CPA Partnerships
COST SEGREGATION EXPERTS

About CPA Partnerships

CPA Partnerships uses our expertise in technology and innovation to create loyalty and partnership programs for Accounting and Real Estate professionals to increase their revenue and build trust and lasting relationships with their clients who invest in commercial real estate.

Our CSR team is comprised of a highly effective team of engineers who provide the most comprehensive Cost Segregation studies in the market which can withstand the merciless scrutiny of the IRS.

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What is Cost Segregation?

Cost Segregation Defined:

Cost Segregation is the process of identifying and reclassifying building components of investment property as either personal property, or land improvements instead of real property under the Tax Code.

Tax Attributes:

- Real property is depreciated over 39 years.
- Personal property is depreciated over 5 or 7 years.
- Land improvements are depreciated over 15 years.

Reclassification:

Reclassification is accomplished through an engineering based study that identifies those components that are currently on a 39 year depreciation schedule and properly categorizes them to the 5, 7 or 15 year periods allowed by the IRS. This engineering process takes an extensive and detailed knowledge in construction and accounting.

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The benefits of Cost Segregation

Benefits:

- An average Cost Segregation study can identify up to 20% and 40% of a property's value for reclassification.
- These reclassified components receive an accelerated depreciation period of 5 and 7 years for personal property and 15 years for land improvements.

The accelerated period of depreciation, allows property owners to increase their depreciation deductions, thus decrease their federal taxes and increase cash flow.

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What are Property Classes?

Property Classes:

- 39 Year Property:

Building structure and its integral components. This includes the foundation, the load-bearing walls, roofs, ceilings, general electrical, plumbing and mechanical systems.

- 5 Year Property:

Specialized equipment that serves the primary function of the business. Examples include specialized mechanical, electrical and plumbing systems such as those found in a restaurant kitchen, or in manufacturing facility.

What are Property Classes?

Property Classes continued:

- 7 Year Property:

Items that improve the interior such as furniture, decorative lighting, drapes, flooring, cabinetry, non-bearing walls, telephone equipment and office equipment.

- 15 Year Property:

Exterior land improvements that are separate from the building. It includes such items as irrigation systems, site utilities, trash enclosures, paving, grading, storm drains, parking lots, retaining walls and landscape lighting.

What is Catch Up Provision?

Catch Up:

- Property owners can go back and recapture past depreciation provided the property was placed in service after 1987.
- For example a Commercial Property purchased in 2009 and a study was preformed in 2014. Property owner can “Catch Up” all five previous years of accelerated depreciation in the current year.
- End result is a substantial cash flow benefit to property owner.

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Typical Eligible Reclassification

By Property Type:

Heavy Manufacturing/Processing	30 - 60%
Research & Development	30 - 60%
Auto Dealerships	25 - 50%
Light Manufacturing	20 - 40%
Golf Courses	20 - 40%
Offices	20 - 40%
Restaurants	20 - 40%
Apartments	20 - 35%
Retail Stores	20 - 30%
Theaters	20 - 30%
Grocery Stores	20 - 30%

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Typical Eligible Reclassification

By Property Type:

Hotels and Motels	20 - 30%
Senior Living and Assisted Living	15 - 25%
Tenant Improvements	5 - 50%
Strip or Regional Malls	5 - 30%
Warehouses	5 - 10%

The Experts and Media

The Journal of Accountancy

"Each $100,000 in assets reclassified from a 39-year recovery period to a five-year recovery period results in approximately $22,000 in net present value savings, assuming an 8% discount rate and a 40% marginal tax rate."

The New York Times

"By ignoring generous IRS guidelines when establishing depreciation schedules, 90% of real estate investors are unintentionally overpaying taxes."

AICPA

"At its core, cost segregation is a fairly simple tax-deferral concept — you save on current taxes by reclassifying Internal Revenue Code Sec. 1250, real property, to Sec. 1245, personal property. From a tax perspective, this reclassification can generate huge tax and cash flow savings."

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History of Cost Segregation

The concept has been around for decades and in the past it was referred to as component depreciation.

- Investment Tax Credit, (ITC) focused on separate assets with cost segregation.
- The Tax Reform Act was repealed in 1986 and many believed cost segregation was repealed as well.
- In 1997 landmark decision, Hospital Corporation of America. The Tax Court ruled cost segregation was alive and well.
- 2002 IRS allows automatic consent to change method of accounting using Form 3115 and allows “catch up” on prior years.
- 2002 IRS eliminates 4 year waiting period to change method of accounting.

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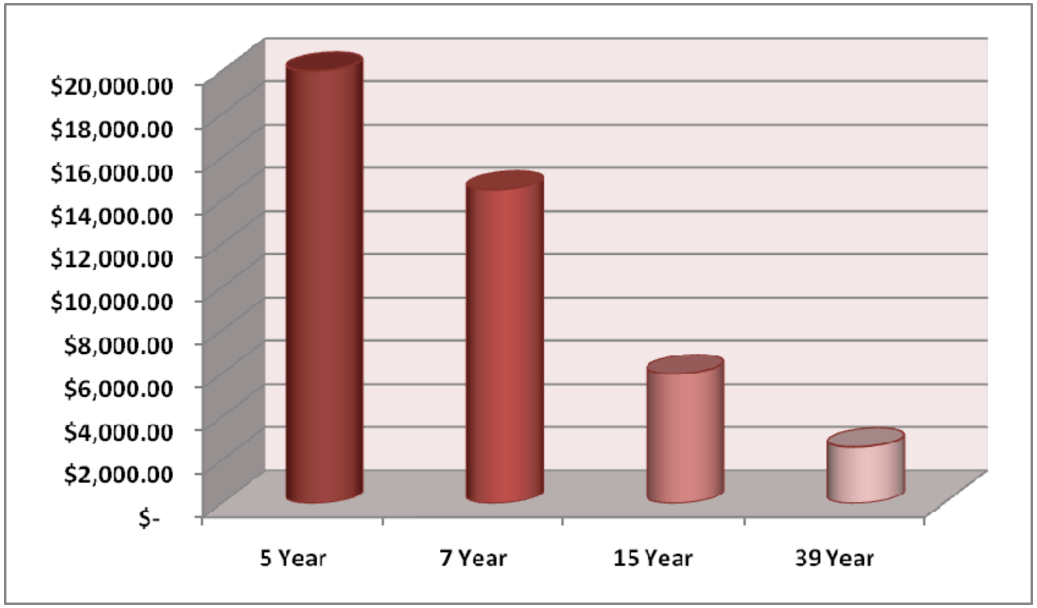
Accelerating the Depreciation Rate

Accelerated Depreciation:

This CHART illustrates the annual accelerated depreciation deduction for each $100,000 value of a property asset for each property class.



The Journal of Accountancy
"Each $100,000 in assets reclassified from a 39-year recovery period to a five-year recovery period results in approximately $22,000 in net present value savings, assuming an 8% discount rate and a 40% marginal tax rate."

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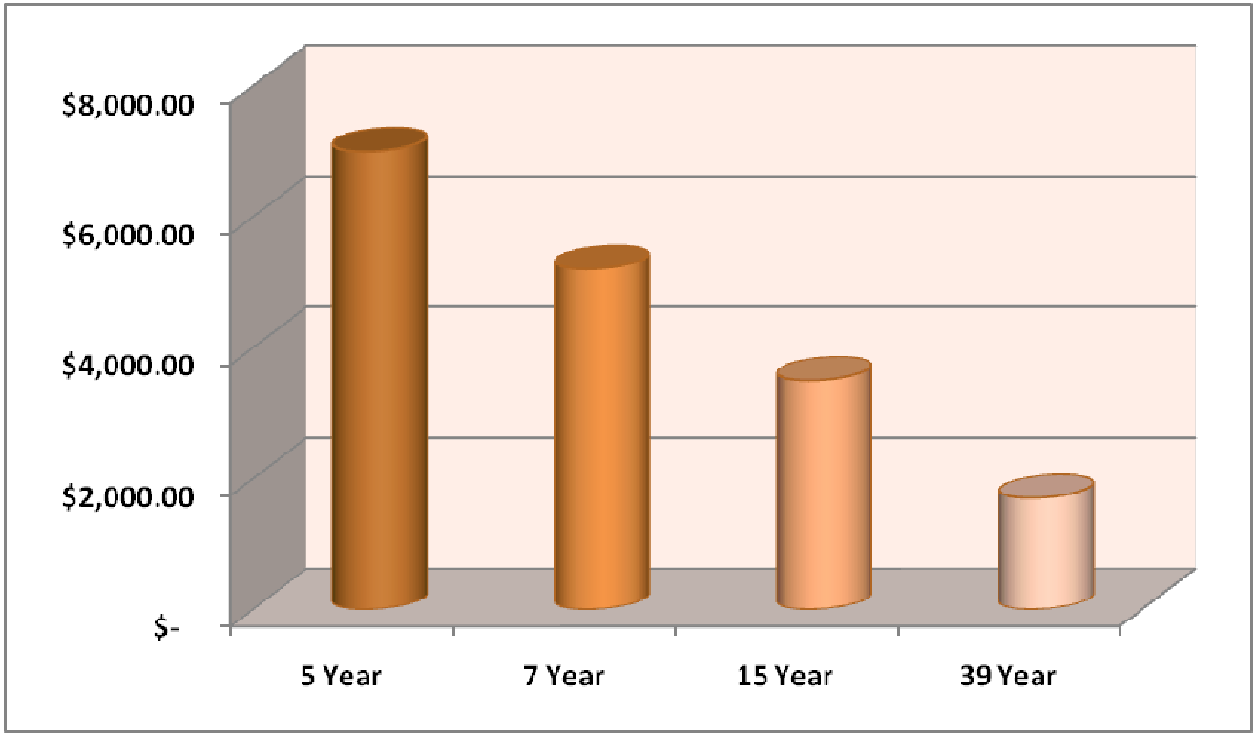
The Increased Tax Benefit

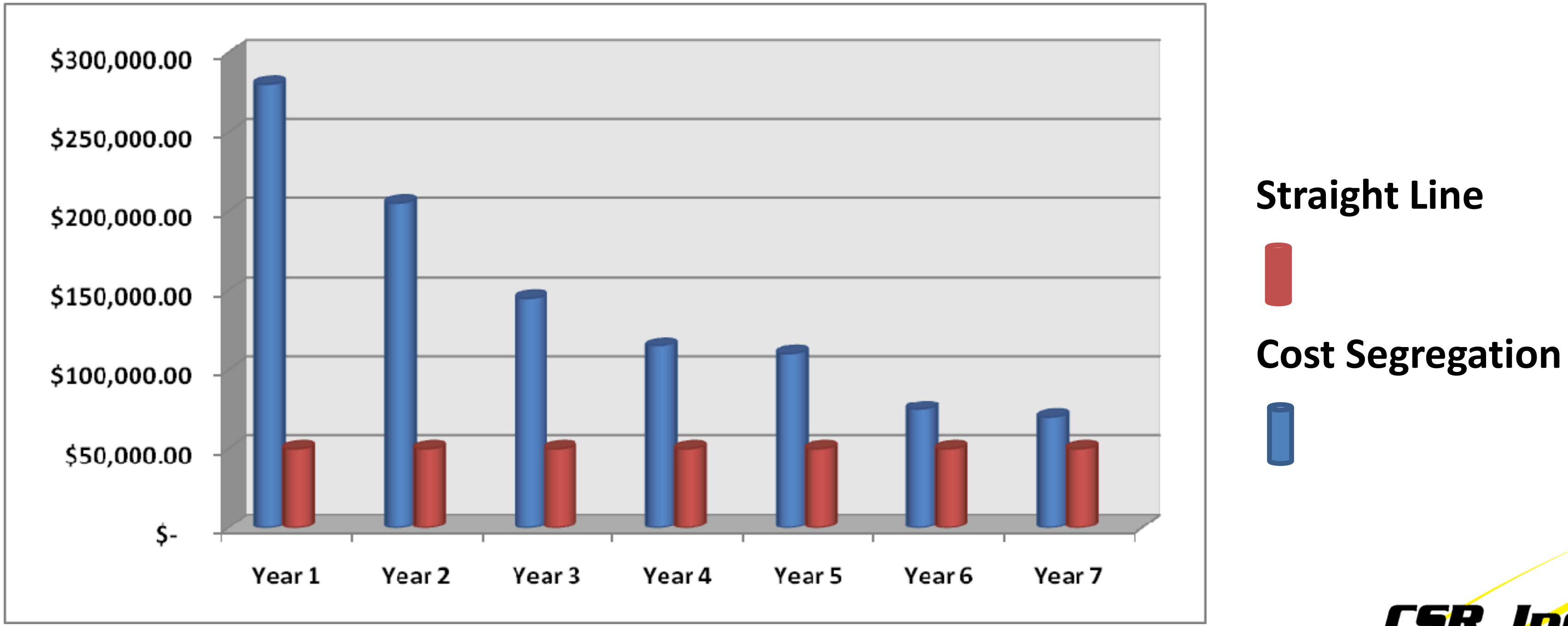
Tax Benefit:

This CHART illustrates the net tax benefit from the same $100,000 accelerated depreciation deduction.



Bottom Line:

Comparing a property valued at $2,500,000 using Cost Segregation vs Straight Line depreciation with a midway 30% reclassification.



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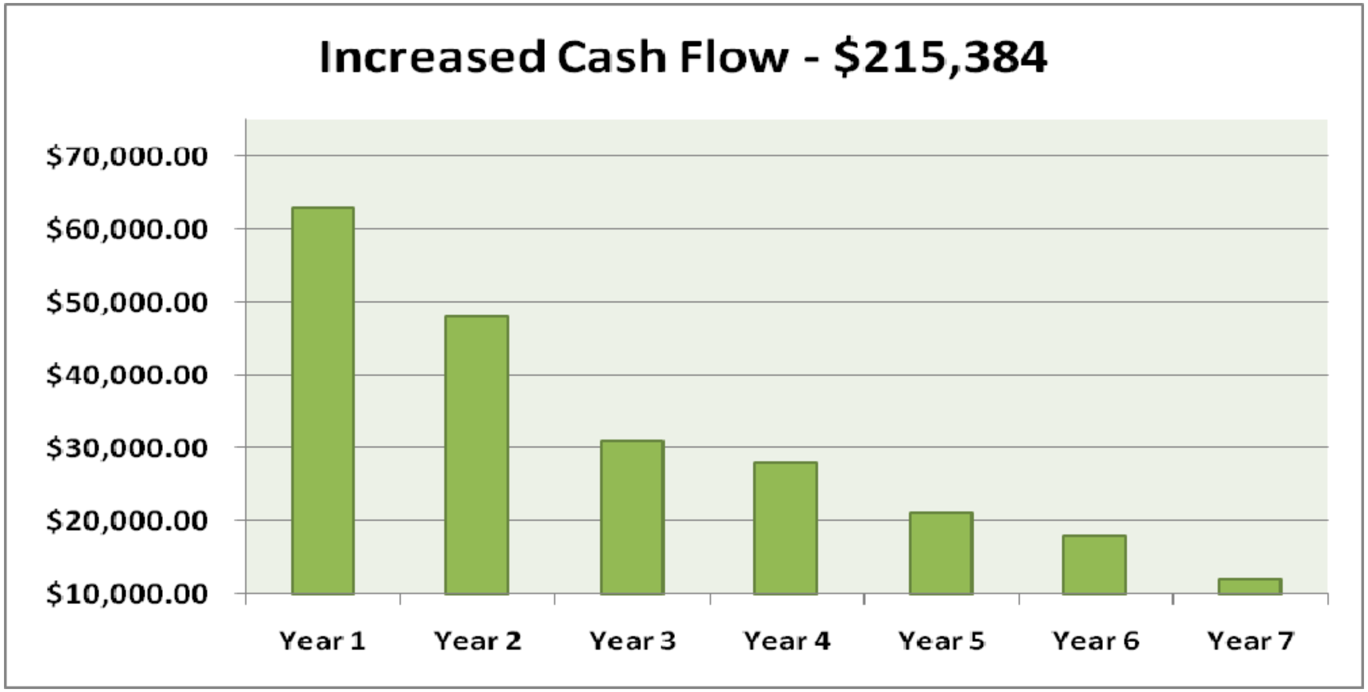
Improved Cash Flow

Cash Flow Increase:

The $2,500,000 building w/Cost Segregation accelerated depreciation by $615,383. This acceleration created a tax reduction of $215,384, which increased cash flow by the same.



Next Step:

Complete the online form for a Free Request for Estimate. We can go back 10 years to recapture missed opportunities and sometimes more.

- After you complete the form we will need:
  - Contractor’s final payment application if Construction or Remodel.
  - Recent appraisal with land value if a Purchase.
  - Tax Depreciation Schedules (if any filed)
- You will receive an Estimate and Proposal to review with your Client.
- Upon approval, we will schedule a site visit around their schedule.

For a Request for Estimate and Proposal visit costsegregationhelp.com and click on the Complimentary Estimate button.

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