

Report

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Industry Victory

15-Year Depreciation Schedules in Financial Stabilization Package

Restaurants can take advantage of shortened building depreciation schedules through 2009, thanks to provisions in the Emergency Economic Stabilization Act.

In addition to the \$700 billion financial stabilization package, the law guarantees equitable treatment of restaurant building depreciation for improvements and new construction.

The law will allow 15-year depreciation for restaurant improvements made in 2008 and 2009, as well as for new restaurant construction in 2009.

The provision represents a major victory for the restaurant industry. It's the first time restaurant operators will be able to depreciate new construction on a shorter schedule, noted Michelle Reinke, the National Restaurant Association's lead lobbyist on the issue.

Most restaurants remodel every six or eight years, but the tax code treats many restaurant wall-removing remodeling projects as new construction rather than renovations.

As a result, each renovation launches a new 39½-year depreciation schedule.

Although the NRA supports the provision in the economic stabilization package, it urges Congress to approve a permanent 15-year schedule for renovation and new construction.

In the meantime, the provision will be an important catalyst for growth in the restaurant sector, which in September lost jobs for the first time in over two years, said National Restaurant

Association President and CEO Dawn Sweeney.

The current 39½-year depreciation schedule puts restaurants at a competitive disadvantage.

Convenience and amusement-park food stores have far shorter depreciation schedules than restaurants.

Depreciation schedules for commercial real estate, including restaurant buildings, haven't been revised significantly since they were established.

The 15-year schedule more

accurately reflects the life of a restaurant property.

Restaurant building depreciation is one of several tax issues that expired at the end of 2007.

The NRA also supports provisions in the financial rescue package that extend the alternative minimum tax patch, the Work Opportunity Tax Credit, the charitable deduction for food inventory and disaster relief for the Midwest and Hurricane Ike victims.

Compare Your Tax Savings Under Old and New Depreciation Schedules

Amount spent to renovate/rebuild	39½-Year Schedule		15-Year Schedule		Annual savings difference
	Annual depreciation	Annual tax savings*	Annual depreciation	Annual tax savings*	
\$100,000	\$2,532	\$608	\$6,667	\$1,600	\$992
\$250,000	\$6,329	\$1,519	\$16,667	\$4,000	\$2,481
\$500,000	\$12,658	\$3,038	\$33,333	\$8,000	\$4,962
\$700,000	\$17,722	\$4,253	\$46,667	\$11,200	\$6,947
\$1,000,000	\$25,316	\$6,076	\$66,667	\$16,000	\$9,924
\$1,500,000	\$37,975	\$9,114	\$100,000	\$24,000	\$14,886
\$2,000,000	\$50,633	\$12,152	\$133,333	\$32,000	\$19,848

* Figures are based on a 24% effective marginal tax rate.

Source: National Restaurant Association research