

Cost Segregation Newsletter - July 2007

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Crossing Selling Tax Consulting with The Cost Segregation: There is an inherent link between tax preparation and Cost Segregation. A Cost Segregation consultant would be the perfect position to counsel the client on overall asset depreciation as they work on minimizing their tax burdens. A Cost Segregation study is a great opportunity for the consultant to show a competitive advantage in all aspects of the industry; and an excellent way for the client to save money on their taxes. Property owners should seek counsel to see if they can benefit from a Cost Segregation Study. Just because your CPA hasn't recommended one already, doesn't mean that you cannot harvest advantages from a Cost Segregation report. CPAs either don't realize the benefits of Cost Segregation Depreciation, or believe they are not capable of tackling the large level of detail needed for such a study. Cost Segregation and 1031 like-kind exchanges are the two most valuable tax planning strategies available to commercial real estate investors. A Cost Segregation Analysis may identify 10-50 percent of assets that may be eligible for depreciation over a 5, 7, or 15 year life. Our Cost Segregation group has been providing real-estate property owners with reports that are both IRS approved and detailed orientated. With the rise of construction costs, the volumes of Cost Segregation studies have gone up as well. Assumptions made by real estate investors have peaked in interest of Cost Segregation Studies. While tax preparers in some areas in the U.S. have been seen to embrace Enterprise Zone Credits, others look into Cost Segregation Studies for their tax benefits. The Cost Segregation group has specialists to suit your every need, commercial offices, to restaurants, to apartment complexes are just few of the specialized builds we have numerous successful Cost Segregation studies on. Let our extensively trained and AACSS certified Cost Segregation consultants help you increase your real-estate cash flow. After completing numerous Cost Segregation studies around the nation, tax payers have saved money by using these methods. A closer look at Cost Segregation Study: Cost Segregation studies are highly detailed reports on the classification of assets that can be depreciated over different class lifes. Cost Segregation Studies should only be completed by qualified engineer.

What is a Cost Segregation Study:

Under US tax laws and accounting rules, Cost Segregation is the process of identifying personal property assets that are grouped with real property assets, and separating out personal assets for tax reporting purposes. A Cost Segregation study identifies and reclassifies personal property assets to shorten the depreciation time for taxation purposes, which reduces current income tax obligations. Shorter life property assets include a building's non-structural elements, exterior land improvements and indirect construction costs.

Analysis of capital expenditures is used to determine appropriate asset classifications. Cost Segregation identifies building costs that would typically be depreciated over a 27.5, 31.5 or 39-year period and reclassifies them to permit a shorter, accelerated method of depreciation for certain building costs. Costs for non-structural elements, such as, carpet, accent lighting, portions of the electrical system, and exterior site improvements such as sidewalks and landscaping, can often be depreciated over five, seven or 15 years, rather than over 27.5, 31.5 or 39 years.

In addition to offering tax relief, Cost Segregation can benefit businesses in a number of ways:

- Maximizing tax savings by adjusting the timing of deductions. When an asset's life is shortened, depreciation expense is accelerated and tax payments are decreased during the early stages of a property's life. This, in turn, releases cash for investment opportunities or current operating needs.
- Creating an audit trail. Improper documentation of cost and asset classifications can lead to an unfavorable audit adjustment. A correctly documented Cost Segregation helps resolve IRS inquiries at the earliest stages.
- Playing Catch-Up: Retroactivity. Since 1996, taxpayers can capture immediate retroactive savings on property added since 1987. Previous rules, which provided a four-year catch-up period for retroactive savings, have been amended to allow taxpayers to take the entire amount of the adjustment in the year the Cost Segregation is completed. This opportunity to recapture unrecognized depreciation in one year presents an opportunity to perform retroactive Cost Segregation analyses on older properties to increase cash flow in the current year.
- Additional tax benefits. Cost Segregation can also reveal opportunities to reduce real estate tax liabilities and identify certain sales and use tax savings opportunities.

Under certain circumstances, Cost Segregated assets may qualify for a special 30% bonus depreciation allowed by the Job Creation and Worker Assistance Act of 2002 or a 50% bonus depreciation allowed under the Jobs and Growth Tax Relief Reconciliation Act of 2003.