Changing Tax Depreciation for Capital Improvements Would Lead to Enhanced Quality Long Term Care

Depreciation schedules for residential commercial real property have not been significantly revised since they were established decades ago. The federal tax code generally allows long term care facilities to depreciate renovations or improvements to buildings over a 27 1/2-year depreciable life. This long period of time to recoup costs makes reinvesting challenging, creates limitations to expansion of facilities, and is not reflective of the actual useful life of a nursing facility.

Congress has recognized these financial challenges and has passed legislation in previous years to shorten temporarily tax depreciation recovery periods from 39 years to 15 years for certain leasehold improvements. However, this temporary provision that shortens tax depreciation recovery periods was not applicable to long term care facilities. AHCA/NCAL urges law makers to consider introducing legislation shortening the depreciation period for long term care facilities that will generate savings on taxes that long term care providers can put back into the facility to expand, improve and hire more people.

The tax savings derived from a shorter depreciable life will improve cash flow and promote renovation and improvements of aging facilities. The outdated 27 1/2 year standard deters investment, which leaves seniors in less modern, less efficient facilities. In addition, this extended recovery period offers little incentive for facilities to attract financial capital that can go toward physical plant and other infrastructure improvements, such as the adoption of sophisticated health information technology (HIT) systems that will assist in the diagnosis of patients, support care management, and enhance adherence to clinical guidelines.

On the average, our nation’s nursing facilities are more than 30 years old. With budgetary constraints and limited resources, State Medicaid programs are reluctant to direct funding toward real estate improvement. Instead, funding increases are commonly dedicated to hands-on patient care with little, if any, earmarked for physical plant improvement, particularly for the more than 10,000 long term care companies that own one to three facilities and are truly considered small businesses with limited access to capital. Establishing a statutory 15-year recovery period will help generate this capital, which will lead to improvement and modernization of long term care facilities and enhanced quality of care for the frail, elderly, and disabled Americans they serve.

Ask Congress…

To establish a statutory, 15-year tax depreciation schedule for qualified long term care facilities, thereby encouraging modernization & other capital improvements.

Key Facts

- The average nursing facility in the U.S. is more than 30 years old.
- Residential commercial real property depreciates over a 27 1/2 year recovery period.
- A temporary provision in the Emergency Economic Stabilization Act of 2008, which shortened tax depreciation schedules for restaurants from 39 years to 15 years, provided incentives for owners to make capital improvements to existing restaurants/properties.

Contact

- Teresa Cagnolatti
  202.898.6339
tcagnolatti@ahca.org