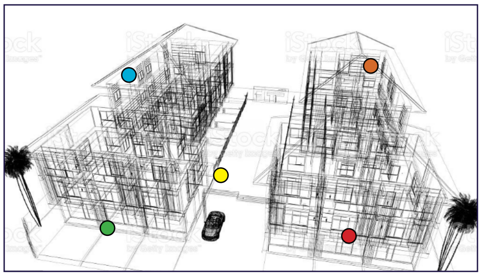
Cost Segregation & Fixed Asset Management Program

What is a Cost Segregation Study?

Cost segregation is the practice of accelerating depreciation from a “real property” life of 39 or 27.5 years to 5, 7, or 15-year lives using an “engineering-based” study. When a property is purchased or newly constructed, the asset is assumed to be comprised of entirely real property carrying a longer life and depreciated over a straight-line method. Through a cost segregation study, a portion of this basis can be shifted to a different asset class bearing a shortened depreciable life while also having the possibility of qualifying for bonus depreciation. This will benefit a taxpayer in an immediate increase in cash flow.

In addition, these shortened lives are eligible for bonus depreciation in newly constructed and acquired properties, allowing a taxpayer to further increase a study’s benefit by effectively expensing a portion or the entirety of the basis up front. A cost segregation study also breaks down a project’s basis into more manageable asset classes and units of property for future asset management.

Examples of assets to reclass:



- Flooring & finishes
- Data connections & associated wiring
- Kitchen appliances, including plumbing & electricity
- Parking lot paving & concrete sidewalks
- Landscaping

Benefits of a Study

- Maximizes tax savings by adjusting the timing of deductions
- Immediate increase in cash flow
- Deferral of taxes
- Ability to correct previous depreciation mistakes & reclaim the depreciation deductions from prior years
- “Unit of Property” breakdown into asset categories such as electrical, plumbing, HVAC, roof & shell
- Helpful in asset management & future dispositions, particularly in multi-tenant properties with high-turnover tenants for disposing of remaining tenant improvements

Retroactive Fixed Asset Analysis

As part of our cost segregation program, we regularly review fixed asset ledgers for potential tax reclassifications resulting from an analysis. In addition to accelerating the depreciation of individual line items, we will also look for potential repairs & maintenance expenses that could be eligible for an immediate write off. Individual assets can be further bifurcated into multiple asset classes in some circumstances for additional benefit.

Anchin’s Approach to Cost Segregation

- Anchin is uniquely equipped to handle cost segregation by leveraging our wide array of backgrounds and expertise not only within tax, but also engineering and construction to effectively identify and segregate personal property.
- Our engineering-based cost segregation approach fully examines all areas of a property where personal property could be identified such as electrical and plumbing systems, telecommunications and equipment connections.
- Site inspections - our studies almost always include a walkthrough of the subject property to maximize the benefit.
- IRS permitted approaches - our studies utilize methodologies and cost databases that have IRS approval in the event of a routine audit.

Industries That Can Benefit

Cost segregation should always be considered when constructing or purchasing any building. It also can provide a significant benefit where an asset was either constructed or purchased in a prior year and depreciated over 39 or 27.5 years. Typically, a study can shift 20% - 35% of the depreciable basis to a personal property class, which can further benefit from bonus depreciation. Various property types that can benefit from an analysis include:

- Retail and Shopping Centers
- Manufacturing & Industrial Plants
- Hospitality
- Multi-Family
- Office Buildings
- Distribution & Warehouses
- Restaurants

For Example

A multi-tenant commercial property is acquired for $20,000,000 in 2022. An appraisal is performed and $4,000,000 is determined to be attributable to the land, leaving the remaining $16,000,000 as depreciable basis. A cost segregation is performed on the acquired property after closing, resulting in:

$16,000,000 of 39-year real property →

- **$12,000,000 39-year real property**
- **$3,300,000 5-year personal property**
- **$700,000 15-year personal property**

Not only can the taxpayer depreciate those 5 and 15-year assets at a faster rate, but the personal property assets are also bonus depreciation eligible, which is 100% in 2022. Quantifying the benefit of an analysis utilizing a 40% effective tax rate amounts to a recognized first year benefit in excess of $1,500,000.

Next Steps

At no cost - Anchin can conduct an upfront estimate to provide a potential net present value savings generated by a full analysis. This estimate provides you with necessary insight to make an informed decision regarding the economic benefit of conducting a study. Contact us today to discuss how you could benefit from a cost segregation analysis on your properties.

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