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Cost segregation can bring tremendous value over the term of ownership of real estate

March 25, 2009 - Spotlights

By now, owners of real estate should know that cost segregation brings tremendous value over the term of ownership of real estate. The deferral of taxes resulting from accelerated depreciation certainly provides a boost to cash flow - especially in the early years of ownership. However, in today's challenging environment many firms may not be able to utilize all the benefits that accelerated depreciation offers. Consequently, the decision is made to postpone the completion of a cost segregation study until "things get better". The current economic climate requires that we all identify and employ strategies that will create immediate value, have an almost immediate ROI and if at all possible, have multiple applications of the data produced.

Here are just a few examples of how cost segregation data can go above and beyond the traditional applications:

Bonus Depreciation & Qualified Leasehold Improvements

The recent Stimulus package provides for the extension of 50% Bonus Depreciation for applicable assets associated with new construction and renovations. Similarly, Qualified Leasehold Improvements subject to certain conditions are eligible for 15-year life using straight line depreciation. The cost segregation study will identify the assets eligible for these favorable tax treatments. Additionally, the study will provide enough data to populate your accountant's fixed asset schedules, so they will be able to assist with proactive tax planning for years to come. A properly prepared cost segregation study will also support the write-down of retired assets prior to the installation of new leasehold improvements.

EPA 2005 Energy

Tax Deductions

Obtain a tax deduction for as much as \$1.80 per s/f for lighting, HVAC and building envelope, energy retrofits or initial design. This is a great program for those owners looking to reduce energy costs and remain competitive in the marketplace. Data from the cost segregation study (if properly performed) can be used to write down the un-depreciated balances of assets to be retired including 39-year assets.

Look-back Study

A surprising number of real estate owners are still unaware of their ability to use cost segregation as

a strategy for properties already placed in service. If you have been depreciating your property on a 39-year basis, the good news is that all is not lost. You can calculate the difference between what you did take in depreciation vs. what you could have taken had you done a cost segregation study and take that adjustment along with your current tax returns by filing IRS Form 3115 "Application for a Change of Accounting Method". This does not require amending tax returns for previous years. Already filed your 2008 tax return? Don't worry, you can use the data for the 2009 tax return and reduce 2009 quarterly estimated tax payments until then.

5 Year Net Operating

Loss Carry-back

So - you are still not convinced that there are any immediate benefits and you wished that you had known about cost segregation back when you were "minting money"? Well, our friends in Washington, DC have provided a means to potentially obtain a refund of taxes paid as far back as 5 years ago. New law allows for a Net Operating Loss (NOL) carryback to 5 years instead of 2 years. By conducting a cost segregation study for your 2008, tax year the additional depreciation deduction could generate a loss that can be carried back to previous years; resulting in a refund of taxes paid. This will require the amendment of previous years' tax returns - a small price to pay for a much needed refund check, and the IRS has indicated that they will expedite the processing of these refunds. For those of who have chosen to go on extension, it's your lucky day.

Grants, Credits and Incentives

There is a wide array of federal, state and local grants and incentives for developers based on redevelopment, job creation or retention, energy retrofits, research and development, and alternative energy use to mention a few. As with other services, some data from the cost segregation studies may be used in conjunction with some or all of these strategies.

Note that with all tax strategies, facts and circumstances will vary and it will be important to have your tax advisor work closely with your cost segregation consultant to understanding your immediate and long term plans regarding, acquisitions, renovations, tenant improvements, and energy efficiency retrofits. Integration of your cost segregation consultant during the planning stages of these initiatives could result in some handsome rewards.

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