Owners in Need of an Offset to Taxes? Look to Your Building Walls

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Owning a commercial property provides many tax benefits to the taxpayer, particularly in the areas of depreciation expense in relation to cash flow. Consider that the standard depreciation for commercial real property is 39 years, and 27.5 for rental real property. Yet, when you identify and isolate the various components or assets that make up a commercial property you will see that many components have an actual usable life span many years less than the standard depreciation allowed under tax regulations.. And depreciating a portion over a shorter time period generally allows for a greater tax benefit to you through reductions in your federal and state tax liabilities for the year and beyond. Taking advantage of these deductions earlier gives you access to more after-tax dollars that you can use for more improvements or other necessary expenses. Reclassifying assets is not a new strategy, however it is not widely understood or utilized. To maximize your savings, you need specialists who understand the ins-and-outs of the IRS preferred methodology for creating a Cost Segregation Study or Analysis.

Specifically, in accordance with the Department of the Treasury under I.R.C. Sections 1245 and 1250 and supported in recent US Tax Court Cases, personal property and certain land improvements may be depreciated over significantly less time than nonresidential real property.

Performing a Cost Segregation study may be particularly beneficial for businesses following the enactment of the Tax Cuts and Jobs Act, the sweeping federal tax reform law passed in December 2017. The new law expanded the concept of bonus depreciation, which allows businesses to depreciate a certain percentage of the cost of new business property during its first year in service. Traditionally, bonus depreciation was only available for new property, and businesses could only depreciate up to 50 percent of the cost of the property as of 2017.

However, the Tax Cuts and Jobs Act extended bonus depreciation to used property and allowed businesses to depreciate 100 percent of the cost through tax year 2022. Businesses will be able to depreciate the following amounts in subsequent years: 80 percent in 2023, 60 percent in 2024, 40 percent in 2025, and 20 percent in 2026. This significantly expands the number of assets that qualify for bonus depreciation and the amounts that businesses can depreciate during the asset's first year in service. As a result, businesses are now able to capture substantially more tax

With Cost Segregation You may even apply to have your taxes recalculated going back many years.

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Cost Segregation

Look to Cost Segregation to Offset Taxes

savings through depreciation deductions by taking advantage of bonus depreciation.

Commercial buildings are full of assets that may qualify for expanded bonus depreciation. As a commercial building owner, working with a professional with tax and engineering expertise to conduct a Cost Segregation study will enable you to identify these assets—which must have been placed into service after September 27, 2017—and claim accelerated deductions through bonus depreciation.

How does this work?

Starting with a Cost Segregation Study, a comprehensive analysis is done based on engineering principles and examines commercial property and rental property to determine whether the property falls into either I.R.C Section 1245 or Section 1250. The benefit in performing the Cost Segregation Study is to properly classify property so that specific depreciation schedules may be applied.   Consider some of the benefits if depreciation for specific assets changes from 39 years, to 5, 7 15, 27.5, and 39 years, keeping your depreciation schedule in line with how property items really are valued in real time. In addition, the Benefit Analysis will identify the estimated percentage of reclassification of assets, the first year (immediate) tax saving benefit, the five year tax saving benefits, and the Net Present Value of those savings.

The Cost Segregation Study may help reduce your property taxes by accurately removing specific items from the cost of the building, and correctly classifying them into the new depreciation categories. IF done properly a review of all plans, specifications, and remodel/rehab scope to identify assets that may be substituted with shorter lives instead of the 39 year live and 27 ½ year assets. Additionally, assets may be preserved as “tangible personal property” instead of the long lived “real property”, improving depreciation.

You may even apply to have your taxes recalculated going back several years.

Why doesn’t everyone utilize this deduction?   Many commercial property owners are not aware of just how valuable this study can be for them.   And many in house tax accounting personnel are not fully prepared to deal with the complexity of the tax law and various sections regulations and rulings.   We have also encountered situations where a cost segregation has been performed but was not completed properly allowing for full realization all of the possible benefits.

In short, a cost segregation study can provide a great benefit to a building owner by helping to increase cash flow.   The study will identify and reclassify the components of the building using the 5, 7, and 15 year depreciation schedules.   If you plan to make any building improvements now is the best time to consider using Capital Review Group for your Cost Segregation Study. CRG’s network of expert engineers, architects and specialized accounting personnel have a primary mission to apply the laws, procedures, and revenue rulings of Cost Segregation analysis to maximize value for commercial property owners.

Cost Segregation

Unlike many other providers who “estimate” or “assume” the percentage of the basis of your reclassification, CRG steps up to perform the highly detailed review that we believe is indispensable in providing you with the highest level of tax savings. Our cost segregation services include comprehensive reports with verified and well-measured data that is gathered by professionals who know from experience what is required in a successful submission to the IRS.

The most effective tax experts understand the intricacies of current IRS rules and can work within regulations to obtain the maximum deductions. Performing a Cost Segregation Study is a highly specialized process that can result in significant tax benefits, but only when used in conjunction with an understanding of specific conditions within a business entity that may impact the company’s long-term savings.

Contact CRG for more information:

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