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Cost Segregation Study: A tax saving tool for landlords/tenants

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Commercial property - ownership and leasehold - gets tremendous additional tax advantages under the new Small Business Jobs Act. Landlords and tenants can expense and/or accelerate depreciation on many qualified improvements for 2010 and 2011. But the key to maximum benefits under the act is an underutilized strategy - the cost segregation study.

A cost segregation study breaks out qualified improvements on a cost and useful life basis, reclassifying them for accelerated depreciation. Under the new law, landlords enjoy accelerated and bonus depreciation on non-structural elements including carpet, accent lighting, electrical system items, sidewalks and landscaping.

Tenants can expense and/or take accelerated depreciation up to \$250,000 on leasehold improvements like cabinetry, wall coverings, emergency lighting, break room installations, and wiring for computer equipment.

Though not widely known, the IRS states that cost segregation studies are the most effective method for depreciating commercial property, with engineering-based studies more accurate than other variations. After identifying items for five, seven or 15-year depreciation, an engineering-based study further breaks out and reclassifies items that may need to be replaced before 39 years. This provides even greater tax savings.

The ROI of cost segregation studies speaks for itself. Over the past two years we've seen returns between 7:1 and 25:1 - a terrific investment!

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