and recreate. In order to create and maintain such space, a building owner must regularly change, reconfigure or somehow improve office, retail and commercial space to meet the needs of new and existing tenants.

I believe that the Internal Revenue Code's cost recovery rules associated with leasehold improvements are an impediment for building owners needing to make such improvements. Therefore, I am pleased to introduce this legislation to change the cost recovery rules associated with leasehold improvements.

Simply stated, this legislation would allow building owners to depreciate specified building improvements using a 10-year depreciable life, rather than the 39 years required by current law, thereby matching more closely the expenses incurred to construct these improvements with the income the improvements generate under the lease.

To qualify under the legislation, the improvement must be constructed by a lessor or lessee in the tenant-occupied space. In an effort to ensure that the legislation is as cost efficient as possible, improvements constructed in common areas of a building, such as elevators, escalators and lobbies, would not qualify; nor would improvements made to new buildings.

Office, retail, or other commercial rental real estate is typically reconfigured, changed or somehow improved on a regular basis to meet the needs of new and existing tenants. Internal walls, ceilings, partitions, plumbing, lighting and finish each are elements that might be the type of improvement made within a building to accommodate a tenant's requirements, and thereby ensure that the work or shopping space is a modern, efficient, and environmentally responsible as possible.

Unfortunately, today's depreciation rules do not differentiate between the economic useful life of a building improvement—which typically corresponds with a tenant's lease-term—and the life of the overall building structure. The result is that current tax law dictates a depreciable life for leasehold improvements of 39 years—the depreciable life for the entire building—even though most commercial leases typically run for a period of 7 to 10 years. As a result, after-tax cost of reconfiguring, or building out, office, retail, or other commercial space to accommodate new tenants or modernizing workplaces is artificially high. This hinders urban reinvestment and construction job opportunities as improvements are delayed or not undertaken at all.

Additionally, a widespread shift to more energy-efficient, environmentally sound building

elements is discouraged by the current tax system because of their typically higher expense. For example, the Natural Resources Defense Council notes that commercial lighting alone consumes more than one-third of the electrical energy produced in the United States. If a greater conservation potential of energy-efficient lighting were to be realized, the demand for the equivalent of one hundred 1,000-megawatt powerplants could be eliminated, with corresponding reductions in air pollution and global warming.

Reform of the cost recovery rules for leasehold improvements has been long overdue but we are making progress. A few years ago, Congress enacted legislation I sponsored, along with my colleague Mr. RANGEL, that would clarify that building owners are permitted to fully deduct and close out any uncovered leasehold improvement expenses remaining at the time a lease expires and the improvements are demolished. Resolution of the "close-out" issue was an important reform step. Modifying the recovery period for improvements is the logical and reasonable next step in the reform process.

This legislation should be enacted this year. This would acknowledge the fact that improvements constructed for one tenant are rarely suitable for another, and that when a tenant leaves, the space is typically built-out over again for a new tenant. It is important to note that prior to 1981 our tax laws allowed these improvement costs to be deducted over the life of the lease. Subsequent legislation, however, abandoned this policy as part of a move to simplify and shorten building depreciation rules in general to 15 years. Given that buildings are now required to be depreciated over 39 years, it is time to face economic reality and reinstate a separate depreciation period for building improvements to tenant occupied space.

Mr. Speaker, I urge my fellow members to review and support this important job producing, urban revitalization legislation. I look forward to working with my colleagues on the Ways and Means Committee to enact this bill.

RECOGNITION OF JOHN F.
DEERING MIDDLE SCHOOL
AWARD WINNERS

HON. ROBERT A. WEYGAND

OF RHODE ISLAND

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 24, 1999

Mr. WEYGAND. Mr. Speaker, I rise today to recognize a group of students who attend John F. Deering Middle School in West Warwick, Rhode Island. These exceptional young people recently participated in several different academic contests in Rhode Island.

Eight seventh-grade students—Michael Casey, Michael Petrarca, Daniel Politelli, Robert Caires, and Ali Shihadeh—were statewide award winners of "The Best Research Skills Award" in the portfolio segment of the Providence Journal Stock Market Game Fall Competition. The group had the good fortune to be coached by Marcelline Zambudo and Tamara Casimiro, two dedicated teachers at Deering Middle School. Five other Deering students—

Alyssa Lavallee, Kristin Capaldo, Colleen Pigott, Anthony Politelli, and Jarred Trouve—were award winners in a statewide writing contest in Rhode Island, and they were honored by having their writing samples and artwork displayed in the published book *Mysterieries, Monsters, Memories* and more.

In addition to these outstanding achievements, three other students—Danielle Vanesse, Danielle Crowe, and Danielle DeRosa—won the school's annual spelling bee for the respective classes. These three young women will now have the honor to represent Deering Middle School in the Regional Spelling Bee to be held March 6. Finally, of the forty-eight students from Deering who participated in the National Geographic Geography Bee, three finalists remained after nine rounds of double elimination. Michael Petrarca won first place while representing the 7 Platinium Team; Jarred Trouve received second place with 8 Orange Team; and Anthony Politelli came in third place with 8 Black Team. These young men benefited from the hard work and commitment of their teachers, Greg Kortick, Joseph Lancellotta, and Tamara Casimiro.

We spend a lot of time in these chambers discussing the problems facing the youth and students of America, but I stand today to applaud and support the positive accomplishments of these young people and their teachers. Each of these students and teachers is a positive and important resource to West Warwick, and it is vital that we continue to recognize and build on the assets of our educational system. I thank these students and their teachers from Deering Middle School for their dedication and commitment to their academic pursuits, and I ask my colleagues to join me in congratulating each of them on their impressive accomplishments.

INTRODUCTION OF THE MENTAL
HEALTH JUVENILE JUSTICE ACT

HON. GEORGE MILLER

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 24, 1999

Mr. GEORGE MILLER of California. Mr. Speaker, I am pleased today to join my colleagues Representatives KAPTUR and STRICKLAND, and our other cosponsors, in introducing the Mental Health Juvenile Justice Act.

Our nation's juvenile justice facilities are increasingly overcrowded, unsafe, and inadequately staffed. We need to reform our juvenile justice system to ensure that it preserves the basic rights and human dignity of the children and youth housed in its facilities and that it does not become a dumping ground for youth who would be better served in mental health and substance abuse treatment programs.

Too many young people are being punished—rather than treated—for their troubles. Treatment and other services simply are not available when they should be, and as a result children are literally churned up inside the juvenile justice system.

The particular characteristics of criminal acts of individual juveniles require us to have a