

Cost segregation studies can drastically increase a business' bottom line

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Cost segregation is an IRS-approved method of re-classifying components and improvements of a commercial building from real to personal property. This process allows the assets to be depreciated on a five-, seven- or 15-year schedule instead of the traditional 27.5- or 39-year depreciation schedule of real property. Thus, your current taxable income will be greatly reduced and your cash flow will increase, and even better, its retroactive back to 1986. Found cash that belongs to you!

Cost segregation is one of the IRS' cash-flow secrets that commercial building owners and those with significant tenant improvement should be utilizing as a tool to realize tax savings. However, until recently these studies were very costly and it was difficult to find IRS-recommended personnel to perform such studies. Thanks to industry leaders like Thomas Nelson with **Cost Segregation Services Inc.**, it is now easy, affordable and it makes smart business sense.

Cash flow from tax savings can be 10 percent to 15 percent of building costs within the first five years of ownership (e.g., \$100,000 to \$150,000 in cash flow for each \$1 million in building cost). All commercial buildings and tenant improvement shown on your tax return as depreciable property after January 1986 is eligible for these savings.

One myth regarding a cost segregation study is belief that an accountant, CPA or tax attorney probably did one. However, unless it was done subsequent to May 13, 1996, when the tax laws changed, then you are probably depreciating your assets incorrectly. In some cases your tax professional will be familiar with these studies and know the benefits, however they most likely don't realize there are now engineering firms who now provide these services for a building of your size. Originally the mega-million buildings with high budgets and dedicated staff were the main ones performing these studies and now it's available to most everyone.

Cost segregation is IRA-approved and not a risky or an aggressive tax scheme. Court ruling dated back to the 1960s supported this practice. Cost segregation studies emerged in 1987 when Congress extended the depreciation period for commercial property from 19 to 31.5 years. This created an incentive to classify buildings assets as personal property. In 1993 the period was extended to 39 years. In 1997 the U.S. Tax Court ruled that the practice of segregation building cost for tax purposes was allowed. As a result, cost segregation has become an accepted, although underutilized, tax-planning tool.

These studies can be performed on just about any property type, including office buildings, apartments, hotels, manufacturing facilities, warehouses, restaurants and automobile dealerships.

For more information regarding cost segregation studies contact Thomas Nelson at (619) 294-8822.