



**USING
COST SEGREGATION
TO
RETAIN BUSINESS**

WHAT IS A COST SEGREGATION STUDY?

1. An IRS approved method to classify costs of constructing or purchasing real property for depreciation purposes (See IRS Code Section 1250 – Real Property and Cost Segregation Audit Techniques Guide).
2. By properly classifying costs, assets can be depreciated over 5, 7, or 15 years, instead of 27.5 or 39 years.
3. Allows a property owner to take greater deductions from accelerated depreciation in the earlier tax years (thus increasing cash flow).
4. Primarily benefits property owners who purchased or constructed commercial real estate (office, industrial, retail, etc.) in 1993 or later.
5. Requires professionals with construction cost estimating expertise (Architects, Engineers, etc.) provide a Study's "engineering" section.
6. Can be retroactive for previously acquired buildings ("Look Back" Study) or applicable to new construction.

WHAT TYPES OF PROPERTIES BENEFIT?

1. Any depreciable real property owned by a taxable entity may benefit from a Cost Segregation Study...
 - Constructed buildings:
 - ✓ New buildings
 - ✓ Additions
 - ✓ Renovations
 - Leasehold improvements
 - 50% bonus depreciation (per the Economic Stimulus Act) for properties placed in service between January 1, 2008 through December 31, 2009.
2. Purchased buildings.
3. Properties acquired as far back as 1987 qualify.

COST SEGREGATION – EXAMPLES

39 Year Property



5 Year Property

Example: Auto Dealer

Example: Starbucks

39 Year Property



5 Year Property



WHAT IS THE IRS VIEW COST SEGREGATION?

The IRS now endorses Cost Segregation Studies and their COST SEGREGATION AUDIT TECHNIQUES GUIDE (pub. in 2004) describes Cost Segregation as follows:

“When only lump sum costs are available, cost estimating techniques may be required to segregate or allocate costs to individual components of property (e.g. land, land improvements, buildings, equipment, furniture, and fixtures, etc.). This type of analysis is generally called a cost segregation study.”

IRS’ primary concern; Studies must follow detailed methodologies contained in the COST SEGREGATION AUDIT TECHNIQUES GUIDE.



IRS RULES ON COST SEGREGATION

- Q. If a Cost Segregation “Look Back” study is performed, does the company need to file an “amended” income tax return?
- A. NO – The changes are treated as a “Change in Accounting Method” and the tax benefits (refunds) are realized on the subsequent tax return filing.



COST SEGREGATION

CASE STUDIES



MANUFACTURING COMPANY

Plant Constructed in 1994.

Substantial Modifications in 2001.

\$23,574,000 Depreciable Cost Basis.



Pre-Engagement Estimate:

- Reallocation of \$9.26 million to shorter recovery periods.
- First year savings: \$84,479.
- NPV ten year savings: \$1,759,994.

Actual Savings:

- Reallocation of \$14.71 million to shorter recovery periods.
- First year savings: \$148,341.
- NPV ten year savings: \$3,372,533.

MULTI-TENANT BUILDING

165,000 Square Feet.

8 Acres of Land.

\$15.5 Million Depreciable Cost Basis.



Pre-Engagement Estimate:

- Reallocation of \$2.94 million to shorter recovery periods.
- First year savings: \$29,145.
- NPV ten year savings: \$562,435.

Actual Savings:

- Reallocation of \$5 million to shorter recovery periods.
- First year savings: \$53,422.
- NPV ten year savings: \$896,880.

OFFICE BUILDING

5 Story Office Building.

Acquired in 2005.

\$11.7 Million Depreciable Cost Basis.



Pre-Engagement Estimate:

- Reallocation of \$2.2 million to shorter recovery periods.
- First year savings: \$22,000.
- NPV ten year savings: \$477,000.

Actual Savings:

- Reallocation of \$4.2 million to shorter recovery periods.
- First year savings: \$38,000.
- NPV ten year savings: \$677,000.

LEASEHOLD IMPROVEMENT LOOKBACK STUDY

Medical Equipment Company.

Signed Lease in 2003 for 24-Year Term.

Lessee Paid for \$10 Million in Improvements.



Pre-Engagement Estimate:

- Reallocation of \$6.0 million to shorter recovery periods.
- Deduction of 50% of costs classified as 5-year property.

Actual Savings:

- Deduction of additional \$3.5 million of depreciation expense in 2009.
- Reduction in U.S. and state tax liability by \$1.4 million.
- NPV value of tax savings = \$715,000.

PROPERTY TYPES – COST SEGREGATION

Auto Dealerships
Assisted Living Facilities
Cinema
Dental Offices
Fitness/Health Spas
Hotels – Full Service
Industrial – Dist./Warehouse
Medical Research Centers
Mobile Home Parks
Multifamily – Hi Rise
Office – Buildings
Office – R&D
Pharmaceutical Plants
R&D Facilities
Retail Malls – Regional
Restaurant – Franchise
Restaurants – Quick Service
Service Stations

Agricultural Facilities
Banks
Day Care Facilities
Drug Stores
Hospitals
Hotels – Limited Service
Industrial – Manufacturing
Mixed Use
Multi-Family
Nursing Homes
Office – Parks
Office – Warehouse
Printing Facilities
Retail – Big Box
Retail Mall – Strip
Restaurants – High End
Self Storage Facilities
Veterinary Clinic

COST SEGREGATION – POTENTIAL BENEFITS

- Source of “capital” for a business (via tax refunds) to reduce expenses and/or debt (essentially an “interest free” loan).
- Reduce estimated tax payments (in lieu of tax refunds).
- Absolve prior accounting (depreciation) errors resulting from the “Change in Accounting Method”.
- Increase “after tax” cash flow for a business or real estate investor.
- Establish a new policy to reduce tax liabilities for future real estate acquisitions, expansions, renovations or development.
- Enhance relationships with a constituent business by offering a service that addresses their financial needs.
- Create a tool for economic development groups by promoting Cost Segregation to attract or retain businesses within a regional area (without tapping into municipal funds).

PROCESS AND PRICING

- ✓ Client completes a one page property information form and provided with an Estimate of Benefits at no cost.
- ✓ Client receives the Estimate of Benefits and Proposal.
- ✓ Fees are contingent and based on the Estimate of Benefits (“Cost/Benefit” is generally 10–to–15% of NPV savings).
 - Retainer fee = 1/3 fee
 - Engineering study = 1/3 Fee
 - Final fee = 1/3 Fee

Client also receives: (1) up to 40 hours free “Audit Defense”
(2) direct compensation for any assessed penalties resulting from errors in the Cost Segregation Study.

WHO PERFORMS THE COST SEGREGATION STUDY?

- The RSH Group, Irvine, California.
- They provide financial and tax services to increase cash flow and reduce tax liabilities.
- RSH represents clients in commercial real estate, aerospace, manufacturing, biotech, electronics, automotive, logistics, retail, hotel and entertainment.
- They are exclusively endorsed by National and International Trade Organizations representing over 125,000 companies.
- International scope – affiliated offices in the U.S., Canada, Europe and Asia.
- RSH members have previously held “Senior Level” positions including the:
 - National Practice Leader for KPMG and Arthur Anderson,
 - Corporate GM of Sales & Marketing for Ford, Kia and Daewoo Motors,
 - Cost Segregation Trainer for Marshall & Stevens (now owned by CBRE).

CONTACT INFORMATION

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