Tax Depreciation Benefits Associated with Demountable Walls

Associated Tax Depreciation Benefits

Depreciation is an income tax deduction that allows businesses to take an annual allowance for wear and tear of property. This deduction is spread out over what is considered the useful life of an item, as defined by the IRS.

In the past, most rooms within buildings have been constructed using drywall. Drywall, doors and traditional glazing are included in CSI Division 8 and considered permanent components of a building. As such, they are depreciated with the building over 39 years.

Personal property includes items that can be moved within a space, such as furniture, partitions, equipment/ computers, markerboards, signage, window coverings, and storage/lockers. Therefore, they can be depreciated over 7 years. Demountable walls are considered to be personal property, and are included in CSI Division 10 - Specialties, within section 10.22.00 Partitions.

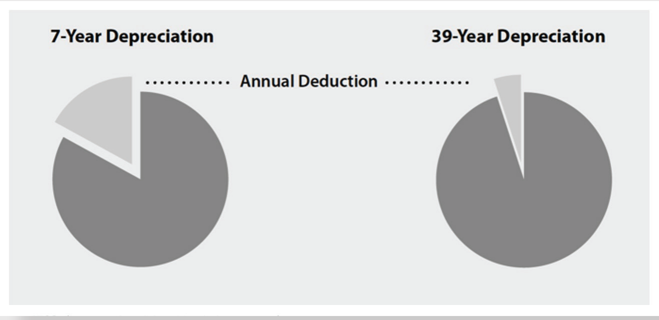
The key requirements for an item to be considered personal property include:

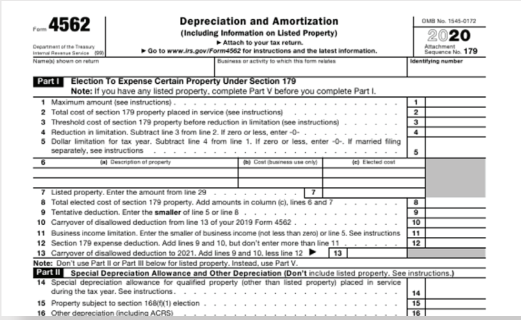
- Installed and removed quickly with little expense
- Not intended to remain permanently in place
- System is NOT damaged and the building is NOT damaged, upon its removal
- Does not service a utility-like function with respect to the building
- Serves the building in its passive functions of containing and protecting the tenants' assets
- Produces income only as a consideration for the use or occupancy of space within a building
- Was NOT installed during construction of the building
- Will NOT remain in place when a tenant vacates the premises

Income Tax Implications

Personal property can be depreciated faster than a building; 7 years vs. 39 years. Using demountable walls affords companies significant tax savings over using drywall.

Although demountable walls can cost more per lineal foot than standard construction, the additional cost is offset by two factors; 1) the reduced time and labor to install them vs. drywall, and 2) the ability to depreciate them in 7 years.





Form **4562** | **Depreciation and Amortization** (Including Information on Listed Property) ► Attach to your tax return. ► Go to *www.irs.gov/Form4562* for instructions and the latest information. | OMB No. 1545-0172 | 2020 | Attachment Sequence No. 179

Department of the Treasury Internal Revenue Service (99)

Name(s) shown on return | Business or activity to which this form relates | Identifying number

Part I Election To Expense Certain Property Under Section 179
Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions) . . . 1
2 Total cost of section 179 property placed in service (see instructions) . . . 2
3 Threshold cost of section 179 property before reduction in limitation (see instructions) . . . 3
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . 4
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions . . . 5
6 (a) Description of property | (b) Cost (business use only) | (c) Elected cost
7 Listed property. Enter the amount from line 29 . . . 7
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 . . . 8
9 Tentative deduction. Enter the **smaller** of line 5 or line 8 . . . 9
10 Carryover of disallowed deduction from line 13 of your 2019 Form 4562 . . . 10
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions 11
12 Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 . . . 12
13 Carryover of disallowed deduction to 2021. Add lines 9 and 10, less line 12 ► 13

Note: Don't use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)

14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions . . . 14
15 Property subject to section 168(f)(1) election . . . 15
16 Other depreciation (including ACRS) . . . 16

Holoform demountable walls qualify for a Section 179 tax deduction. This deduction may allow a company to expense 100% of the purchase price in the first year up to $1,040,000, with a limit of the total amount of the equipment, furniture or accessories purchased at $2,590,000. Any amount over the $2,590,000 phases out on a dollar-for-dollar basis.

Section 179 Tax Refund Examples

Demountable Wall Tax Depreciation	
Cost of Wall System	$1,100,000
Section 179 Deduction	**$1,040,000**
Bonus Depreciation Deduction	$60,000
Normal 1st Year Depreciation	$0
Total First Year Depreciation	$1,100,000
First Year Cash Savings (assumes 35% tax bracket)	$385,000
Cost of Equipment in 1st Year	**$715,000**

Tax Savings in the First 5-Years (Assuming Equal Costs and a 35% Tax Bracket)	Conventional Construction	Demountable Walls
Year 1 (1/39, 2.6% for Conventional)	$28,600	$385,000
Year 2 (1/39, 2.6% for Conventional)	$28,600	$0
Year 3 (1/39, 2.6% for Conventional)	$28,600	$0
Year 4 (1/39, 2.6% for Conventional)	$28,600	$0
Year 5 (1/39, 2.6% for Conventional)	$28,600	$0
5-Year Total Savings	**$143,000**	**$385,000**