

COST SEGREGATION STUDIES HOLD THE KEY TO TAX SAVINGS DON'T MISS THE BOAT

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You recently purchased or constructed a property and now its time to allocate the purchase price or cost basis between land and building. Once satisfied with this allocation, you depreciate the building over 39-years (27.5 years for residential property), the IRS required tax life. Sounds typical doesn't it? [Well, if you think that is the end of the story, you missed the boat!](#)

Are you willing to give up as much as 5% or more of the total cost of your building in lost tax benefits? This means a five million dollar building could generate \$250,000 or more in tax benefits. You can do the math for even larger properties. Isn't taking advantage of the non-cash depreciation deductions one of the reasons you invest in real estate? If this is important to you, as it is for most real estate investors, read on.

A cost segregation study (CSS) can provide property owners, and even tenants with significant fit-up costs, the benefit of shifting certain property costs from a 39-year life to 15-year, 7-year and even 5-year lives. Certain provisions of the tax code can provide additional tax benefits. Performing a CSS to accelerate depreciation, can lead to significant tax savings and increased cash flow.

While this concept may seem straightforward and simple, it takes a trained team of professionals to properly prepare a CSS in accordance with published IRS guidance. A trained tax professional is needed to identify the specific components that will qualify as shorter-lived assets. A trained engineering professional is needed to perform the detailed cost allocations. The tax professional also needs to know the "rules of the road" when it comes to what the IRS expects to see in a quality CSS report.

If the answer to these questions is YES, you are a CSS candidate

- ▶ Can your organization benefit from accelerating tax depreciation deductions?
- ▶ Does the property have a tax basis of more than \$1,000,000?
- ▶ Will the property be held for at least two years from acquisition?

A CSS can be performed even after the tax year has ended as long as the results of the study are included in the current year's tax return. Taxpayers can benefit from a CSS not only on a property they have recently purchased or constructed, but for properties they have owned for many years. Current IRS rules allow the catch-up of missed depreciation deductions on properties acquired many years ago by filing an automatic change in accounting form with their current year's tax return. The missed deductions from the prior years are all caught-up and deducted in

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the current year. No amended returns are required to obtain this extraordinary benefit.

Studies have been effectively performed for a multitude of properties from apartment buildings, office buildings, manufacturing facilities, restaurants, hotels, shopping centers, medical facilities, and many more. As a result, many taxpayers make CSS a regular part of their property purchasing process.

The savings derived from these studies flow right to the bottom line in tax savings and cash flow. The time to act is now. Do not miss this boat!

David Grant, CPA, is a partner at CohnReznick with over 30 years of accounting experience. As a member of the Firm's Real Estate Industry Practice and head of Cost Segregation Studies, David has focused his expertise in real estate consulting and specialized tax-planning services.

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