



Encore: Cost segregation delivers big tax benefits for repeat clients

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There is never a bad time for property owners to lower their tax bill in order to conserve and improve their cash flow. One of the best strategies available to do that is cost segregation. A "cost seg" study is a specialized tax and engineering analysis that allows owners to reclassify their real property expenditures thereby accelerating their depreciation deductions and possibly also recovering missed depreciation deductions from prior years. This can result in a reduction of tax liability which produces increased cash flow; a significant benefit in these difficult economic times. When conducted by an experienced team of engineering, accounting and tax experts, a cost seg analysis can be a huge value to owners of all property types, whether used for business or investment.

Yet many property owners forget to take advantage of the benefits offered by a cost segregation study until the moment when the tax bill arrives. Others are not even aware of the concept. Fortunately, even then it is not too late to take advantage of the benefits of cost segregation. Such was the case when Madison SPECS, a Lakewood, N.J.-based cost segregation company, was recently asked to do another cost seg study for a past client on a different property within their portfolio.

Encore, Encore.

In 2008, an accountant referred their client who owned many residential developments to Madison SPECS. Madison SPECS conducted cost segregation studies on a number of projects for the property owner in 2008. Those studies offset a significant sum of the client's taxes that year.

Fast forward one year to the end of 2009. With year end fast approaching, the client realized once again that they had a large tax bill to offset. Immediately, they contacted Madison SPECS to perform a cost seg study on another large property in their portfolio. The \$11 million property was a 154-unit residential development in Maryland. The property was purchased in 2006, which required Madison SPECS to perform a retro (look-back) study with a 481(a) adjustment of over \$1 million.

Accustomed to handling projects of all types, SPECS' cost segregation engineers worked collaboratively with the clients' staff to examine the building's many components and systems. During the site tour, the engineers took many photographs and detailed notes, as per the IRS audit techniques guide on how to perform a cost seg study. The next step was to turn over the data and records to SPECS' team of cost analysts in Lakewood to help identify the assets eligible for accelerated tax depreciation and then accurately determine their value. From there, the process moved to Madison SPECS' operations team where the engineering and tax components of the cost segregation study were integrated. Director of operations Moshe Becker has designed a sophisticated software solution which allows all information to flow into one document. There was a vast amount of information and a very tight schedule, but the process was seamless. Madison SPECS was able to service this client with the same speed, accuracy and thoroughness employed

to service every client.

A Sizable Tax Savings.

The clients were delighted by the results. The building's total cost was \$11 million. Of this, the cost segregation study permitted \$2.2 million, or 19%, to be reclassified from 27.5-year to 5-year MACRS (Modified Accelerated Cost Recovery System) property. 9 percent, or \$1 million, was reclassified to 15-year MACRS property. This reclassification of assets resulted in a net tax benefit of over \$700,000 in the first year.

Since the results of a cost segregation study depend upon accurate accounting and engineering evaluations, which is not something a typical CPA firm is equipped to handle, CPAs and accountants typically prefer to refer their clients Madison SPECS' experienced, qualified cost seg specialists. The tax benefits that emerge may vary in size, but they all go to building a better bottom line.

To download the free "All About Cost Segregation" handbook, go online to www.madisonspecs.com.

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