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Utilizing the benefits of cost-segregation for commercial real estate property owners

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Cost-segregation is a tax strategy that helps owners of commercial real estate save significantly on their federal income taxes. Cost-segregation is a tax planning tool that determines how quickly an owner should be depreciating the property on his income taxes—five years, seven years, fifteen years, twenty-seven and a half years or thirty-nine years. The Internal Revenue Service allows owners of commercial properties to accelerate depreciation on certain portions of their real estate investments, which will result in reducing the property owner's taxable income levels.

Clients who have purchased or constructed a facility since January 1, 1987, with capitalized costs in excess of \$1 million, or who have made leasehold improvements in excess of \$500,000, will likely benefit from having a cost-segregation study performed. The taxpayer must also plan on retaining the property for at least one year and have net income that is currently taxable.

The landmark court case that opened the flood gates for cost-segregation was the Hospital Corporation of America vs. Commission in 1997, which ruled in favor of utilizing cost-segregation and distinguishing 1250 property from 1245 property. Thanks to the Job Creation and Worker Assistance Act of 2002, a bonus first year depreciation of 30% is available for personal property acquired between September 11, 2001 and May 5, 2003. The Jobs and Growth Tax Act of 2003 increased bonus depreciation even more on personal property in the first year from 30% to 50% for property acquired after May 6, 2003 and before January 1, 2005. These acts allow for greater savings.

Often times the benefits of a cost-segregation study are overlooked and owners may not be aware of the potential benefits and savings available. All components of real estate are assumed to be real property for federal tax purposes unless a proper study is performed. CPA's are often unable to extract all of the potential assets from building plans, invoices and payment applications and therefore the full write off potential is not reached.

If you currently own commercial property and are not utilizing a cost-segregation as a tax strategy, have an initial study performed. An initial study can be performed at no charge and will show you the possible advantages and savings available.

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