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A photograph of a middle-aged man with grey hair and a beard, wearing a light blue suit and a dark tie. He is standing on a city street, leaning against a wall and talking on a mobile phone. The background shows a large, ornate building with many windows, and the sun is low in the sky, creating a warm, golden light. A dark metal railing is visible in the foreground on the right.

COST SEGREGATION

| For Building Owners

What is Cost Segregation?

Cost Segregation is an approved application by which commercial property owners accelerate building depreciation which will reduce taxable income.

A reduction in taxable income will generate substantial tax savings and increased cash flow.

Building owners and investors often use this additional cash to reinvest in their business, purchase additional property, apply to their principle payment or pay down debt.

Cost Segregation is simple, legal and recommended in the Journal of Accountancy for CPA's. The article states, "A taxpayer can substantially increase cash flow by segregating property costs."

How Does Cost Segregation Work?

A Cost Segregation study accelerates the depreciation of your building or renovation components into shorter depreciation categories.

Decorative items such as carpet, molding and interior windows can be moved from 39 or 27.5 year depreciation to a 5 or 7 year category. Landscaping, hardscaping, site utilities and paving can be moved from 39 years to 15 years.

An engineering-based cost segregation study results in a higher depreciation expense and significantly reduces taxable income for the property owner. This tax code compliant ruling states that cost segregation can be applied to categories of buildings purchased or built after 1986, including renovations, and there is no need to file an amended tax return



History of Cost Segregation



Shortly after the landmark decision in the 1997 Hospital Corporation of America vs. IRS tax case, protocols and processes were developed to provide engineering based cost segregation studies for commercial property owners.

Initial cost segregation studies were used only on large, \$10,000,000+ buildings with fees in excess

of \$100,000. The fees for engineering-based cost segregation studies have come down in the last ten years. The financial impact of cost segregation for smaller commercial property owners is significant. Most commercial property owners in America can benefit from increased cash flow through tax savings created by cost segregation.

Straight Line Depreciation

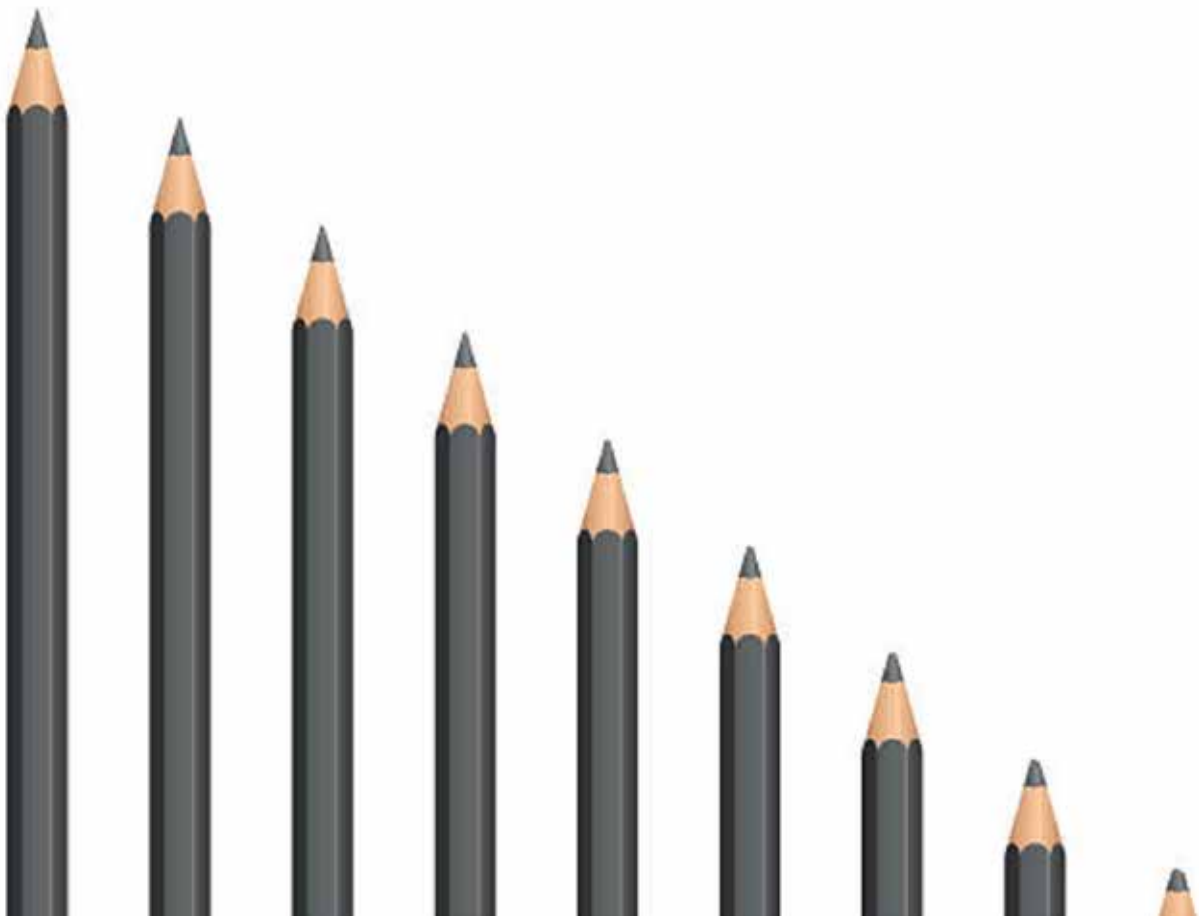
STRAIGHT LINE DEPRECIATION USES 39 YEAR LIFE ON BUILDINGS AND RENOVATIONS:

Asset	Property Description	Date in Service	Tax Cost	Tax Sec 179 Exp	Tax Salvage Value	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Location A											
45	BLDG IMPR-A	10/01/07	7,022.00	0.00	0.00	1,477.91	180.05	1,657.96	5,364.04	S/L	39.00
46	Heating/Cooling Equip	08/01/05	222,788.00	0.00	0.00	163,588.59	13,155.42	176,744.01	46,043.99	150DB	15.0
47	Parking Lot	08/01/05	295,169.00	0.00	0.00	216,736.39	17,429.47	234,165.86	61,003.14	150DB	15.0
48	Sign	08/01/05	40,085.00	0.00	0.00	40,085.00	0.00	40,085.00	0.00	200DB	7.0
49	BUILDING	08/01/05	1,500,744.00	0.00	0.00	399,237.21	38,480.69	437,717.90	1,063,029.10	S/L	39.00
50	Land Improvements	02/14/06	12,421.00	0.00	0.00	8,387.02	733.45	9,120.47	3,300.53	150DB	15.0
51	Land	04/21/04	299,535.00	0.00	0.00	0.00	0.00	0.00	299,535.00	Land	0.00
52	BUILDING IMPROV	06/03/06	156,354.00	0.00	0.00	39,255.72	4,009.08	43,264.80	113,089.20	S/L	39.00
68	A BUILDOUT	03/31/08	6,854.54	0.00	0.00	1,369.46	175.76	1,545.22	5,309.32	S/L	39.00
69	Goodwill (RDJ)	01/01/08	999,858.96	0.00	0.00	533,258.08	66,657.26	599,915.34	399,943.62	Amort	15.00
70	ABC Sign @ A	06/30/10	6,341.80	0.00	0.00	6,341.80	0.00	6,341.80	0.00	200DB	5.0
	A		3,547,176.30	0.00	0.00	1,409,737.18	140,821.18	1,550,558.36	1,996,617.94		
Location B											
37	SHOPPING PLAZA	01/09/04	900,000.00	0.00	0.00	275,962.50	23,076.92	299,038.42	600,961.58	S/L	39.00
38	Land-Shopping Plaza	01/09/04	100,000.00	0.00	0.00	0.00	0.00	0.00	100,000.00	Land	0.00
40	HVAC Unit	04/01/04	2,625.00	2,625.00	0.00	2,625.00	0.00	2,625.00	0.00	200DB	7.0
42	Ford F-150 Truck (2005)	06/25/05	19,061.21	0.00	0.00	19,061.21	0.00	19,061.21	0.00	200DB	5.0
43	Sign-B Center	03/27/07	20,964.80	0.00	0.00	20,964.80	0.00	20,964.80	0.00	200DB	7.00
65	NEW OFFICE-B	12/01/07	77,446.28	0.00	0.00	15,969.14	1,985.80	17,954.94	59,491.34	S/L	39.00
66	Loan Fees/Closing Cost	12/07/07	166,965.57	0.00	0.00	89,975.91	11,131.04	101,106.95	65,858.62	Amort	15.00
67	NEW OFFICE-B (2008)	12/31/08	92,610.44	0.00	0.00	16,721.35	2,374.63	19,095.98	73,514.46	S/L	39.00
72	Lawn Mower	08/20/13	4,398.94	0.00	0.00	3,765.49	253.38	4,018.87	380.07	200DB	5.00
	B		1,384,072.24	2,625.00	0.00	445,044.40	38,821.77	483,866.17	900,206.07		



Asset	Property Description	Date in Service	Tax Cost	Tax Sec 179 Exp	Tax Salvage Value	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Location C											
53	BUILDING	05/31/02	1,121,559.00	0.00	0.00	391,826.28	28,757.92	420,584.20	700,974.80	S/L	39.00
54	Land Improv	05/31/02	184,690.00	0.00	0.00	173,238.87	7,634.09	180,872.96	3,817.04	150DB	15.0
55	Fixtures	05/31/02	73,350.00	0.00	0.00	73,350.00	0.00	73,350.00	0.00	200DB	7.0
56	Sign	05/31/02	6,500.00	0.00	0.00	6,500.00	0.00	6,500.00	0.00	200DB	7.0
57	Land	01/01/02	307,284.00	0.00	0.00	0.00	0.00	0.00	307,284.00	Land	0.00
71	New A/C & Heating Unit	05/31/13	6,910.00	0.00	0.00	5399.06	431.70	5,830.76	1,079.24	200DB	7.0
	C		3,547,176.30	0.00	0.00	650,314.21	36,823.71	687,137.92	1,013,155.08		

Location C PHASE 2											
60	Building Improv	09/14/07	8,764.00	0.00	0.00	1,863.30	224.72	2,088.02	6,675.98	S/L	39.00
61	Building	10/01/05	302,205.00	0.00	0.00	79,102.65	7,748.85	86,851.50	215,353.50	S/L	39.00
62	Heating & Cooling Equip	10/01/05	41,810.00	0.00	0.00	30,700.09	2,468.87	33,168.96	8,641.04	150DB	15.0
63	Parking Lot	10/01/05	46,138.00	0.00	0.00	33,878.18	2,724.40	36,602.58	9,535.42	150DB	15.0
64	Land-Outparcel		193,200.00	0.00	0.00	0.00	0.00	0.00	193,200.00	Land	0.00
	C PHASE 2		592,117.00	0.00	0.00	145,544.22	13,166.84	158,711.06	433,405.94		



Cost Segregation Study

BUILDING ELEMENTS UNITS OF PROPERTY

Building Components		Site Work / Improvements	
Cabinets / Millwork	20,085.41	Water Well	19,318.45
Moldings	8,286.30	Site Drainage	48,990.57
Wood Paneling	2,062.22	Parking Lot	138,639.38
Flooring - Vinyl Tile	519.68	Exterior Signage Structure	17,790.84
Flooring - Carpet	9,084.00	Parking Lot Striping / Barriers	23,325.00
Window Treatments	187.90	Sidewalks	711.12
Air Curtain	1,709.08	Landscaping	68,635.17
Building Signage	122.56	Security Lighting Poles	6,374.77
Specialty Electrical - Kitchen Equip.	15,216.78	Aggregate Base Paved Area	192,436.06
Communication / Data	32,356.35	Exterior Fencing / Decking	31,986.93
Specialty Plumbing - Cooler Equip. / Kitchen Sinks	10,181.63	Retaining Walls	16,024.07
Security / Exterior Lighting	9,827.88	Fabricated Steel - Bollards	2,926.12
FRP Wall Panels	1,003.24	Patio Concrete	10,848.65
Rear Entry Canopy	20,084.92	Exterior Wood Trellis Systems	2,783.73
Interior Overhead Doors - Security	21,931.82	Gazebo	4,605.26
Slatwall / Pegboard Paneling	9,657.00		
Surveillance System	4,375.25	Building Structure	
Interior Wood Trellis Systems	6,046.21	Structural Components	559,508.38
Liner Panels	109,271.70	Roofing Systems	66,975.93
Paging System	1,688.233	Foundations	234,535.89
Windmill	17,244.53	HVAC	179,747.78
Exhaust Hood	11,258.61	Electrical	242,472.40
Fire Extinguishers	1,833.25	Plumbing	68,844.81
Cooler	10,635.63	Masonry	40,657.35
Movable Storage Units	30,431.69	Doors & Windows	17,063.50
		Insulation	43,168.87
		Gas Distribution	4,989.84
		Drywall	13,092.14
		Painting	23,796.64
		Fire Protection & Alarm	15,192.82
		Gutters & Downspouts	12,335.58

AICPA

"Today virtually all real-property purchases entail the simultaneous acquisition of tangible personal property. For that reason tax professionals should routinely recommend the use of cost segregation studies whenever the expenditures for an acquisition, including leasehold improvements, equal or exceed \$750,000."

Cost Segregation

SOME EXAMPLES

Dental Office

Building Cost (without land)	250,176
Tax Savings Benefit	32,845
Study Fee Before Tax	2,420
Study Fee After Tax	1,549

ROI: 21:1

Medical Office Condo

Building Cost (without land)	324,000
Tax Savings Benefit	52,856
Study Fee Before Tax	3,400
Study Fee After Tax	2,176

ROI: 24:1

Office Warehouse

Building Cost (without land)	5,246,908
Tax Savings Benefit	312,687
Study Fee Before Tax	14,900
Study Fee After Tax	9,536

ROI: 33:1

JOURNAL OF ACCOUNTANCY

"Some taxpayers are reluctant to use cost segregation, equating it with a high-risk tax shelter. In truth, this reluctance is misplaced. If the cost of the components in the engineering report is well-documented, the cost segregation technique is no more aggressive than using a permissible depreciation method under the Internal Revenue Code."

How Cost Segregation is

AFFECTED BY NEW TAX LAWS

- *100% bonus depreciation* on accelerated items is available on property acquired or built after September 27, 2017.
- *50% bonus depreciation* available on any new construction and renovations between 2008 and 2017.
- *Many additions and renovations allow for disposed of assets to be expensed in the year of the construction.* Drywall, roofing, electrical wiring, plumbing, molding, bathrooms and cabinets are all examples of disposed of assets that still have a value.
- *The cost of removing these assets can also be expensed.*
- *Some expenditures* currently being depreciated over 39 years may be expensed.

In Summary

- *Straight line (39 year) depreciation models are being used less frequently.*
- *100% bonus depreciation on new and used property will become the norm, using a segregated model of depreciation.*
- *Partial asset dispositions and removal write-down will continue to be a great tax advantage for building owners/lessor's.in the year of the construction.*
- *Cost Segregation has been recommended by the Journal of Accountancy and The AICPA.*
- *Cost Segregation is an approved method of depreciation.*

