

## **Are You Maximizing all the Depreciation From Your Rental Properties?**

*By Paul Olson*

Perhaps you, like many other commercial property investors, have marveled at the tax benefits and resultant increases in cash flow that you can receive with your deductions for loan interest and for depreciation. These two important deductions, allowed by the IRS, are two of the most powerful tools to assist you in building true, long-term wealth.

**But, did you know you can claim even more depreciation in the *early* years, creating additional long term wealth?** Yes! You can claim more depreciation in the early years of your investment. Significantly more...providing you with powerful leverage to create even greater long term wealth for yourself and your family.

A little known -- but powerful IRS statute allows property owners to reclassify the individual assets inside and outside commercial properties and accelerate the depreciation on them. I am not just speaking here of Tenant Improvements (TI's).

I am speaking of the hidden value *inside* the walls of your property such as electrical wiring, plumbing, floor coverings, wall coverings, millwork and the like. And, I am speaking of the hidden value *outside* the walls of your property such as parking lots, car ports, swimming pools, tennis courts, putting greens, fences, landscaping, irrigation systems, security systems and, even, flagpoles.

The IRS allows you to classify these assets in your property into one or more of eight asset classes with depreciable lives from three to 39 years. A certain few of the asset classes must be depreciated with straight line depreciation, the most conservative methodology. Others classes are allowed to be depreciated with less conservative, more accelerated methodologies, such as 200% declining balance or 150% declining balance

In summary, a cost segregation study reclassifies the assets in your properties into their IRS prescribed classifications, many of which will allow you to take accelerated depreciation in the early years of your investment.

### **What Properties Qualify and Which Generate the Most Additional Depreciation?**

Pretty much any property that is owned by a tax paying entity and was put into service or remodeled since 1987 may qualify for additional depreciation. As with most things, there are certain limitations, but very few in this case.

To be sure, a cost segregation study will generate additional depreciation on many types of properties. The properties that generate the least are those which are very basic in design. The ones that generate the most are those which are more luxuriously appointed and/or have more costly built-ins.

In the multi-family world, on the low end, would be efficiency apartments or other apartments with very few amenities. On the upper end would be properties that contain marble, expensive wall paper, garages, swimming pools, tennis courts and the like.

In other types of properties, self-storage, basic shopping centers or office buildings generate lower amounts of additional depreciation. On the high side would be hospitals, medical buildings, strip centers, regional malls and beautifully appointed office buildings.

### **How to Claim the Benefit of Accelerated Depreciation**

To claim this powerful benefit, the IRS requires that a property owner conduct what is termed a “quality cost segregation study”. A quality study must be conducted by experienced firms that are engineering-oriented in their approach. It includes a study of the blueprints of the property which are reviewed to determine the type of construction used, what type of assets might be in the property and how best to classify them, based on the IRS guidelines.

You are then provided with a free written estimate of the savings that can be generated from your property. This estimate will show you the type of assets and the costs that can be reclassified from the normally used long-lived asset classes. These are 27.5 years for multi-family and 39 years for all other commercial properties, both of which are depreciated using the most conservative methodology--“straight line”-into the five year class, the so-called “personal property” class, or the 15 year class, the so-called “land improvement” class.

Importantly, these two classes of assets can be depreciated utilizing the more accelerated 200% declining balance and 150% declining balance methodologies versus the more conservative straight line approach. This generates much more depreciation for you in the early years of your investment, allowing you much more free cash flow to invest in other properties, powerfully leveraging your long term wealth.

### **How the Process Works: From Building Plans to Building Cash Flow**

After you are provided with a free estimate of your savings, a thorough on-site inspection is performed. Blueprints are utilized to manage this work, with detailed measurements, copious notes and several photographs of the property. This allows the break down of your property into its component assets and classifies them according to IRS guidelines.

The next step is to generate the replacement cost of each of the component assets, summarizing all calculations into the maximum depreciation deduction allowed by the IRS.

All information is rolled into a report that could run up to 150 pages which you can submit to your accountant. The report provides all the significant detail of how depreciation conclusions were determined with background support for all of asset-by-asset classification decisions. The report is a self contained document that your accountant can utilize to submit your taxes and that you can utilize to feel comfortable that the cost segregation study was done in strict accordance with IRS guidelines.

### **No Amended Tax Returns Necessary**

A cost segregation study does not require you to amend your taxes, even if you bought your property years ago. Fortunately, the IRS allows us to do what is called a “look-back” and capture all the depreciation that is due you, even if you bought the property as long as nine or 10 years ago.

**Keep More of What is Yours!**

Your additional depreciation and resultant increase in cash-flow are as close as your next quarterly tax payment. Check this out. You will be glad you did!

*Paul Olson is the CEO of Commercial Cashflow Advisors, headquartered in San Jose, CA. Commercial Cashflow Advisors ([www.ccashflow.com](http://www.ccashflow.com)), is a leading national firm in tax savings strategies. The firm generates more cash flow for owners of commercial properties by leveraging little known or overlooked IRS regulations. Mr. Olson can be reached at 408-910-1701 or at [olson@ccashflow.com](mailto:olson@ccashflow.com).*