



Question of the Month: How does the tax law enacted in December 2017 impact the value of cost segregation studies? - by Christie Ellis

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How does the tax law enacted in December 2017 impact the value of cost segregation studies? And what exactly is a cost segregation study?

As commercial property owners look towards their 2018 tax filing, this is perhaps the most significant new issue effecting their returns.

Cost segregation is an engineering based income tax strategy for commercial property and leasehold improvement owners. It is a deep and narrow niche in the tax code allowing for the acceleration of depreciation of certain short life assets within commercial properties. Because cost segregation requires both engineering and tax expertise, the majority of accountants do not provide cost segregation studies.

In fact, the Journal of Accountancy has stated 90% of eligible property owners are not receiving cost segregation studies. This means you should never assume your accountant has provided an in depth and expert cost segregation study for your properties. Cost segregation does not compete with, but augments the work of your general business accountant.

For those considering cost segregation studies, should your ownership of the property be seven years or less, your property is an ideal candidate. A short exploratory consultation would be advised to determine if this strategy is appropriate for your property. Most cost segregation studies are significantly more valuable today than they were before the tax law was changed.

Although the 2017 law eliminated "Qualified Restaurant Property," "Qualified Retail Property" and "Qualified Leasehold Improvements," which were valuable to property owners, the law liberalized other areas which has replaced, and in many instances increased, the benefits available.

For properties owned by LLCs which are subject to personal income tax rates, the savings are higher even than the savings for corporations, because the 2017 tax law reduced personal income tax rates only marginally. These property owners will see significant increases in the value of cost segregation studies.

For corporate property owners (C-Corporations filing Form 1120), the significant reduction in federal income tax rates has reduced the value of cost segregation studies, but that reduction in tax savings

has been offset by the significantly liberalized rules governing bonus depreciation (100% immediate expensing of all “short life” assets) and Section 179 (100% immediate expensing of up to \$1 million of “short life” assets). Both the 100% bonus depreciation and the increased section 179 expensing continue into future years.

Key to reaping the full benefits of these changes are working with a specialist to maximize the value of the short life assets in your property. This is precisely the nature of a cost segregation expert’s work. By segregating all allowable items in your property to their appropriate short life—including detailed and overlooked items such as electrical conduit, outlets, and even mounted door stops—cost segregation studies greatly increase the short life assets, which translates to greatly increased depreciation for your property.

Both Section 179 and bonus depreciation have increased value to users of cost segregation under the 2017 law.

The section 179 deduction has been increased from \$530,000 to \$1 million and the “cap” has been increased from \$2 million to \$2.5 million.

Bonus depreciation now allows first year write off of 100% of certain “short life” assets which can be identified by a cost segregation analysis.

Additionally, bonus depreciation –previously available only for first use property—is now available for pre-owned property as long as the property is “first use” to the taxpayer.

Now and into the future, the value of cost segregation will only increase as the Federal Reserve continues raising interest rates.

Bottom Line: There has never been a better time to consider a cost segregation study. Cost segregation is a profitable strategy for more than 95% of property owners. A competent specialist should be able to determine if this strategy will work for you from a quick 10 minute phone call. With so much to gain, and nothing to lose, such a quick call could be your most profitable 10 minutes of the year. Call today.

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