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Four unique tax saving ideas for real estate entities to increase revenues while also cutting costs

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Often companies are confronted with the difficult task of attempting to increase revenues while also cutting costs. The current economic climate has forced companies to consider the most effective ways to do this. Cost savings ideas are the easiest way for companies to increase their operating cash flow. This article provides you with four unique tax saving ideas for real estate entities.

Suspend Capital

Improvements

Real estate companies that rely on their building to generate revenue typically invest money in the building through capital improvements. By suspending these improvements in the current market cash flows will be helped.

Require Detailed Invoices

from Vendors

Cost segregation studies can greatly accelerate the depreciation. However, these studies can be expensive so they may not be feasible given the current economic situation. One way to accomplish this without spending money is to require future invoices from vendors to give the detail of what was done. This will allow the landlord to breakout the capitalizable items into different life buckets and in turn accelerate the depreciation for some items, whereas before the total cost of the project might have fallen into 39 year life without the detail.

Energy Bundles

Energy bundles are a hot topic. They are viewed as a great way to generate cost savings. It provides an opportunity to create buying power by pooling utility accounts and create a reverse auction where utility companies bid down the price, and ultimately costs the landlord nothing. It also provides you access to online budget information with the ability to compare budget to actual in real time. The savings are tracked and compared to what the utility is currently charging.

Structure a New Lease

A landlord may have lease inducement costs when structuring a new lease. Inducement costs may come in different ways and have different tax effects. Tenant improvement allowances are written into a number of leases and their costs are capitalizable to the landlord and are often depreciated over thirty-nine years (fifteen years for qualified leasehold improvements in 2009). A landlord should specifically state what the allowance can be used for when writing these items into the lease. When allowance is used for shorter lived assets then the tax deduction is accelerated.

Accelerate your tax deduction for these inducement payments by writing them into the lease as a lease inducement cost. Lease inducement costs are amortized over the life of the lease. This can significantly accelerate the tax deduction.

The following is an example of the above-mentioned scenarios regarding tenant improvements and lease inducement costs:

A tenant signs a five year lease and the landlord incurs $50,000 in lease inducement costs.

*Tenant allowance (not specific to type) - Yearly depreciation: $1,282

*Tenant allowance (specific to F&F) - Yearly depreciation: $7,143

*Lease inducement cost - Yearly depreciation: $10,000

The above mentioned ideas can save a company significant money if dealt with properly and timely.

There are many economic reasons for writing leases a particular way or providing certain allowances, but getting your advisor(s) involved in the lease documentation could save tax dollars when the situation allows.

Your DGC representative is here you assist you. For further advice in this area, contact your DGC representative.

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