New temporary 100% depreciation deduction allowed for qualified capital expenditures

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Given the current economy, any business strategy that reduces taxes and increases cash flow has inherent value. It is understandable then that cost segregation, which does just that, has always been popular with owners of investment property and owners of property used for business.

How Does Cost Seg Work?

In general, buildings can be depreciated over a 27.5-year or 39-year period. However, according to the IRC, certain categories of fixed building assets can be depreciated more quickly, over five, seven or 15 years. Identifying and reclassifying these eligible assets can accelerate part of the building's tax depreciation and create a reduced tax liability. A cost segregation, or "cost seg" study is the tax and engineering analysis that identifies and segregates these eligible assets, assesses their value and determines the resulting asset classes and corresponding accelerated depreciation.

Eligible assets are systems, fixtures or related elements that are either unnecessary for the operation of the building itself or are temporary structures. They include such elements as decorative lighting or moldings, floor or wall coverings or redundant HVAC systems. Using the guidance set forth in the IRS Audit Techniques Guide, experts in the areas of tax and engineering separate out, or segregate, these elements. This process provides maximum tax benefits to property owners with facilities built or bought in the last seven years, as well as those with significant construction in progress, or with newly renovated or expanded facilities.

The bottom line? Cost segregation saves property owners money by justifying larger upfront tax deductions and in turn, lowering their tax payments. If dealing with new construction, it is best to incorporate cost segregation as early as possible in order to save money on federal, and possibly state, tax returns. For existing properties, understated depreciations can be caught up for past construction, purchases, expansions, renovations and qualified leasehold improvements. Owners can recapture these missed depreciations with a simple change in accounting method. Amended tax returns are not required; instead, a "catch-up" depreciation can be taken in one year by filing IRS Federal Form 3115 (Change in Accounting Method, with IRS consent granted automatically).

New Bonus Depreciation Makes Cost Seg More Beneficial

For newly constructed or renovated properties there is now even more reason to look into cost segregation. This is because of the recently extended and expanded Bonus Depreciation as part of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

What this means is that any property that was constructed or renovated starting September 9, 2010 through December 31, 2011 now qualifies to have 100% of their short life assets written off immediately. This is only possible, of course, after having completed a cost segregation study to first allocate those eligible assets into their proper category.

If the property was constructed or renovated starting January, 2008 through August 2010, it remains

eligible for the old Bonus Depreciation, which allows 50% of their short life assets written off immediately and the other 50% left to depreciate over 5 or 15 years (depending on the asset type). This will also be true for properties placed in service in 2012.

Without a doubt, a cost segregation study is among the most valuable tax strategies available to owners of investment and business real estate. To download Madison SPECS free publication entitled "All About Cost Segregation," by Cost Seg expert Eli Loebenberg, go online to www.madisonspecs.com.

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Eli Loebenberg, CPA, is CEO of Madison SPECS LLC, New York, N.Y.