



**PERKINS & CO**

**Real Estate Practice Group** presents:

# **Cost Segregation Studies**

**"The Tool to Maximize Your Tax Depreciation Benefits"**

**Tim Kalberg, CPA**  
**Shareholder**

**Trent Baeckl, CPA**  
**Tax Manager**

So...



What do you get when you mix an  
**Engineer**  
with an  
**Accountant?**





# A Cost Segregation Study!

To accelerate your depreciation and save you tax \$\$!



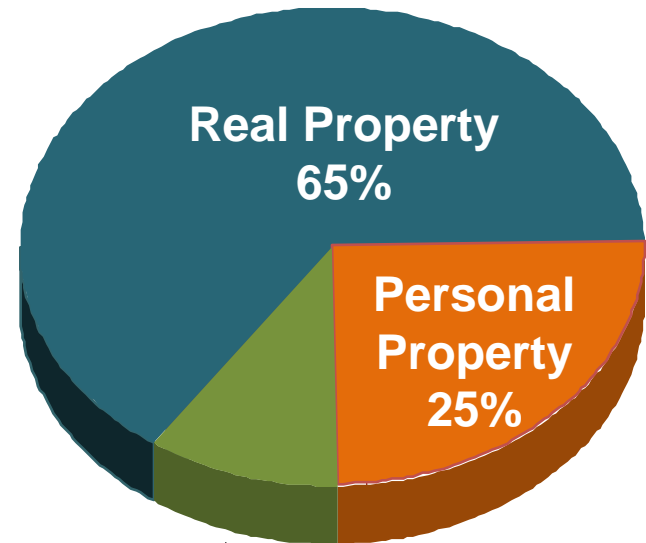
# What Does A Cost Segregation Study Do?



**Before**



**After**



**Land Improvements  
10%**

# Cost Segregation Benefits



 Accelerated Depreciation

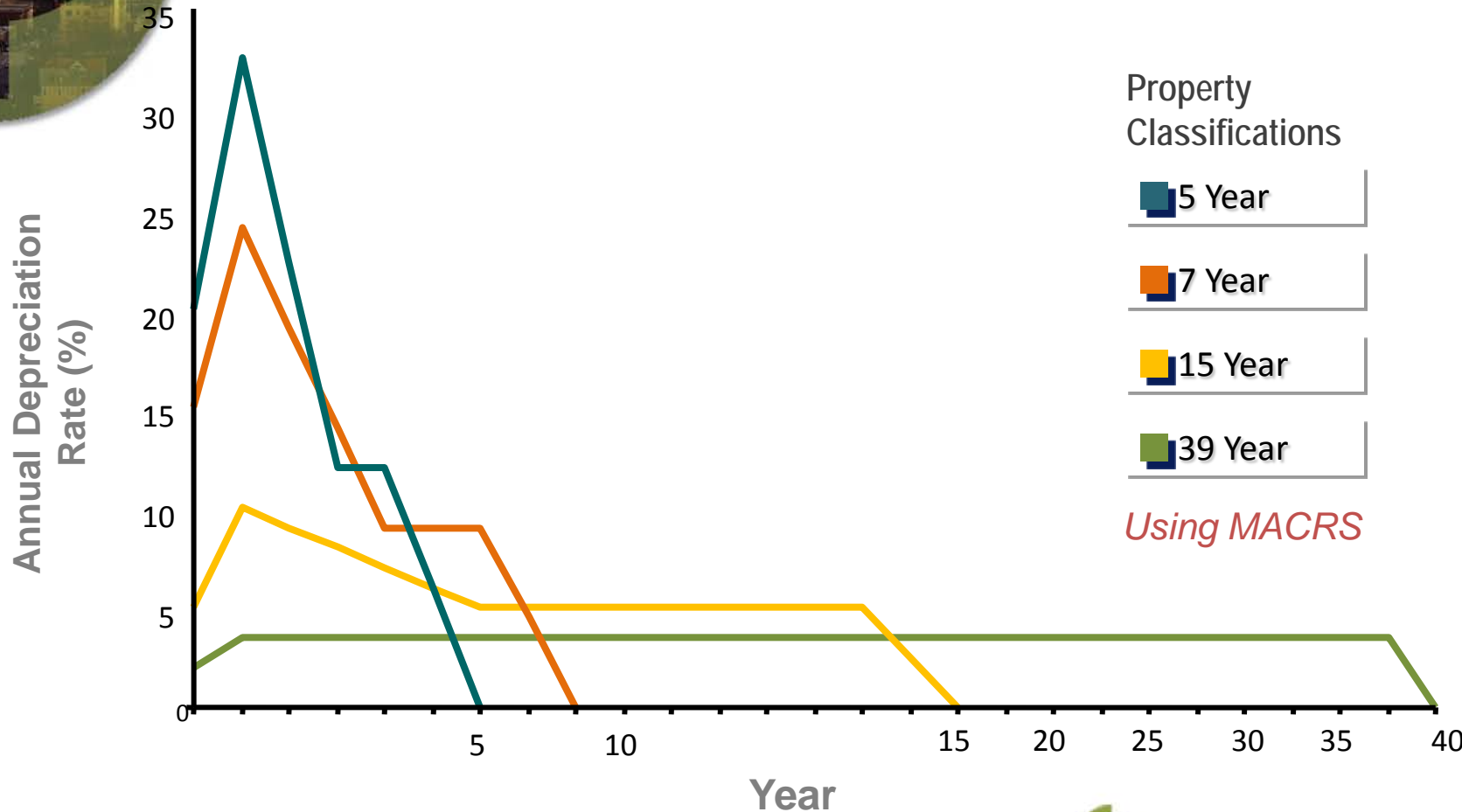


\$\$\$ Increased Cash Flow \$\$\$



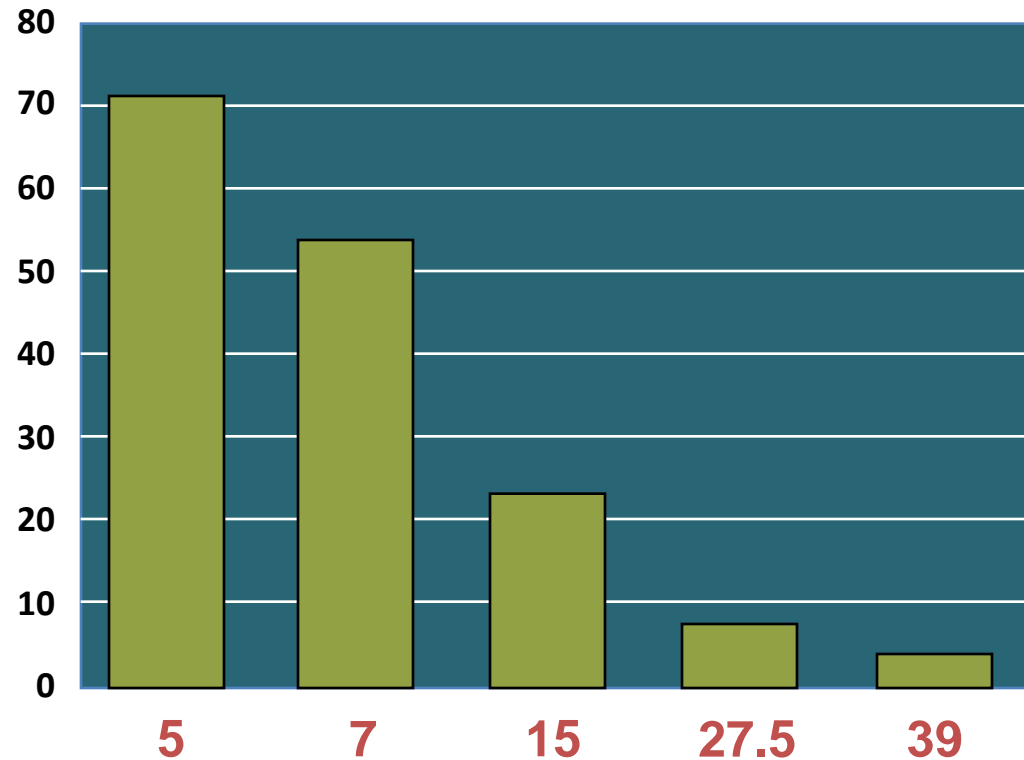
Business Growth 

# Depreciation Comparisons



# Why Have A Cost Segregation Analysis?

% of Cost Basis Depreciated in First 3 Years



**Property Life in Years**

(Assumes MACRS Half-Year Convention)

# When Does A Cost Seg Make Sense?

- **New Construction**
- **Major Renovation**
- **Acquisition**
- **IRS Audit of Past Year(s)**
- **Real Estate Holdings (1988 to present)**





**“Correcting the classification of assets placed in service in past years made possible.”**

- **Issuance of Revenue Procedure 96-31**
- **File Form 3115, Change in Accounting Method**
- **No Amended Returns**



# Example of Correcting Misclassified Assets

Building (in Service July 2006)

Identify \$500,000 misclassified 5-year personal property

Depreciation Claimed	\$70,000
Correct Depreciation	\$500,000
Depreciation Adjustment	\$430,000

## Results:

**\$150,500** of **Increased** Cash Flow **This Year**

(Assumes 35% tax rate)



# Tax Act Depreciation Benefits – Bonus Depreciation

In Service Date	2001-2003	2003-2004	2005-2007	2008-2010	2010-2011	2012
Bonus Depreciation	30%	50%	N/A	50%	100%	50%
Phase In Date	9/11/01	5/6/03	N/A	1/1/08	9/9/10	1/1/12
Phase Out Date	5/5/03	12/31/04	N/A	9/8/10	12/31/11	12/31/12

○ Oregon – no bonus in 2009 & 2010

○ California – no bonus ever



# Tax Act Depreciation Benefits – Qualifying Leasehold Improvements

In Service Date	2001-2003	2003-2004	2005-2007	2008-2011	2012
Depreciable Life	39 yrs	15 yrs	15 yrs	15 yrs	39 yrs
Phase In Date	N/A	10/23/04	N/A	N/A	N/A
Phase Out Date	10/22/04	N/A	N/A	N/A	N/A
Bonus Depreciation?	Yes	Yes	N/A	Yes	Yes

- Improvements must be pursuant to a lease
- No common area/structural improvements
- No related party leases
- Building must be at least 3 years old



# Tax Act Depreciation Benefits – Qualifying Restaurant Improvements

In Service Date	2001-2003	2003-2004	2005-2007	2008-2009	2010-2011	2012
Depreciable Life	39 yrs	15 yrs	15 yrs	15 yrs	15 yrs	39 yrs
Phase In Date	N/A	10/23/04	N/A	N/A	N/A	N/A
Phase Out Date	10/22/04	N/A	N/A	N/A	N/A	N/A
Bonus Depreciation?	Yes	Yes	N/A	Yes	No	No

- 50% of square feet devoted to cooking & on-site consumption
- Building structure qualifies
- Building must be at least 3 years old only for pre-2009 assets– new buildings 2009 and later qualify





# Tax Act Depreciation Benefits – Qualifying Retail Improvements

In Service Date	2001-2004	2005-2007	2008	2009	2010-2011	2012
Depreciable Life	39 yrs	39 yrs	39 yrs	15 yrs	15 yrs	39 yrs
Phase In Date	N/A	N/A	N/A	1/1/09	N/A	N/A
Phase Out Date	N/A	N/A	N/A	N/A	N/A	N/A
Bonus Depreciation?	No	N/A	No	Yes	No	No

- Requirements similar to Qualified Leaseholds except owner occupied/related party allowed



# Qualified Leasehold Example

- **\$500,000 Tenant Improvements in Existing Commercial Office Building**  
(in Service July 2010)
- **All TI's are Qualified Leaseholds w/ Bonus**

Original 1 <sup>st</sup> Year Depreciation	\$6,000
Revised 1 <sup>st</sup> Year Depreciation	\$258,000
Add'l 1 <sup>st</sup> Year Depreciation	\$252,000

- **Increased Cash Flow (35% rate): \$88,000**



# Energy Deduction 2008-2014

- **Sec. 179D Deduction for Energy Efficient Commercial Buildings**
- **Immediate Deduction of up to \$1.80/sq ft**
- **Partial Deduction of \$.60/sq ft for lighting, HVAC and Building Envelope**
- **Basis reduction**
- **Pass-through option**
- **Building must be placed in service before Jan 1, 2014**
- **Certification is required**



# Energy Deduction 2008-2014

- **Proactive Design is important**
  - legislation was developed to ensure that “free riders” would be minimal
- **LEED certification does not necessarily guarantee that building qualifies for deduction but increases chances**
- **Concentrate on lighting**



# Why Use An Engineer?

## IRS Chief Counsel Guidance:

" An accurate cost segregation study may not be based on non-contemporaneous records, reconstructed data, or taxpayer's estimates or assumptions that have no supporting records."

"...the study should be performed by 'qualified' individuals or firms, such as those employing '...personnel competent in design, construction, auditing, and estimating procedures relating to building construction."





# Real Property





# Land Improvements



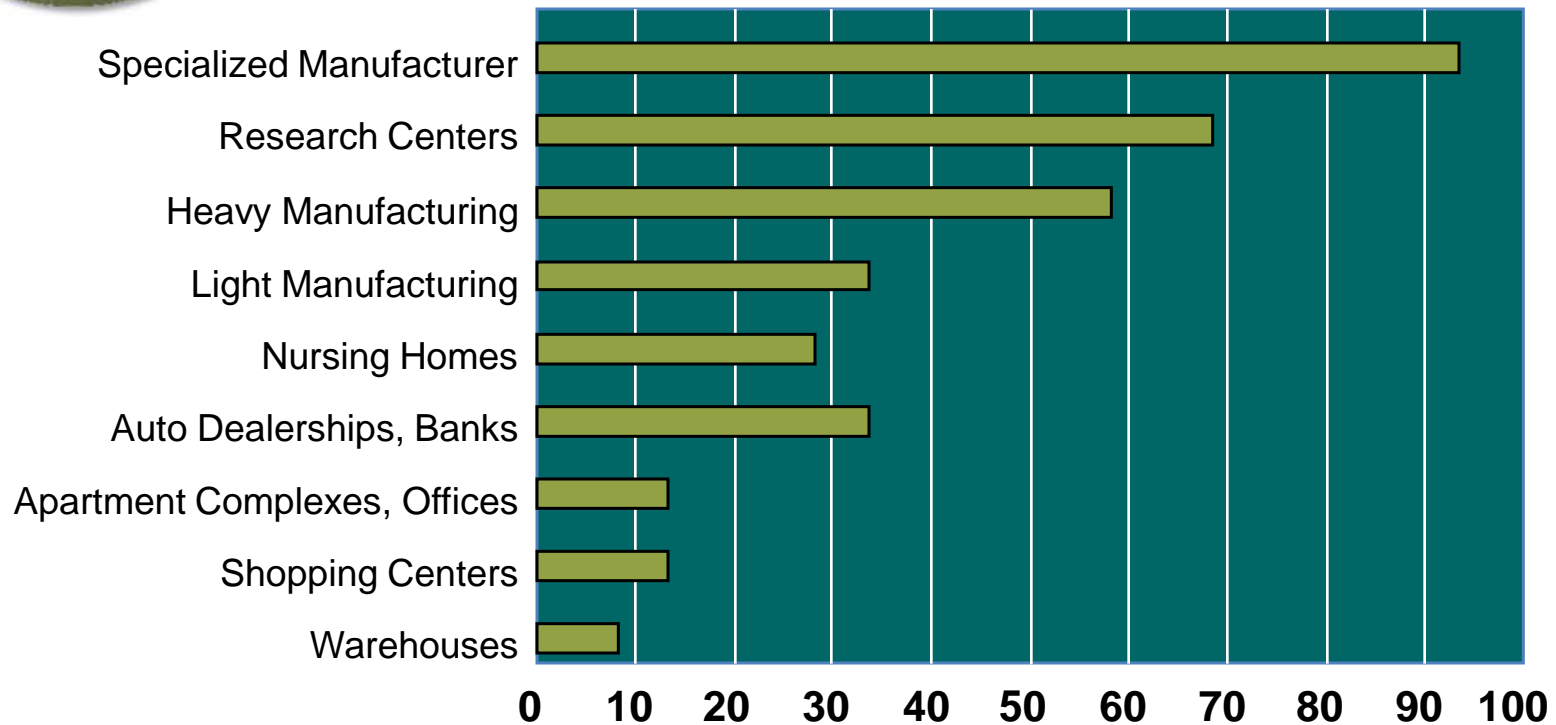




# Personal Property

# Construction Cost Qualifying for Accelerated Depreciation

Percentage of Construction Cost Qualifying as Short-Lived Property





# Cost Segregation Study Report Provides


- **Independent, third party review**
- **Identification of all project costs**
- **Detailed fixed asset breakdown**
- **Audit trail for construction cost**
- **Supporting tax citations**





# Asset Classification for:

- **Federal and State Income Taxes**
- **Financial Statements**
- **Local Property Taxes**
- **Sales and Use Taxes**



So...what do you get when you mix an  
Engineer with an Accountant?

Powerful Tools to

Accelerate  
Deductions

Ultimately, increasing  
your cash flow!



# Upcoming Event Thursday 9/29



**Real Estate Connection** *presents*

**Reparis & Maintenance vs. Capitalized Costs:  
I can expense this?!**



## **Agenda:**

3:45 pm Registration

4:00 pm Welcome and Introductions

4:15 pm Tim Kalberg from Perkins & Co's Real Estate Practice Group

4:40 pm Marla Miller from BDO's Fixed Asset Services Practice Group

5:30 pm Networking Reception (complimentary appetizers, beer & wine)

Registration & Presentations:

[KINK FM's BING Lounge](#)

PacWest Building

1211 SW 5th Avenue

(outside entrance on 6th Avenue)

Portland, OR 97204

Networking Reception Immediately Following

[Perkins & Co](#)

PacWest Building, Floor 10

1211 SW 5th Avenue

Portland, OR 97204

503-221-0336

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**Real Estate Practice Group**

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# Appendix: Real Life Cost Segregation Study Examples





# Manufacturing Operations

1st Year Increased Cash Flow    \$231,000  
NPV of Increased Cash Flow    \$750,500  
*Facility Cost \$6.8 Million*



**Land Improvements 3%**



# Restaurant New Construction with Bonus

1st Year Increased Cash Flow	\$55,000
NPV of Increased Cash Flow	\$58,900
	<i>Cost \$683,000</i>

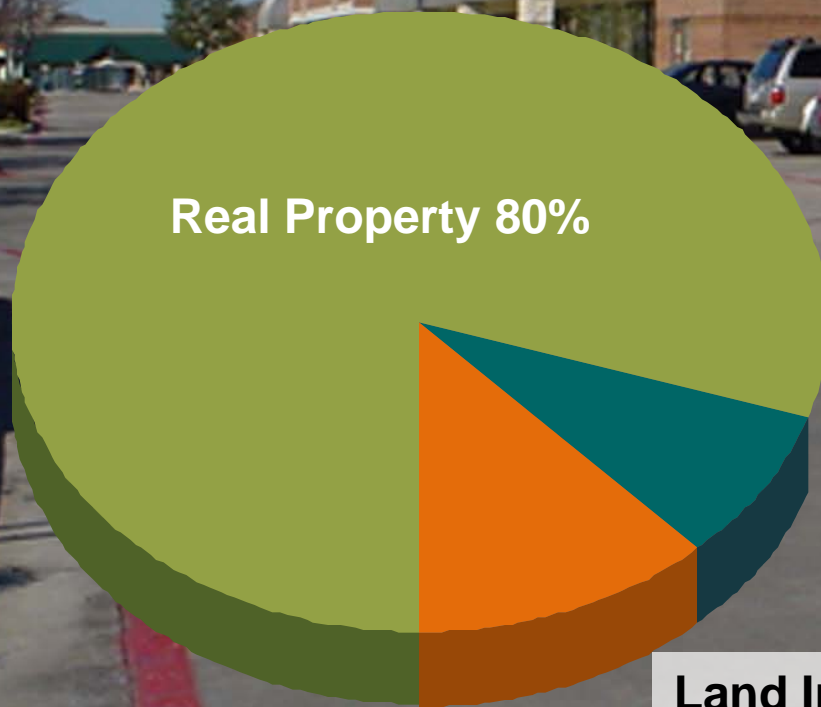
**Real Property**  
55%

**Personal Property**  
45%



# Retail Strip Mall, Acquisition

1st Year Increased Cash Flow     \$221,500  
NPV of Increased Cash Flow     \$836,700  
*Total Project Cost \$25 Million*

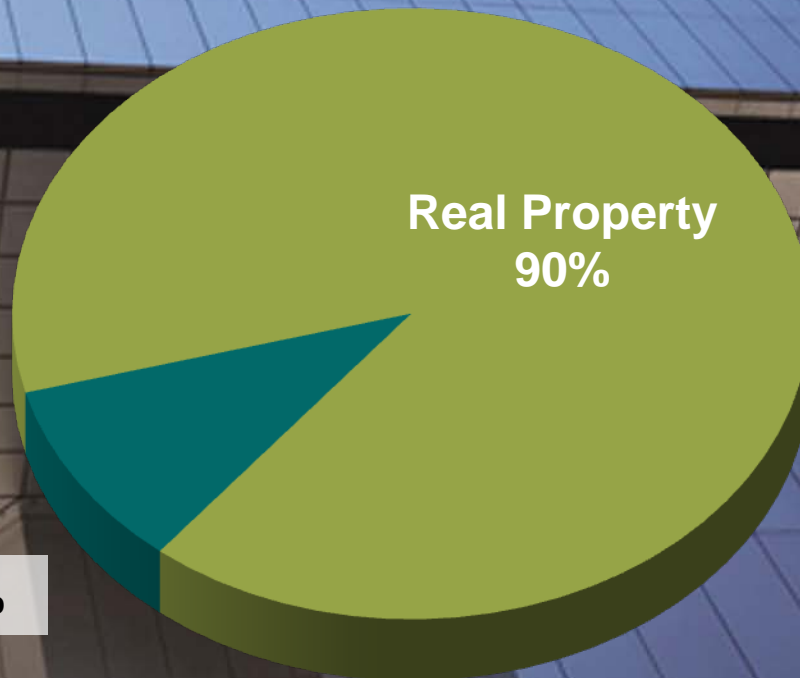


**Personal Property 8%**

**Land Improvements 12%**

# Office Building, Acquisition

1st Year Increased Cash Flow	\$312,500
NPV of Increased Cash Flow	\$901,000
<i>Cost \$47.9 Million</i>	



**Personal Property 10%**



# Auto Dealership, New Construction

1st Year Increased Cash Flow	\$186,400
NPV of Increased Cash Flow	\$251,000
<i>Building Cost \$4.6 Million</i>	

**Real Property**  
67%

**Land Improvements 20%**

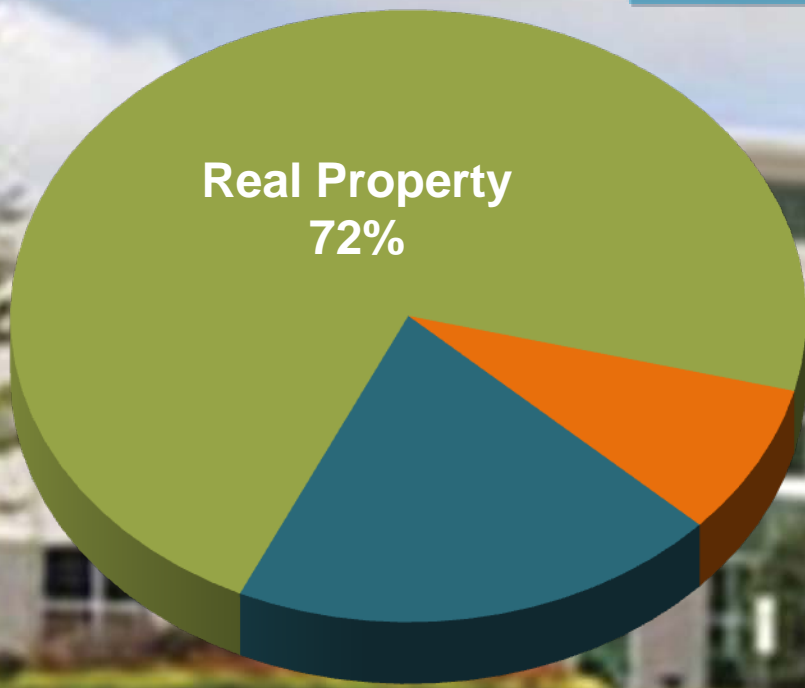
**Personal Property 13%**



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# NASCAR Facility, New Construction

1st Year Increased Cash Flow     \$ 81,000  
NPV of Increased Cash Flow     \$349,000  
*Building Cost \$8 Million*



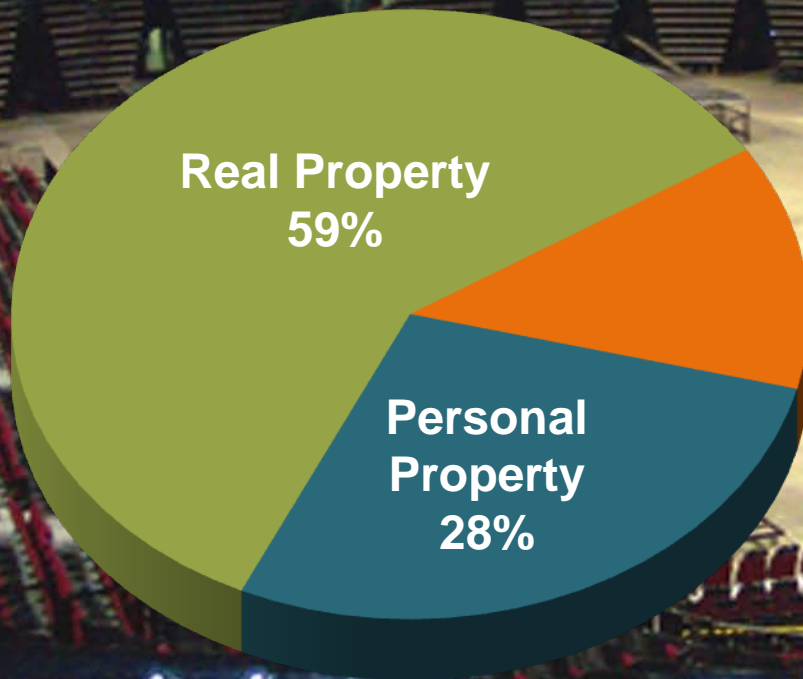
Land Improvements 8%

Personal Property 20%



# NBA Arena, Acquisition

1st Year Increased Cash Flow      \$913,700  
NPV of Increased Cash Flow      \$3,500,000  
*Building Cost \$63 Million*



**Land Improvements 8%**

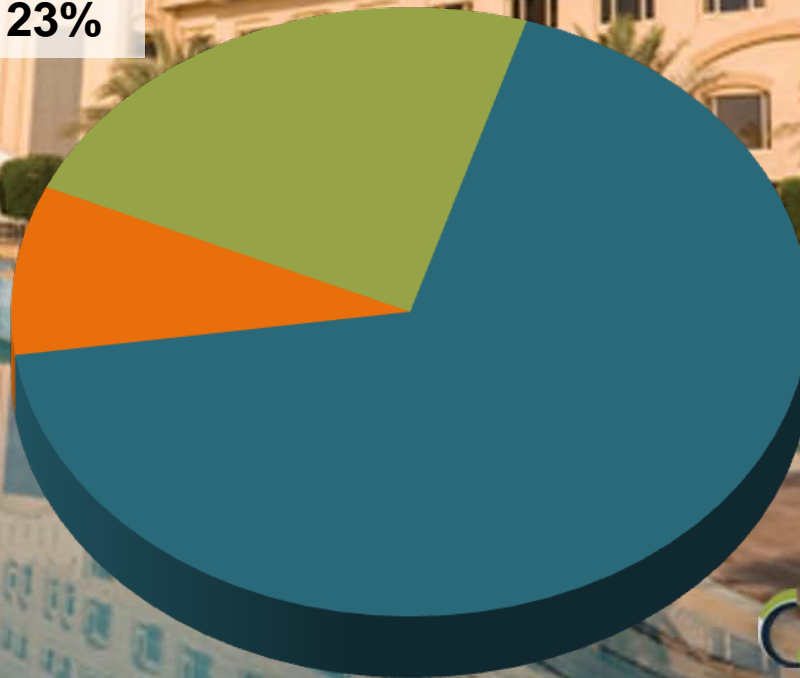


# Hotel

1st Year Increased Cash Flow     \$272,000  
NPV of Increased Cash Flow     \$833,700  
*Facility Cost \$15.3 Million*

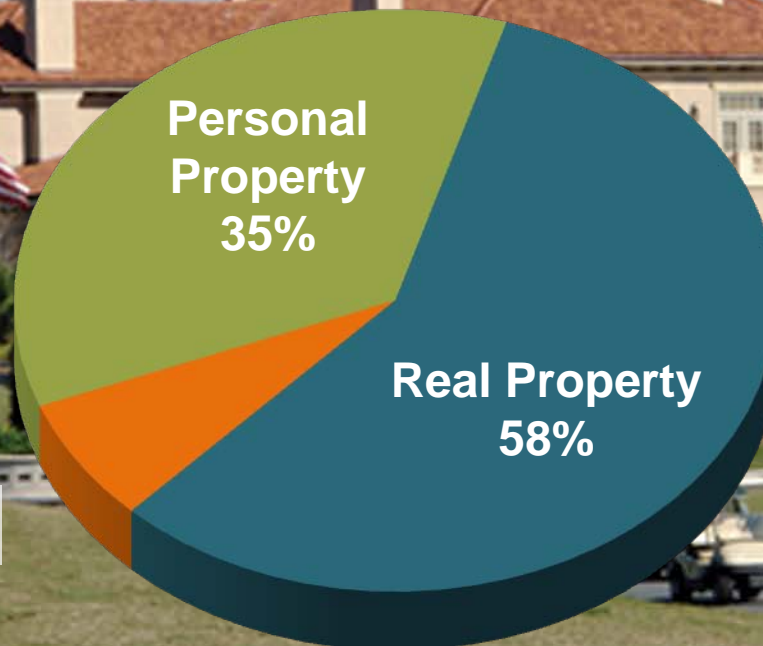
**Personal Property 23%**

**Land Improvements 9%**



# Golf Clubhouse, New Construction

1st Year Increased Cash Flow     \$ 33,000  
NPV of Increased Cash Flow     \$127,000  
*Cost \$1.9 Million*



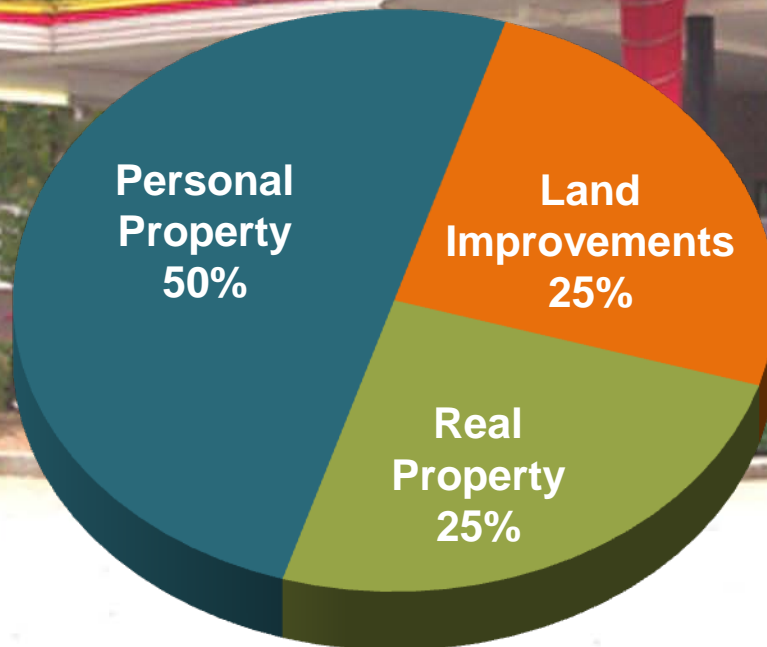
**Land Improvements 7%**



# Drive-In Restaurants, Acquisition

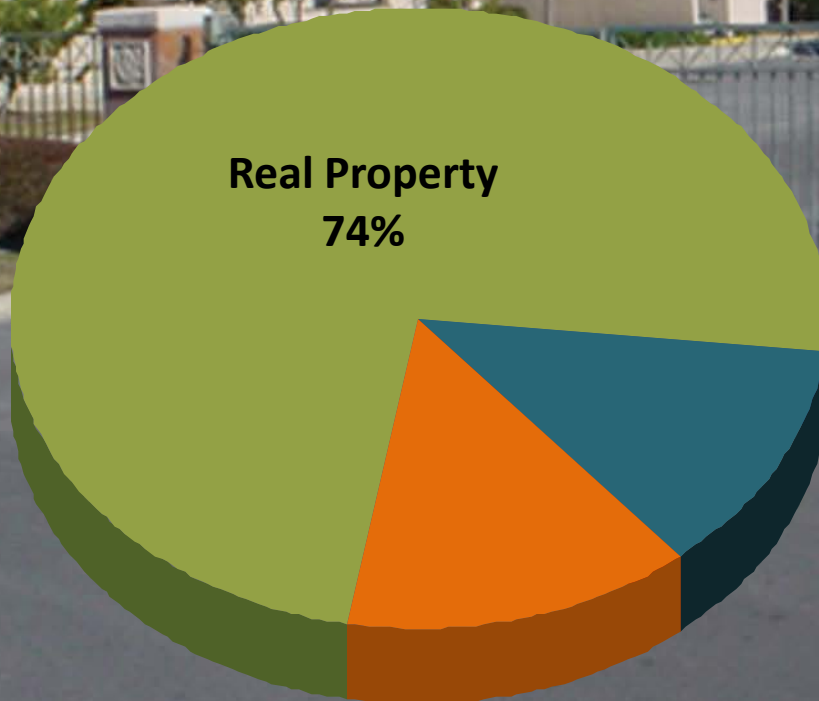
1st Year Increased Cash Flow     \$ 34,000  
NPV of Increased Cash Flow     \$119,000

*Cost \$1 Million, 3 Facilities*



# Apartment Complex, Acquisition & Sec. 481

1st Year Increased Cash Flow     \$6.6 M  
NPV of Increased Cash Flow     \$4.4 M  
*Total Project Cost \$55.5 Million*



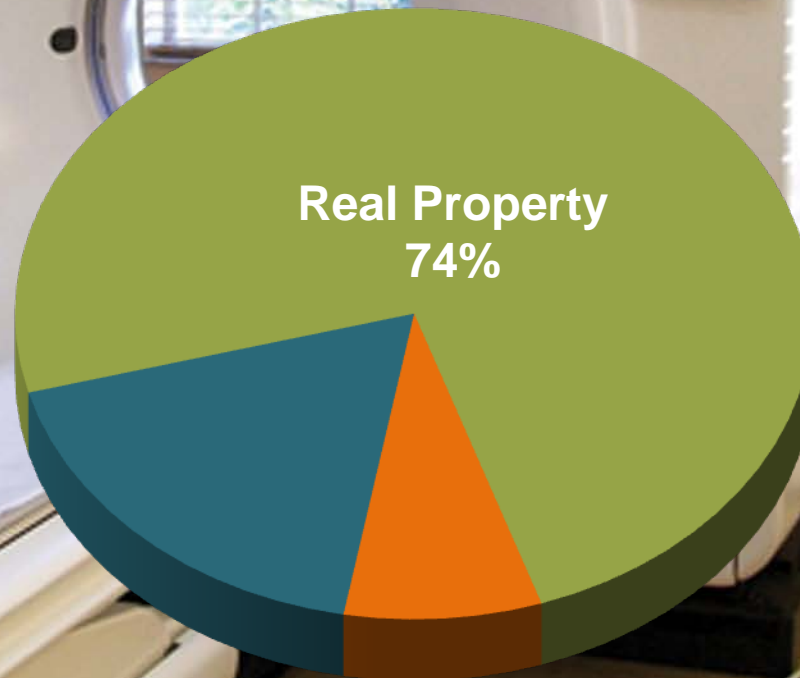
**Personal Property 12%**

**Land Improvements 14%**



# Medical Office, Acquisition and Sec. 481

1st Year Increased Cash Flow	\$38,000
NPV of Increased Cash Flow	\$13,000
	<i>Cost \$300,000</i>

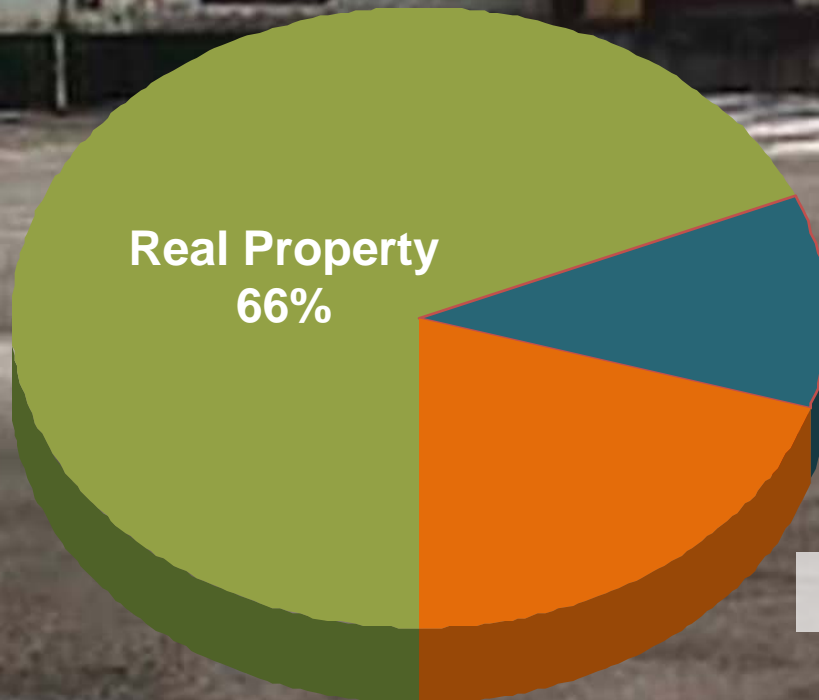


**Personal Property 18%**

**Land Improvements 8%**

# Truck Distribution Facility, Acquisition Sec. 481

1st Year Increased Cash Flow     \$935,000  
NPV of Increased Cash Flow     \$1,000,000  
*Total Project Cost \$32.6 Million*



**Personal Property 12%**

**Land Improvements 22%**



# Ethanol Facility

1st Year Increased Cash Flow	\$2.75 M
NPV of Increased Cash Flow	\$8.08 M



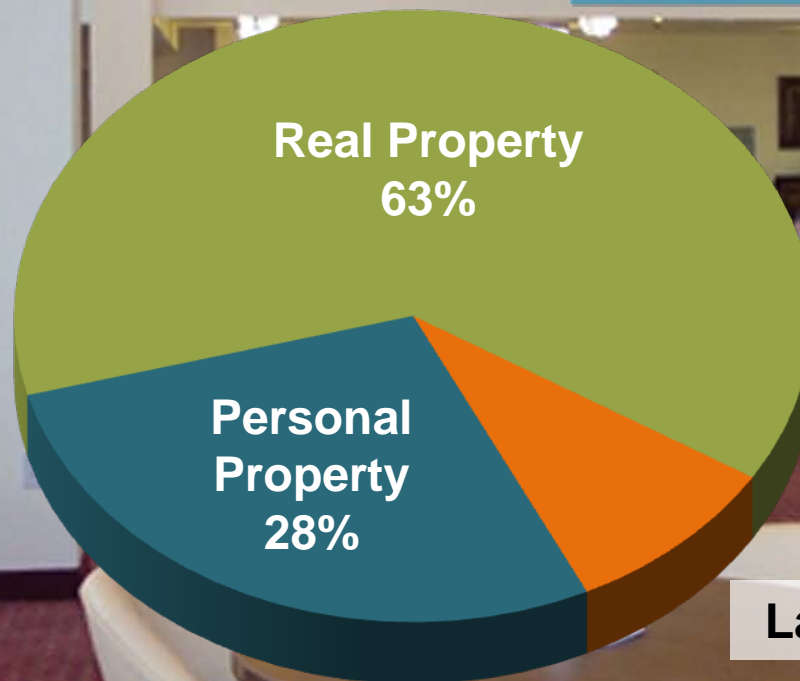
**Personal  
Property  
93%**

**Personal Property 4%**

**Land Improvements 3%**

# Retirement Facility

1st Year Increased Cash Flow	\$210,000
NPV of Increased Cash Flow	\$211,000
<i>Cost \$2.9 Million</i>	



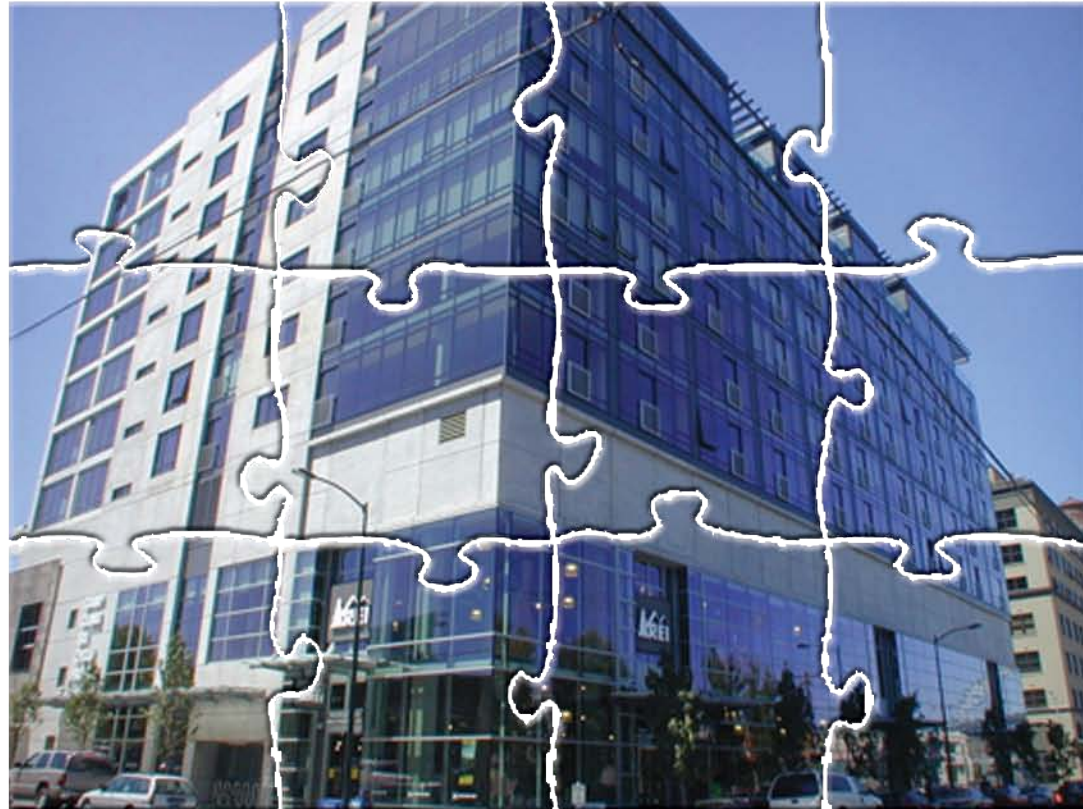
**Land Improvements 9%**



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# You Need the Complete Picture!



# The Rest of the Pieces...

Experience  
with IRS Audits



Sec. 179  
Election



R & E  
Credits



State & Local  
Implications



Sec. 481(a)



Form  
3115/Accounting  
Method Change



Fixed Assets  
Review/Corrections



Site Visits



Embedded  
Building \$



Sec. 1031  
Exchange



Sampling – When  
Appropriate



Supporting  
Tax Citations



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