KATCHEN COMPANY

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Cost Segregation Study

Cost segregation is a term that isn't used much outside a CPAs office. But if you are or will be owning real estate for business or investment purposes you should make yourself familiar with the term.

Cost Segregation is the practice of identifying assets and their costs, and classifying those assets for federal tax purposes. In a cost segregation study, certain costs previously classified as subject to 39-year depreciable life (section 1250 property), can instead be classified as personal property or land improvements (section 1245 property), with a 5, 7, or 15-year rate of depreciation.

Cost segregation studies are accepted and approved by the IRS. There are various rulings, regulations and court cases which provide the basis for cost segregation studies. The benefits of a cost segregation study include an immediate increase in cash flow, a reduction in current tax liability, the deferral of taxes and the ability to reclaim "missed" depreciation deductions from prior years.

The cost segregation process utilizes an engineering based approach to identifying assts in a building that can be classified into a much shorter depreciable life. A cost segregation expert has a unique blend of knowledge in construction, tax, and accounting. A quality cost segregation study evaluates all available information on the property and presents the findings in a clear, well documented format. At a minimum the study should include the following.

1.) A review of all cost detail for the property including but not limited to: the general contractor's application for payment, change orders, depreciation schedules, and appraisals.

2.) An inspection of the facility to fully understand its nature and use, as well as to gather information that further supports the classification of capitalized costs into their appropriate class lives.

3.) Photographs should be taken of qualifying construction components and included in the report.

4.) A review of blue prints, if available, and the performance of quantity takeoffs and cost estimates for personal property not segregated in the cost information.

5.) A reconciliation of all construction costs and estimates to the actual amounts incurred by tax life: This step includes trending estimates to account for location, time, and physical life.

6.) A pro-rata allocation of soft costs, such as capitalized interest and engineering fees, to any direct cost in each category to maximize total benefits.

Cost segregation studies are one of the most valuable strategies available to owners of commercial real estate today. This increasingly popular strategy, offers facility owners the opportunity to defer taxes, reduce their overall current tax burden, and free up capital by improving current cash flow. Virtually ever tax payer who owns, constructs, renovates, or acquires a commercial real estate structure stands to benefit from a cost segregation study.

Accountants may have specific knowledge of the appropriate tax law, but they are typically absent of the required construction expertise. Most accounting firms don't have construction engineers on staff to physically inspect the property, examine architectural/ engineering drawings and analyze cost date. By engaging the expertise of Katchen Company to work with your CPA you can be assured that your study will stand up to the scrutiny of IRS auditors.

Katchen Company

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- Lessee Representation

Fee Development

- New Construction
- Remodel

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- New Construction
- Remodel

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- General Repairs

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