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Release the cash in your property by applying cost-segregation techniques

Using your commercial real estate assets to put money in your pocket

East Bay Business Times - by [Annette Bajek](#)

If your clients own commercial or residential rental property and dutifully deduct 1/39th or 1/27.5th of its value each year, they are leaving money on the table. The 39-year figure represents the depreciable life of a commercial building while 25.5 years represents the depreciable life of a residential property.

While the entire value of the property or leasehold improvement is recovered during the 39- or 27.5-year span, the IRS allows components of the costs to be recovered much quicker, over five, seven or 15 years. This means more money in your client's pockets immediately, not later.

Ask the client if they would rather recover the costs today or wait 39 years. Approximately 20 percent to 30 percent of a building's components can be reclassified into shorter-life property and the corresponding costs recovered that much sooner. For every dollar a cost segregation specialist moves from a 39-year property to a five-year property, the total net present value benefit equates to approximately 22 cents. Any structure used in a business environment is eligible for the benefits of cost segregation.

If you are a CPA, or an attorney who has real estate clients, and haven't heard the term 'cost segregation' yet, you will undoubtedly hear more about it in the near future. Since the IRS released its 121-page Cost Segregation Audit Techniques Guide last September, the buzz about the topic has never been greater.

Even though cost segregation has been around for more than 20 years, it is only now finally becoming mainstream. In 1986, Congress abolished the Investment Tax Credit and stretched the depreciable lives of buildings from 19 to 31.5 years, and now to 39 years - 27.5-years for residential property. Taxpayers saw their normal deductions on property reduced significantly. It was around that time the Big Eight accounting firms began to pioneer cost segregation in its current form and started recommending it to their larger clients. The idea was simple: All buildings contain components and fixtures necessary for taxpayers to run their businesses. These items are not necessary for the ordinary operation and maintenance of a building and should not be considered 'structural components' of the building. Conversely, they are defined as tangible personal property or land improvements. Even though the IRS did not allow component-depreciation under MACRS (the Modified Accelerated Cost Recovery System), the **Tax Court** ruled in 1999 that items in a building that qualify as tangible personal property

