

9 OUT OF 10 COMMERCIAL PROPERTY INVESTORS ARE OVERPAYING ON INCOME TAXES

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Year after year, the Federal Government has continued to incentivize those who invest in Commercial Property. The IRS has established guidelines that, if ignored, cause commercial real estate investors to pay more in taxes than they should.

What guidelines are being ignored by Commercial Property Investors? Those revolving around Accelerated Depreciation; known in the taxation world as Property Cost Segregation.

RAMIFICATIONS OF IMPROPER DEPRECIATION ALLOCATION

Most commercial property investors do not truly understand the substantial benefits of accelerated depreciation. This is evidenced by our analysis of thousands of depreciation schedules over the years. We have found less than 10% of investors are properly depreciating their properties. The most common misconception is, "I am going to get this money anyway". Is this a true or false statement?

LET'S INVESTIGATE...

1. Capital Gains vs Ordinary Income Rates

Although the mechanics of these calculations are not always as simplistic as we will be making it for this example, the short response is - increased depreciation leads to paying taxes at the capital gains rate as opposed to the ordinary income rate. Since capital gains rates are likely much lower than the Investor's income tax rate, they would benefit from accelerated depreciation.

2. Time Value of Money

Simply put, your dollar is worth more today than it will be in the future. A tax dollar saved today therefore is worth more than a tax dollar saved in the future. Why lock up a tax savings in your property for 27-39 years when you can receive it today?

3. Catch-Up Depreciation

If you have not completed a Cost Segregation study on your property that you have held for a period of time, did you know that you can capture your entire missed benefit immediately? The IRS allows you to complete a 481 adjustment thus enabling you to catch up all the missed accelerated depreciation into the current tax year. This provision alone could save you hundreds of thousands immediately!

4. The Power of Cash in hand

You are a real estate "investor". This means you understand the investing power of having funds in your hand today. Cash today [in the form of tax savings] enables you to invest in additional properties. The benefits of

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this are exponential and allow continued growth of your investment portfolio. Correct allocation of real estate depreciation is essential for Commercial Property Investors to effectively manage their tax situation. Are you one of the 90% who are missing out on opportunities that 10% of your competitors are capturing?

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