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Cost segregation: Reduce taxes and increase cash flow

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If you own commercial property in the New England area, your real estate holdings may qualify for substantial benefits through an engineering-based cost segregation study. This IRS-approved procedure allows real estate owners to accelerate depreciation deductions by identifying costs that can be reallocated to shorter recovery periods on their property. They also give owners the ability to write-off building components that need replacement. These deductions immediately reduce your federal income tax liability and increase your after-tax cash flow.

HOW CAN THIS HELP ME?

The commercial real estate industry is starting to feel the effects of the recent economic downturn. Higher commercial financing barriers, discounted property valuations, and late tenant payments are just a few of the trends negatively affecting real estate owners today. Commercial real estate investors are looking for any way to increase cash flow through their holdings. Cost segregation is the most efficient means to do so.

Performing a detailed cost segregation study will allow you to claim 40-60% more depreciation on your commercial property. This directly reduces your tax liability. Say, for example, you own an office building whose vacancy rate has doubled over the past few quarters. By performing cost segregation, you can leverage these vacancy expenses with the increased after-tax cash flow you extracted as a result of this study. These savings would negate any impending revenue loss and would maintain the net present value of your investment holdings.

WHY CAN'T MY CPA DO THIS?

Cost segregation requires engineering and cost-estimating procedures to identify building components that qualify for 5, 7, and 15 year recovery periods rather than the usual 39 years for building and acquisition costs. Most CPA firms do not have engineers on staff to physically inspect the property, examine architectural/engineering drawings and analyze construction cost data. Accountants may be able to capture some of the deductions, but without engineering expertise, they may overlook substantial portions of a building. This is why the IRS requires that an engineering-based study be performed to realize the maximum depreciation amounts permissible under the recent tax law.

DOES MY PROPERTY QUALIFY?

Cost segregation can extract immediate benefits from:

- *New construction
- *Acquisitions/purchases of existing properties
- *Existing properties with recent renovations, expansion or remodeling
- *Tenant improvements valued \$300,000 or more
- *Existing properties purchased after 1987 with no prior cost segregation analysis

HOW DO I GET STARTED?

Incentives Advisors has extracted over \$1 billion in tax benefits over the past 9 years for its clients. We do not commit to a cost segregation study without first providing real estate owners with a no-cost initial evaluation and cost/benefit proposal to you. From here, you can evaluate the cost versus savings factors upfront before any reclassification begins. Typically, property owners receive present value cash flow savings that are at least 25 times or more their investment for the cost segregation study. Furthermore, your property may be eligible for additional economic, Go-Zone, or bonus depreciation tax incentives that add value above and beyond your cost segregation savings. If you are looking to increase cash flow, it is in your best interest to see the saving for yourself. Jeffrey Moore, senior VP, Incentive Advisors New England, Stoneham, Mass.

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