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What is cost segregation and how do I benefit from it?

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Under United States tax laws and accounting rules, cost segregation is the process of identifying personal property assets that are grouped with real property assets, and separating out personal assets for tax reporting purposes. A cost segregation study identifies and reclassifies personal property assets to shorten the depreciation time for taxation purposes, which reduces current income tax obligations. Personal property assets include a building's non-structural elements, exterior land improvements and indirect construction costs.

A taxpayer can use cost segregation when constructing a building, buying an existing one, or, in certain circumstances, years after disposing of one so long as the year of disposition still is open under the statute of limitations. The tax savings come from accelerated depreciation deductions and possible easier property write-offs.

Each \$100,000 in assets reclassified from a 39-year recovery period to a five-year recovery period results in approximately \$16,000 in net-present-value savings, assuming a 5% discount rate and a 35% marginal tax rate.

Engineers and CPAs both play a central role in the cost segregation process. They are the most likely people to recommend use of the technique to their clients. CPAs also will review and implement the findings in the required engineering report.

The process of cost segregation begins at the time of purchase. Real estate professionals should also advise clients buying real estate to use an engineering report to segregate assets into four categories: personal property, land improvements, buildings and its component parts, and land. This allows a purchaser to achieve faster depreciation deductions as well as possible and easier subsequent write-offs, and increased cash flow during the early years of property ownership.

Due to its complexity a proper and effective cost segregation study requires a team of specialists with years of experience. AmCorp Management uses the best cost segregation specialists available with over 24 years of experience in cost segregation, property valuation, engineering and construction management experience. The initial feasibility study is free and determines the benefits of accelerating the depreciation on the subject property.

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