



Mark de Stefanis: How about a bail-out for legacy property owners?

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A Value-Added Service

The savings can be significant. It is not uncommon that study will yield a benefit of as much as 20 times the fee. Recently, we prepared a cost segregation study on a retail center with a \$6 million depreciable basis, which our client acquired in 1994. We were able to accelerate depreciation on more than 30% of the depreciable basis. The catch-up depreciation for the current year eliminated current year taxable income and the savings of generated from this assignment were in excess of \$285,000.

How to Choose a Cost Segregation Provider

While the IRS has encouraged the use of cost segregation over the last 10 years, not all studies are the same. With so many new companies starting to perform cost segregation services, the IRS issued an Audit Technique Guide (ATG) to assist field agents in the review of cost segregation studies. This ATG became the baseline set of requirements used in the development of the only industry standard (MQS-2009) as published by the American Society of Cost Segregation Professionals. This document has been available to all industry participants for years, and is the only comprehensive document that addresses the requirements of how to develop a quality cost segregation study.

In choosing a firm, make sure that they have in-house construction, engineering, and tax expertise. Being able to interpret construction drawings, specifications, construction means and methods, opine on accrued depreciation, and develop an accurate construction cost estimate is of paramount importance. Furthermore, having knowledge of case law and being able to determine the appropriate IRS asset classifications are all important aspects to the development of a quality study. And while the occurrence is rare, do not forget to ask if they have experience with an IRS challenge.

What Information is Required?

A quality provider that is given only some basic information will be able to determine if a project is feasible in just a few short minutes. Questions such as the amount of basis, placed in service date, location, property type, and square footage is enough to get the process started. The key questions to ask relate to the amount and timing of the additional depreciation at the federal and state level. In particular, it is important to understand the additional depreciation at the state level, since the majority of states have decoupled from federal stimulus measures for new improvements.

At Construction Cost Recovery, we still hear the question, "Why hasn't my accountant brought this to my attention?" It may have had to do with the ownership exit strategy, or it is possible that the benefits were insufficient under the prior year economic circumstances. Regardless, with a recovery underway, and financing coming back, the marketplace is about to become more competitive. That being said, is it worth a no-obligation fifteen minute call to see what money can be unlocked from your property? The answer is yes.

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