COST SEGREGATION SERVICES

Lower Your Tax Bill and Increase Cash Flow

Cost segregation studies can be a valuable tool for individuals and businesses who own commercial and investment real estate. Both small and larger property owners can realize significant tax deduction and tax credit incentives, including those related to "green" and energy efficiencies. Cost segregation can also be especially helpful when it comes to applying the recently enacted Tangible Property Regulations (TPRs).

Dalby, Wendland & Co., P.C., frequently does engineering-based cost segregation studies for our clients in a variety of industries. Here are some common Q & A's about cost segregation:

What is cost segregation?

If you own or plan to purchase, build, or remodel commercial property, or income producing residential property, you may want to consider an often overlooked tax deferral tool called cost segregation. Essentially, cost segregation is a method of reclassifying components of your building into different categories, whereby you get a larger portion of the tax deduction from depreciation sooner rather than later.

Why should I consider cost segregation?

On the surface, your factory, office building, or other structure may seem like just real estate,. However, parts of it, such as specialized plumbing, wiring, and equipment can be reclassified as "personal" property for income tax reporting purposes. Also, components of the real estate such as landscaping and other outdoor features of the property can be reclassified as land improvements, allowing tax deductions to be claimed earlier rather than later. Reclassifying can save you money in the form of increased tax deductions now.

What is depreciation and what happens to depreciation when cost segregation is employed?

As the owner of commercial property, you get a tax break for the depreciation of your property, which is spread over a 39-year period (27.5-years for apartment buildings). "Personal" property and land improvements are depreciated much faster at 5, 7, or 15 years. Reclassifying, or segregating, components of your building as "personal" means you get a tax break now instead of smaller breaks spread over many years. Substantially shorter depreciation allows a bigger tax deduction now, lower tax liability, and more money that remains available to your business as cash flow.

Can I do a 1031 exchange and a cost segregation study on the same property?

With proper tax planning, it is possible to receive greater tax benefits by using these strategies together. We highly advise that you talk with a Dalby Wendland professional about this potential opportunity. Both techniques are complex and require specialized involvement from additional professionals (e.g., qualified intermediary).

How do I know if cost segregation will benefit my situation?

Consider cost segregation if:

- You own depreciable real property placed in service after January 1, 1987
- You are constructing or purchasing a building, or expanding your facility (building, excluding land, should be at least $1,000,000 value for cost segregation to be cost-effective)
- You have extensive leasehold improvements (generally more than $500,000 of leasehold improvement costs)
- Your property is used in your business or rented to other parties
- You plan to retain the property for several years and currently have taxable net income

Not every business can benefit from cost segregation. Newer buildings and improvements typically profit the most, however the study could uncover later tax deductions in older buildings that may generate benefits from catch-up depreciation.

Dalby Wendland professionals will conduct a benefits analysis free of charge to determine if a cost segregation study is in your favor.

Just One of Our Client Success Stories

A local auto dealership constructed a new facility. Dalby Wendland's recommendation of a cost segregation study reclassified 36 percent of the building costs as personal property eligible for shorter depreciation lives, increasing the tax depreciation deduction by a cumulative $591,000 for the first four years.
The present value of the cost segregation study to the auto dealership was $454,000.

What is involved in performing a study?

Once we've determined if you qualify and would benefit from cost segregation, we initiate a simple 4-step process:

1) Assemble relevant documentation to include building/improvement contracts, purchase agreements, blueprints/plans, construction draws, appraisals, and other cost-related records
2) In-person site visit to verify the documented information collected and determine the components for segregation
3) Analyze and price the components to designate the appropriate recovery period
4) Provide a comprehensive written report detailing the methodology, project description, depreciation benefit comparison, tax classification, and supporting evidence

We work with other industry professionals to secure and authenticate pertinent information. Such professionals may include your CPA, engineering consulting firm, architects, and general contractors.

Can any accountant provide this service?

Special knowledge and experience is essential when performing cost segregation studies. Due to the intricacies, they cannot be performed by just any tax or accounting professional. Our work is backed with a complete audit trail to ensure the study findings are supported with factual, corroborating evidence for IRS compliance.

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