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Professional Services

Reduce taxes with cost-segregation study of new, existing property

If you own a commercial real estate facility, chances are you're paying too much in federal and state taxes. Recent changes in Internal Revenue Service tax law now provide owners of commercial real estate with some of the most generous, taxpayer-friendly changes in history. These tax law changes make it simple to change how your facility (new or existing) is depreciated by allowing you to elect shorter recovery periods that directly impact your cash flow.

As we leave a very difficult economic year behind us, it is imperative that the real estate community understand how these accelerated depreciation deductions result in a tremendous increase in cash flow. Property owners who act quickly and request a "cost-segregation study" on their facility can realize significant tax benefits on their 2003 tax return. Property owners who already have been depreciating their facilities over long periods of time are also entitled to these same benefits, without the headache of amending prior year tax returns.

■ What is a cost-segregation study? Cost-segregation studies identify and break out personal property components and land improvements from structural building costs. This benefits taxpayers by allowing them to reclassify certain costs into shorter depreciation lives, thus maxi-



Scott Zarret, CPA
Director, business development, DASI Consulting Corp., Denver

mizing depreciation expense.

■ Who qualifies for the benefits?

If you've purchased, constructed or renovated any property since Jan. 1, 1987, plan on holding onto your property for the next several years

and are currently paying taxes, then you will find a cost-segregation study valuable.

■ Why haven't I heard of cost segregation? Commercial buildings are unique, just like the people who own them. And it takes a truly unique engineering firm to provide your certified public accountant with an engineering-based cost-segregation study of your building. Simply stated, CPAs are not engineers. The IRS requires that engineering-based studies be performed in order to unlock your depreciation benefits. For the same reason you wouldn't ask an engineering firm to prepare your tax return, you shouldn't expect your CPA firm to perform an engineering-based study of your facility.

Although the benefits of cost segregation can be significant,



Ed Allen, CPA
Principal, tax specialist, DASI Consulting Corp., Denver

the majority of accounting firms do not provide these services. They lack the engineering specialists necessary to analyze construction drawings and conduct engineering cost estimates.

■ Why do I need to hire a cost-segregation specialist?

The IRS requires specialized engineering expertise to thoroughly dissect construction information, compute industry standard estimates and identify and segregate the subcomponent costs. Engineering-based cost-segregation studies provide your tax preparer with the information and supporting documentation needed to conform to strict IRS regulations. For a property owner, these studies are essential because they allow the building owner to accelerate the depreciation of more than 25 percent to 30 percent of a typical building. This amounts to hundreds of thousands of dollars in tax benefits that are otherwise recovered over a period of 39 years. Engineering-based studies also allow you to allocate a portion of the indirect costs to the assets reclassified to shorter

depreciable lives. These indirect costs (e.g., architect fees, permits, etc.) can account for up to 30 percent of the total construction costs.

■ Conclusion. Thousands of commercial property owners overpay their taxes every year because they have not utilized the IRS approved method of engaging an engineering firm to accelerate depreciation deductions. The immediate cash flow improvement attained by having a cost-segregation study performed makes this a timely opportunity that you can't afford to miss out on any longer. As a building owner, you should not assume that your CPA has the engineering expertise to properly analyze construction drawings and develop engineering cost estimates. You need an engineering firm that specializes in providing cost-segregation studies.

The process of obtaining a cost-segregation study is painless and requires minimal investment of your time. Cost-segregation specialists routinely provide proposals at no cost so a building owner may objectively evaluate the potential benefits. The cost to have a study performed is a small fraction of the tax savings realized in the first year. In order to access the cash benefits of an engineering-based cost-segregation study, contact a cost-segregation specialist immediately!▲