

Real Estate Investors May Receive Tax Home Runs

Cost Segregation Studies

Discover Powerful, Yet,
Underutilized Tax-Saving
Strategies for Commercial and
Investment Real properties



Engineered
Tax Services

Where Engineering and Accounting Come Together

Would you Rather Get Your Money Back Today or in 39 Years?

- Goal = to identify all construction-related costs that can be depreciated over 5, 7 and 15 years and reclassified from 39, 31.5 and 27.5 years
- Traditional depreciation for Real Property is 39 years for commercial property and 27.5 years for residential rental property
- Personal property is depreciated much quicker and can be depreciated over 5, 7, 10, and 15 years
- Reducing tax lives results in accelerated depreciation deductions, a reduced tax liability, and increased cash flow

“You must pay taxes. But there's no law that says you gotta leave a tip.”



Major Benefits to The Property Owners?

- Generates Cash Flow and Minimizes Taxes
- Look back study for catch-up of depreciation could generate refund
- Free up money for investments which allows for compounded growth
- Benefit to clients includes ability to expense versus capitalization of real property when conducting demolition or when remodeling is involved.
- Reduces real estate property taxes
- Increase Cash Flow for Maximum Bank Financing
- Section 179 Benefits
- Reduced Insurance premiums



What is being said about Cost Segregation?



“Property Owners Profit from Change in Tax Law”



“Cost Segregation Studies fast growing tax strategy”



“Investors find a friend in the IRS”



Audit Technique Guide

“It is not unusual for engineering consultants to classify 20 to 40 percent of construction as personal property”

Why do I need an Engineering Expertise for a CSS?

3 Words: Mechanical, Electrical, Plumbing



- Cost segregation study (CSS) is an IRS-sanction technique allowing businesses to accelerate depreciation on their facilities
 - An Engineering Based approach consists of carefully examining all contemporaneous construction and accounting records
 - It Provides **Solid Documentation** as required by the IRS
 - Gives **proper measurement of assets** and components in a building and eliminate guess work
 - Gives the **proper cost detail** for assets within a building

A professional firm comprised of accountants, engineers, and architects with prior cost segregation experience, is required to perform this kind of cost segregation study

- Methodology without the engineering expertise will not withstand IRS scrutiny in accordance with the IRS Audit Technique Guidelines
- Determining 1245 property value on existing properties must be properly documented and appraised and indicated according to the IRS Audit Technique Guidelines

Detailed Engineering Approach

- Identify the specific project/assets that will be analyzed
- Obtain a complete listing of all project costs and substantiate the total project costs
- Inspect the facility to determine the nature of the project and its intended use
- Photograph specific property items for reference.
- Review “as-built” prints, specifications, contracts, bid documents, contractor invoices and other construction documentation.
- Identify and assign specific project items to property classes
- Prepare quantitative take-offs for all materials and payment records to compute actual unit costs

“It is the most methodical and accurate approach.”



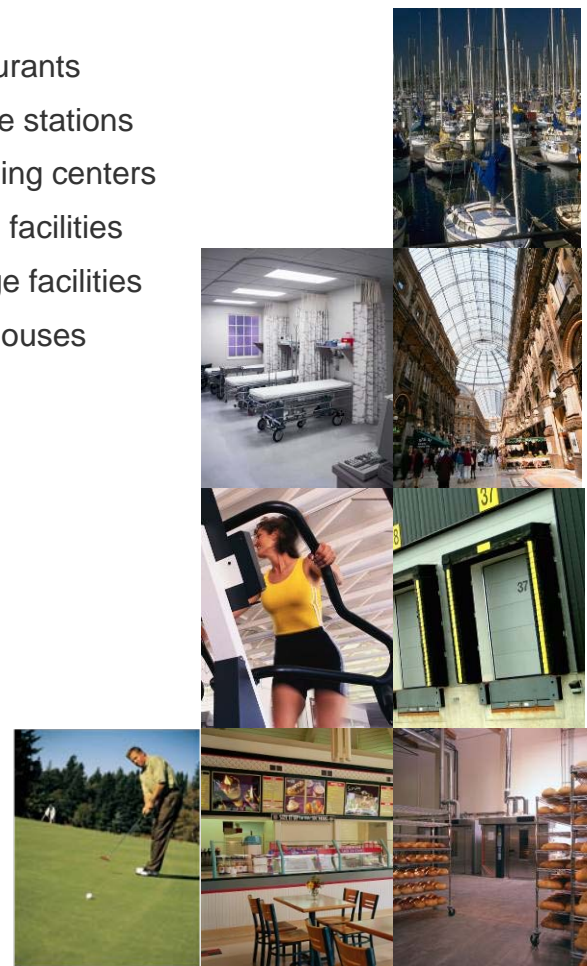
Qualifying Property

Property Types

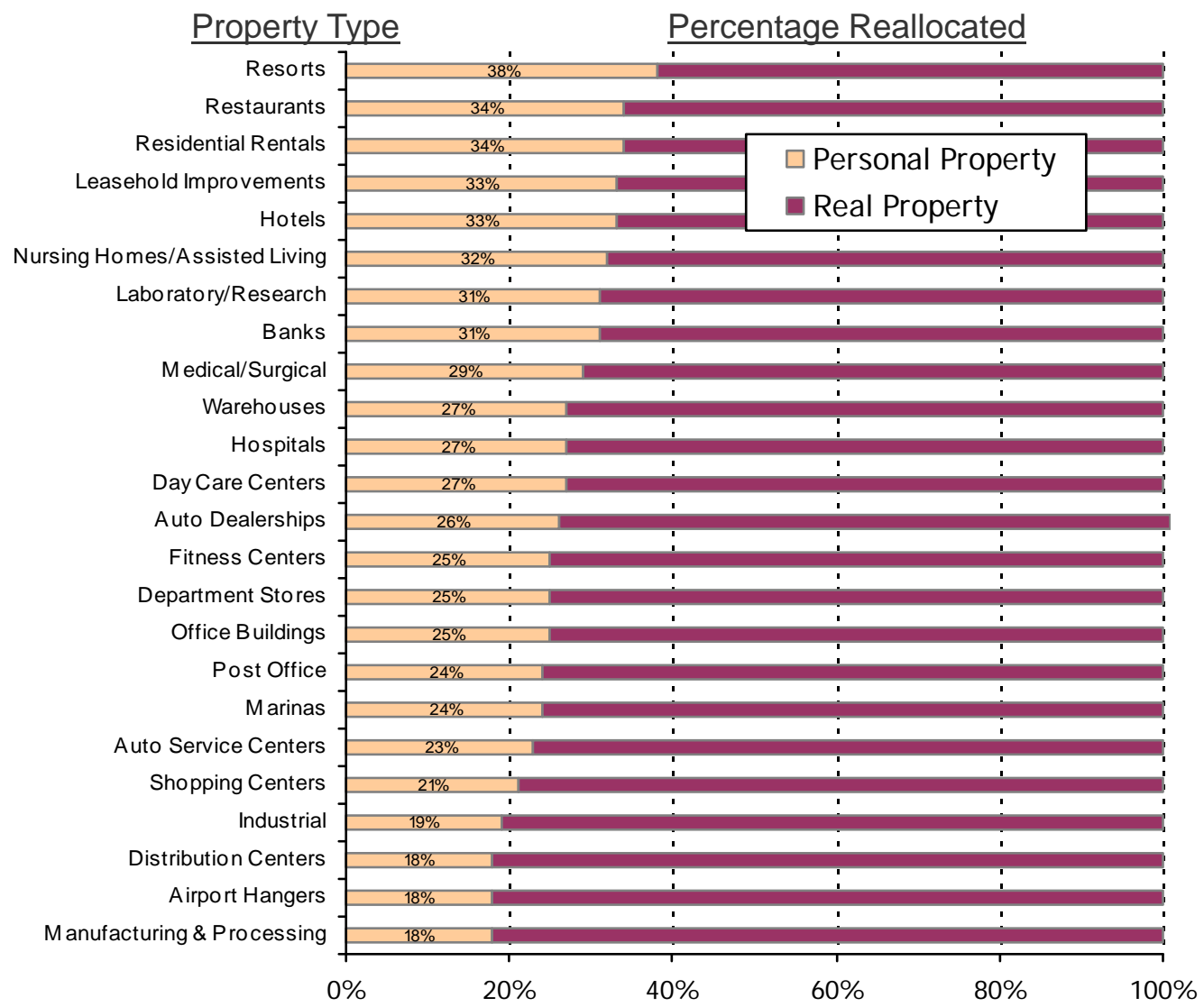
Airports
Apartment buildings
Assisted Living Facilities
Automobile dealerships
Automotive service centers
Banks
Casinos
Cinemas
Day care centers
Department stores
Distribution centers
Fitness centers
Funeral homes
Gas stations
Golf resorts
Grocery stores

Hospitals
Hotels
Industrial facilities
Laboratories
Manufacturing facilities
Marinas
Medical facilities
Mixed-use facilities
Nursing homes
Office buildings
Research facilities
Retail centers
Resorts

Restaurants
Service stations
Shopping centers
Sports facilities
Storage facilities
Warehouses



Which Properties Benefit Most?



Cost Segregation Recent Results



Project: Apartment Complex – 12 Complexes

Cost: \$18,100,000

5 Year Tax Savings: \$1,585,222



Project: High-End Office Building

Cost: \$5,234,125

5 Year Tax Savings:
\$625,678



Project: Hotel

Cost: \$7,123,456

5 Year Tax Savings: \$812,145

Insurance Savings Alone May Pay for Cost Segregation Study

- There are a number of benefits to your insurance program after completing a Cost Segregation study:
 - Lower premiums. By providing the insurance underwriter with a Cost Segregation study, they can better understand your risk, their company's exposure and accurately rate your insurance
 - There is no more guess work on the underwriters behalf and that guess work usually works in their favor in the way of higher premiums to you
 - In the wake of the recent natural disasters affecting the insurance market, most insurance policies are changing from blanket policies to stated value
 - Each location will carry a stated value on the policy and in the event of a claim that is the maximum you can collect
 - A Cost Segregation study will provide you with the piece of mind that you are insured to full value
 - Cost segregation studies allow property owners to accurately insure their business property, leading to a more cost effective use of your insurance dollar



Cost Segregation and 1031 Exchanges - Best of Both Worlds -

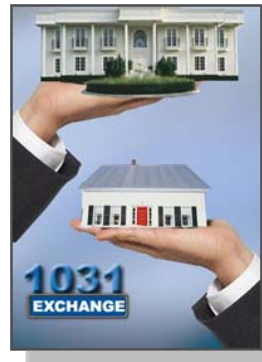
- Most valuable tax deferral strategies for real estate are:
 - Cost Segregation (Accelerated depreciation of real estate)
 - 1031 Exchanges (Deferral on the disposition of appreciated property)
- How To Best Utilize Both Strategies
 - Real Estate Investors and their advisors must understand issues in utilizing both strategies
- Real vs. Personal Property
 - Real and personal property under section 1031 is determined by state law
 - In contrast, the definition of real and personal property for cost segregation studies is determined under federal law
 - Property such as wall coverings, carpeting, special purpose wiring or other installations affixed to the building can be considered real property under state law and like kind for section 1031 purposes, but be considered personal property in cost segregation studies
 - Real estate owners can benefit from both the gain deferral under section 1031 for real estate exchanges and the enhanced cost recovery deductions of cost segregation study

1031 Considerations

Combination of 1031 and Cost Segregation

Tax Basis

- “Carryover or Exchanged Basis”
- Section 168 (k) includes regulations. Must consider electing out of the section 168 (k) rules if replacement property can be depreciated faster
- “Excess Basis” in the replacement property are determined using applicable recovery periods. Therefore, the taxpayer can accelerate the depreciation deductions on the excess basis through a cost segregation study



1031 and CSS Example - The combination of the two



RELINQUISHED PROPERTY

Sale Price: \$3,000,000
Adjusted Basis: \$1,000,000
Acquired 6 years ago
Entire building treated as 1250 for depreciation purposes



ACQUIRED PROPERTY

Purchase Price: \$3,000,000
% of purchase price allocated to building: 85%
Basis in the building = \$850,000
CSS identifies 30% as personal property
Basis after reclass: \$595,000

- To get best result, the property owner must elect out of 168 (K) regulations to take advantage of accelerated depreciation
- Combination of the two tax deferral strategies are:
 - A gain deferral of \$2,000,000 and
 - An increase of \$80,000 in depreciation in the current year
 - A cash savings of \$32,000.00

1031 and CSS Example

- The combination of the two w/ Excess Basis Involved -



RELINQUISHED PROPERTY

Sale Price: \$4,000,000
Adjusted Basis: \$1,000,000
Entire building treated as 1250 for depreciation purposes



ACQUIRED PROPERTY

Purchase Price: \$6,000,000
% of purchase price allocated to building: 85%
Excess Basis: \$2,000,000 or \$1,700,000

- Exchange basis is \$1,000,000 which can be depreciated under the prior method unless taxpayer elects out of 168 (K)
- The \$1,700,000 excess basis may be depreciated under an accelerated method

Summary

Time Value of Money

Dramatic reduction in taxable income

Increased cash flow for investment opportunities and business expansion

Property tax savings

Insurance savings

**If you have purchased, built or renovated
In the last 15 years, you may be entitled to
Significant tax benefits.**



**Contact us to see what your property
Qualifies for!**

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