

The principal goal of a cost segregation study is to increase cash flow from constructed buildings, purchased or inherited properties and renovations by accelerating depreciation expense deductions.

Through this analysis, the components of a building are reclassified into proper class "lives" according to government legislation, case law and IRS revenue rulings.

For businesses that own or lease a facility, depreciation is one of the most significant, but often overlooked opportunities to reduce income tax liability.

COST SEGREGATION STUDIES

Have you built, purchased, inherited, or renovated a building in the past few years? If your answer is "yes," it is likely you are paying too much federal income tax. **Holtz Rubenstein Reminick LLP** works with commercial property owners from across the nation to increase cash flow from real estate holdings by accelerating depreciation expense deductions.

Through what is called "**cost segregation**," the components of a building are reclassified into proper class lives according to MACRS (the Modified Accelerated Cost Recovery System), case law and IRS revenue rulings. MACRS property is tangible, depreciable property that has been placed in service since December 31, 1986 as prescribed by the Tax Reform Act of 1986. Example: a building's floor, roof, and walls might be classified as 39-year §1250 real property; site improvements such as sidewalks and landscaping would be classified as 15-year §1250 real property; carpeting and decorative lighting as 7-year §1245 tangible personal property and computer associated items as 5-year §1245 personal property.

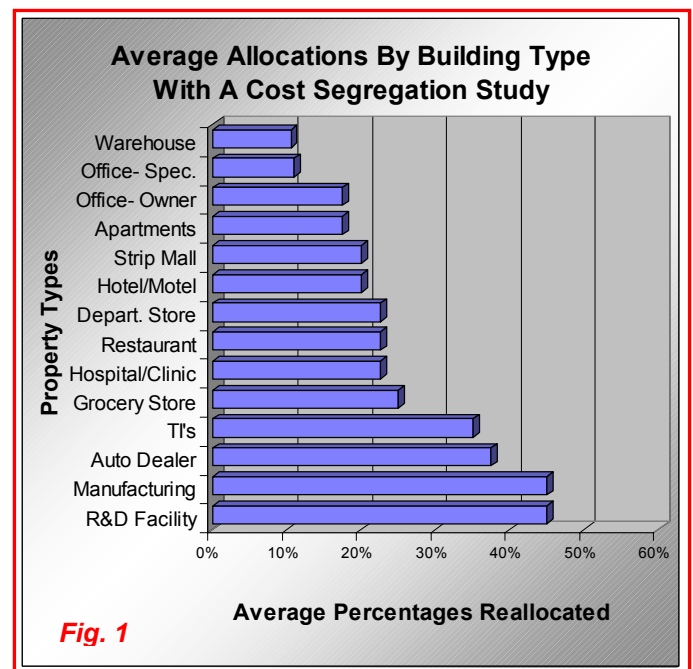
*Whether you are buying, building, improving, or have inherited a building, **Holtz Rubenstein Reminick LLP** can help maximize your income tax deductions through our in-depth cost segregation service.*

FEASIBILITY OF PERFORMING A COST SEGREGATION STUDY

A cost segregation study may be conducted on any building that has been placed in service since December 31, 1986 by a tax paying company (or individual) that does not show an operating loss or will be profitable in the near future. The property owner must be a taxpayer, not tax exempt. Some types of projects are more feasible than others (*Fig. 1*).

Recent regulations have been kind to the taxpayer in that they have allowed "catch up" depreciation in the first year as opposed to over four years. The following are examples of good cost segregation opportunities:

- New Construction & Renovations
- Acquisitions of property
- Buildings previously placed in service without a cost segregation study and are currently depreciating entirely over 27½ or 39 years
- Clients with a large asset base such as large retailers that have numerous small assets
- Inherited property



THE BENEFITS OF COST SEGREGATION

The benefits of cost segregation, resulting from a deferral of tax payment and accelerated depreciation, are easy to demonstrate. For each dollar that is reclassified into a 7-year class life, the taxpayer realizes from \$0.15 to more than \$0.20 in the cumulative present value of taxes deferred. Similarly, for each dollar that is reclassified into a 15-year class life, the taxpayer realizes from \$0.08 to \$0.10 in the cumulative present value of taxes deferred. These are approximations and the exact amounts depend on factors such as the tax rate, discount rate and whether the subject property qualified for bonus depreciation.

Example – A \$10,000,000 office building has a 35% tax rate and an 8% discount rate. If 1% of the building is reclassified into a 5-Year class life, 8% into 7-Year, and 8% into 15-Year (Fig. 2), the cumulative present value of taxes deferred, using the half-year convention, is over \$249,000 (Fig. 3).

It is important to note that this is only an example and the actual percentages of reclassified property will vary greatly depending upon many factors, such as the use of the building, the size of the facility, as well as tax and discount rates.

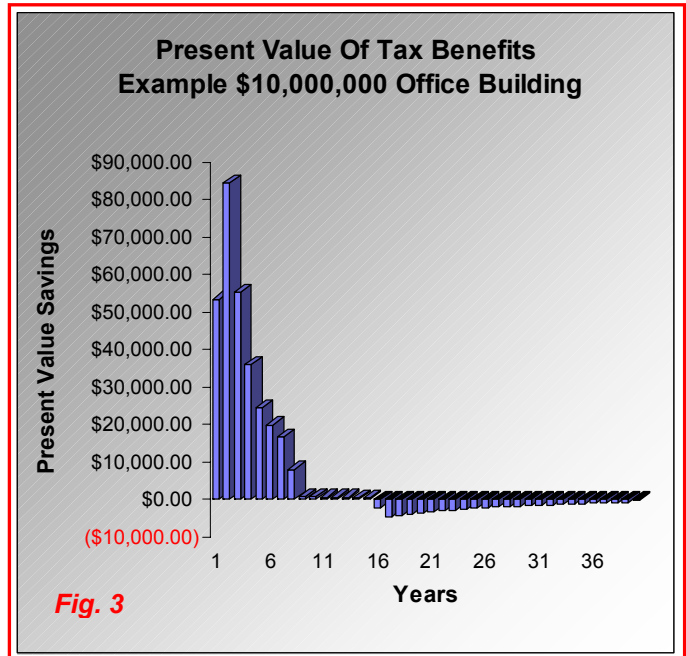
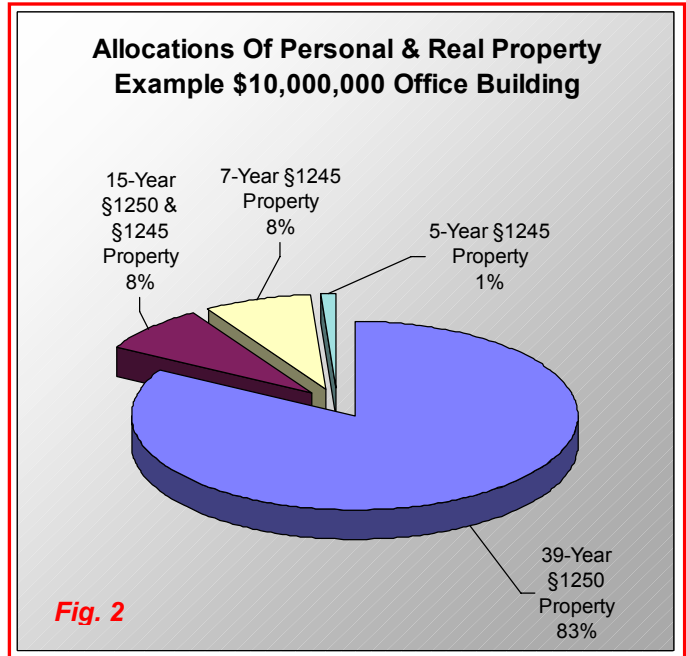
HOW DO I GET STARTED?

You will need to provide the property size (square feet), cost basis in improvements, and property use (car dealer, apartment, office, manufacturing, etc.).

To see if your property is a candidate for cost segregation services, contact your Holtz Rubenstein Reminick LLP adviser or:

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