

## **Reduce Taxes and Increase Cash Flow!**

**By Steve Burnett & Dustin Riedel**

Have you constructed, purchased or remodeled a building since 1986? If your answer is “yes,” you may qualify for substantial tax savings through a cost segregation study.

### **What is a Cost Segregation Study?**

A cost segregation study utilizes an engineering-based analysis that enables building owners to take advantage of recent IRS rulings and the Tax Reform Act of 1986, which permit accelerated depreciation deductions on property constructed, purchased or improved since 1986. These studies generate tax savings by reclassifying qualifying assets into shorter depreciation periods in contrast to the 27.5 years used by taxpayers who own residential rental property (39 years for owners of commercial property). This typically results in significant tax savings and increased “up front” cash flow. A cost segregation study generally yields a substantial and immediate return on investment, thus easily justifying the cost.

It's all about the time value of money. Would you rather have \$100 today or \$100 spread over the next 27.5 to 39 years? If you're like most people, you'd rather have it today. And that's what cost segregation is truly all about.

### **What Are the Benefits?**

A cost segregation study can provide the following benefits to property owners: 1) Reduce taxable income, 2) Maximize current tax savings through accelerated deductions and 3) Increase “up front” cash flow.

### **Can My Accountant do a Cost Segregation Study for My Business?**

In most cases, the answer to this question is “no.” This is because IRS requirements specify that an engineering-based study be performed to quantify the depreciation benefits. This means that to conform to IRS regulations, a cost segregation study must combine engineering, construction, architectural and tax expertise to produce a report that fully documents and supports the segregated depreciation costs reported on the property owner's tax return.

Most accounting firms do not employ professionals with the engineering, construction, architectural or cost segregation expertise needed to perform such a study. The key to obtaining a study that will conform to IRS requirements is to locate a professional account firm that has coordinated the expertise needed to perform a cost segregation study.

### **Who Can Benefit From a Cost Segregation Study?**

If you own a building and currently pay income taxes, you are the optimal candidate for a cost segregation study. A study of your property can uncover numerous ways to accelerate depreciation deductions, pay less tax and immediately increase your cash flow. Properties that benefit most from a cost segregation study are: 1) New buildings currently under construction, 2) Existing buildings that have been renovated, remodeled, restored or expanded since 1986, 3) Purchases of existing properties, 4) Office or facility leasehold improvements and fit outs and 5) Any post-1986 building construction, acquisition or improvement.

Also, as a general rule, the more specialized, unique and costly the property, the greater the tax benefits can be.

## **Conclusion**

If you own a building, you need to consider a cost segregation study. Consult your tax professional or contact Burnett + Company, LLP at (949) 939-7267 to learn more about how you can significantly reduce your taxes and immediately increase your cash flow.

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