

Could You Benefit from Cost Segregation?

Almost any taxpayer who owns commercial real estate can reduce his or her current income tax bill by using cost segregation. Just how much you save in taxes will depend on several variables. The greater the cost of your property, the greater the potential for current tax savings.

Any building that was constructed, purchased, or remodeled since 1987 may be eligible for cost segregation. Retroactive tax deductions are available on older buildings without the need to file amended tax returns.

To pass an IRS audit for these deductions, you will want to use a cost-segregation specialist. This will usually be a construction engineer who can perform a detailed engineering study of all the building components (walls, ceilings, floors, plumbing, electric, telecommunications, heating and cooling systems, etc.) and assign the appropriate value to each. Those elements that qualify for five, seven, or fifteen year write off will provide the property owner with greater depreciation deductions and hence lower taxes in the early years.

The downside may be the cost to do the study versus the accelerated cash flow and possible penalties from the IRS for those who use cost segregation too aggressively.

The main elements of a proper cost segregation study are:

- * Conducted by someone with valid credentials as to experience and expertise.
- * A detailed description of the proper methodology.
- * Complete and proper documentation.
- * A full listing of all property that qualifies for shorter write off periods.

A properly conducted cost segregation study can provide a property owner with cash today that he or she would not otherwise get for several years.

An initial consultation with a cost segregation specialist can help you determine if your property is a candidate for a full blown study.