



## **Tax planning ideas to ensure maximum results from a cost segregation study**

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How do you determine which professional services firm you retain? Is it based on cost, responsiveness, location, qualifications, experience, or a combination of all of these? It's not like buying a car where you know what model you want and your goal is to find the lowest cost. Purchasing professional services is a unique situation. Careful consideration of all the above factors is critical but how do you know what the end product will be? Professional services firms are only as good as their qualifications and experience; the knowledge they bring to the table.

Many cost segregation providers can prepare basic cost segregation studies but few carefully consider all the tax implications to truly maximize the results. Cost segregation studies incorporate tax, accounting, engineering and construction and all of these disciplines are equally important.

The objective of a cost segregation study is to properly allocate the depreciable basis of commercial properties into recovery periods such as 5, 7, 15 and 39 years. The accelerated depreciation resulting from these shorter recovery periods results in significant federal and State income tax savings.

Expertise in the following areas is necessary to ensure maximum results from a cost segregation study.

### **Tax Loss Carry Backs**

Many taxpayers are not aware that they can now carry losses back up to five years to generate additional immediate savings, in addition to the possibility of a loss carry forward. They instead incorrectly assume that if they have a loss resulting from a cost segregation study, there is no benefit to the study. Our tax director, with his more than 30 years of experience in real estate taxation, will analyze each taxpayer's situation to make sure they are using cost segregation in the most efficient manner.

### **Pre-Construction Tax Planning**

Most taxpayers think of cost segregation when the project is placed in service. If that is the case, they have most likely left tax savings on the table. Meeting with architects and engineers in the design stage will lead to design modifications that permit assets to meet the IRS guidelines for classification to a shorter recovery period. Our cost segregation professionals, with their engineering expertise, speak the same language as the architects and engineers.

### **Recapture**

Recapture typically has a negative connotation when mentioned by accountants. If not properly considered, it can decrease the benefit of a cost segregation study. However, with proper tax planning, it is possible to shift income from regular tax rates to capital gains tax rates.

### **Active/Passive**

Losses from a passive activity are considered active in certain situations and can be used to offset

active income. Ownership is the key issue.

#### Bonus Depreciation

Cost segregation studies open up opportunities for Bonus Depreciation by identifying assets with recovery periods of less than 20 years. Proper tax planning will incorporate reviewing projected cash flow to most efficiently use the extra depreciation allowable under the Bonus Depreciation regulations. Proper tax planning is needed to analyze the resulting additional depreciation in order to maximize benefits for federal and state taxes.

It is also critical to make sure the construction team is aware of the importance of completing construction projects by certain dates to make them eligible for this generous write off. This must be done early in the project when they still have the flexibility.

#### TICs/REITs

Both of these investments will benefit from a cost segregation study by allowing the investors to maximize their rate of return. Familiarity with the intricacies of both TICs and REITs are important to maximizing your cash flow.

As you can see from the above topics, cost segregation is truly a multi-disciplinary approach to tax planning. You owe it to your partners and clients to make sure the professional services firm you choose can deliver the right solution for each project.

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