

WHITE PAPER

COST SEGREGATION: A VALUABLE STRATEGY FOR COMMERCIAL PROPERTY OWNERS

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Cost segregation is an engineer-based analysis designed to **maximize depreciation and cash flow on commercial property.**

In its simplest form, a cost segregation study reclassifies purchased, constructed, improved, or inherited commercial property into shorter life assets. By doing so, commercial property owners will maximize depreciation deductions, accelerate income tax deductions, and increase cash flow.

WHAT A COST SEGREGATION STUDY DOES

An engineer-based cost segregation study benefits the taxpayer through increased upfront tax savings and improved cash flow by virtue of corresponding tax deferrals. Such benefits are derived from two sources: Increased deductions arising from costs shifted from non-depreciable land to depreciable property (land improvements) and the time value of money impact of accelerating depreciation deductions to earlier tax years.

An additional, and often substantial, benefit of a cost segregation study is that it allows property owners the ability to write off the segregated assets (e.g., roof, windows, boilers, etc.) should they later become obsolete, damaged, or replaced.

COST SEGREGATION STUDIES ARE PERFORMED FOR PURCHASED, CONSTRUCTED, RENOVATED, OR INHERITED COMMERCIAL PROPERTY.

All types of commercial properties qualify including, but not limited to:

- Manufacturing Facilities
- Grocery Stores
- Apartment Buildings
- Medical Office Buildings
- Restaurants
- Entertainment Facilities
- For-Profit Hospitals
- Fast Food Chains
- Auto Dealerships
- Hotels
- Laboratories
- Office Buildings
- Retail Stores
- Funeral Homes
- Assisted Living Facilities
- Warehouses

CASH BENEFITS OF A COST SEGREGATION STUDY

For many companies, the tax savings over the initial five-year life of the property have been dramatic, equating to hundreds of thousands of dollars. For example, the following are samples of the cash savings we achieved for our clients (identifying information has been removed to protect the interests of the respective property owners):

Retail Store

- \$ 21M project cost
- \$ 4M increased depreciation in first 5 years
- \$ 1.6M tax savings in first 5 years
- \$ 1.2M present value of increased cash flow over property life

Apartment Complex

- \$ 4M project cost
- \$ 600K increased depreciation in first 5 years
- \$ 230K tax savings in first 5 years
- \$ 120K present value of increased cash flow over property life

Manufacturing Facility

- \$ 11M project cost
- \$ 2.9M increased depreciation in first 5 years
- \$ 1.1M tax savings in first 5 years
- \$ 720K present value of increased cash flow over property life

Mixed Use Development

- \$ 172M project cost
- \$ 43M increased depreciation in first 5 years
- \$ 10.9M tax savings in first 5 years
- \$ 7.1M present value of increased cash flow over property life

QUALITY COST SEGREGATION STUDIES

According to the IRS¹, a “quality” cost segregation study is both accurate and well-documented. The preparer should have the requisite knowledge, expertise, and experience.

At Bentley Consulting Group, we employ a team of engineering and tax professionals who work closely with the property owner, construction engineer, construction manager, and the property owner’s CPA firm. Because cost segregation is factually intensive, we rely upon a myriad of tax court cases, rulings, memorandums, pronouncements, and promulgations as support for the study.

We issue a comprehensive engineer-based report that includes explanations on the segregation of property, testing procedures, estimated savings, as well as details of the various pronouncements and tax court cases relied upon. Depending upon the size and complexity of the project, hundreds of assets can be identified in a 100-200 page report. Cost segregations are generally feasible for properties purchased, constructed, improved, or inherited within the past five-year period for \$1,000,000 or more.

¹ IRS Cost Segregation Audit Technique Guide, <https://www.irs.gov/businesses/cost-segregation-audit-techniques-guide-table-of-contents> .

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About Bentley Consulting Group, LLC

Bentley Consulting Group, LLC is a financial consulting firm that employs credentialed professionals with years of experience to help you meet your strategic objectives, whether you are looking for tax credit research, strategic planning, cost segregation studies, or business valuations. Give us a call if you need assistance as we would be happy to talk with you about your needs.

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