



Cost Segregation

Are you maximizing depreciation deductions on your property?

Typically, when taxpayers construct or acquire commercial or residential rental property, they will capitalize the costs with a 39- or 27.5-year recovery period, respectively. A Cost Segregation Study (CSS) is a highly beneficial and widely accepted tax-planning strategy used by commercial real estate owners and tenants to accelerate depreciation deductions, defer tax, and improve cash flow.

A CSS does not create new tax deductions; it increases depreciation deductions in early years, allowing for the taxpayer to defer tax payments and improve cash flow. This is achieved through the acceleration of depreciation deductions by reclassifying a portion of the property's depreciable basis to a shorter recovery period. Any size property will qualify; however, the cost/benefit analysis makes more sense for properties that have a depreciable basis of \$1 million or more. Depending on the property type, the average study will reclassify 20 to 40% of depreciable basis to a shorter recovery period. For every \$100,000 moved from 39 years to 5 years, the 10-year present value savings is approximately \$28,000 (based on a 40% tax rate and a 6% discount rate).

20 to 40%
OF A PROPERTY'S
DEPRECIABLE BASIS MAY
FALL INTO CATEGORIES THAT
CAN BE ACCELERATED.

Why Use a Cost Segregation Study?

The study consists of a detailed engineering-based analysis that is used to support the acceleration of depreciation deductions. This process identifies costs that can be allocated to shorter recovery periods of primarily 5, 7, and 15 years, as opposed to 27.5 years (residential) or 39 years (non-residential). A quality study provides the documentation needed to defer substantial tax payments and greatly improve cash flow. Additionally, with the release of the Internal Revenue Service (IRS) Tangible Property Regulations, a well-prepared CSS can serve as the basis to provide defensible values for Partial Asset Disposition Deductions when properties are renovated.



MOST TYPES AND SIZES OF COMMERCIAL OR RESIDENTIAL RENTAL PROPERTY, PLACED IN SERVICE AFTER

DECEMBER 31, 1986

WILL QUALIFY FOR A COST SEGREGATION STUDY.

The Ryan Experience

Ryan's award-winning tax services provide clients with superior results.

Experience and Qualifications

- Certified American Society of Cost Segregation Professionals (ASCSP)
- Professional staff, including engineers, architects, tax specialists, and construction professionals
- More than 13,500 studies completed
- Superior work product
- Studies are performed using a detailed engineering-based approach
- Reports meet or exceed the highest levels recognized by the IRS and the ASCSP
- Each report is written to withstand IRS scrutiny
- Each study is certified by three professionals: the engineer who conducts the study and writes the report, a technical services director who reviews each report, and a tax professional who also reviews each report

“Ryan is typically able to reclassify up to 40% of our clients' assets to business personal property.”

—Steve B. CFO

Sample Results

| SHOPPING CENTER | RESTAURANT | FULL-SERVICE HOTEL | MANUFACTURING |
|--|--|---|---|
|  <p>Basis: \$10,000,000</p> <p>Accelerated: \$1,900,000 (19%)</p> <p>Catch-up Depreciation: \$500,355</p> <p>First-Year Savings: \$279,716</p> <p>10-Year PV Savings: \$444,134</p> <p><i>2016 Acquisition with No Bonus Look-back CSS</i></p> |  <p>Basis: \$3,730,000</p> <p>Accelerated: \$3,730,000 (100%)</p> <p>Catch-up Depreciation: \$1,183,765</p> <p>First-Year Savings: \$607,408</p> <p>10-Year PV Savings: \$868,645</p> <p><i>2017 New Construction with 50% Bonus Look-back CSS</i></p> |  <p>Basis: \$10,000,000</p> <p>Accelerated: \$1,900,000 (19%)</p> <p>First-Year Savings: \$345,028</p> <p>10-Year PV Savings: \$488,305</p> <p><i>2018 New Construction with 40% Bonus* CSS Conducted in 2018</i></p> |  <p>Basis: \$12,250,000</p> <p>Accelerated: \$3,052,500 (25%)</p> <p>First-Year Savings: \$1,210,582</p> <p>10-Year PV Savings: \$927,201</p> <p><i>2019 New Construction with 100% Bonus* CSS Conducted in 2019</i></p> |

Results are averages for illustrative purposes only and should not be relied upon for calculating depreciation. Results will vary depending on the specific facts and circumstances of the subject property. *In the case of long-production construction contracts initiated prior to September 27, 2017, with hard costs in excess of 10% as of September 27, 2017 and construction extending into 2018, the rate of bonus depreciation will be as defined in the PATH Act of 2015.

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Award-Winning Tax Services

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