



Many HVAC Units Are Not Qualified Leasehold Improvements

For the last few years the IRS has allowed for certain leasehold improvements to receive special treatment for depreciation. Qualified leasehold improvements are allowed an accelerated 15-year property depreciation and are eligible for bonus depreciation. In order to be eligible for this treatment the leasehold improvements need to meet certain requirements. These requirements include:

- The leasehold improvements need to be to the interior of a building.
- The leasehold improvements need to be to a non-common area.
- The leasehold improvements are for nonstructural components.
- The leasehold improvements need to be between an unrelated lessee and lessor.
- The building needs to be over three years old.

There have been questions as to whether a rooftop HVAC unit that only feeds the interior of buildings would qualify for this treatment. The IRS confirmed this week that rooftop or outdoor HVAC units are not eligible for this treatment. In Chief Counsel Advice 201310028 the IRS confirmed that qualified leasehold improvements do not include these types of assets. This confirms that rooftop HVAC units should be treated as 39-year real property, and are not eligible for bonus depreciation. However, HVAC units located inside a building and feeding tenant areas are eligible for 15-year treatment and bonus depreciation.

This confirms the position McGuire Sponsel has taken for our clients. However, we often are asked to review fixed asset listings for CPA firms and this is an area where we see potential exposure. With this IRS confirmation, practitioners need to be more aware of this issue.



Rooftop or outdoor HVAC units should be treated as 39-year real property, and are not eligible for bonus depreciation.

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