

Benefits of Cost Segregation

WHAT IS COST SEGREGATION?

Cost segregation is a viable means of increasing cash flow through accelerated depreciation of building costs. Effectively, an engineering-based cost segregation study allows building owners to write off their building (new and existing) in the shortest amount of time permissible under existing tax laws, thus minimizing their overall tax liability.

TYPICAL SAVINGS BY PROPERTY TYPE

The following chart illustrates the typical percentage of a property that can be reallocated from real property into the shorter-life personal property asset classes based on property type.

PROPERTY TYPE	PERCENTAGE REALLOCATED
BUILDING TYPE	
WAREHOUSE	5 - 10
ASSISTED LIVING	15 - 25
STRIP MALL	10 - 30
RETAIL FACILITY	20 - 30
APARTMENT BUILDING	20 - 35
GOLF COURSE	20 - 40
OFFICE BUILDING	20 - 40
RESTAURANT	20 - 40
AUTOMOBILE DEALERSHIP	25 - 50
HEAVY MANUFACTURING	30 - 60

AVERAGE COST REALLOCATION WITH A COST SEGREGATION STUDY BASED ON PROPERTY TYPE

For existing properties, where building cost information is unavailable, the entire cost of the building is commonly depreciated over the 39 or 27.5-year life assigned to real property. Through an engineering-based cost segregation study, a wide range of building components, such as electrical, plumbing, mechanical components, and finishes can be identified and reclassified into 5, 7 and 15-year property.

WHO QUALIFIES FOR A COST SEGREGATION STUDY?

Anyone who would benefit from increased cash flow through additional depreciation deductions.

1. Individuals who have purchased, constructed or renovated any property (since 1986).
2. Any individual or company currently paying taxes.
3. Buildings valued above \$1,000,000 (excluding land).
4. Long-term property holder (more than three years).

QUALIFYING COMMERCIAL PROPERTIES

- New Construction
- Purchase of Existing Property
- Renovations or Expansions
- Leasehold Improvements
- Existing Property Placed in Service After 1986
- Real Property Stepped up Through Estate

CONCLUSION

Cost segregation studies are one of the most valuable tax strategies available to commercial real estate owners. Virtually every taxpayer who owns, constructs, renovates, or acquires a commercial real estate facility stands to benefit from having a cost segregation study performed. By engaging the expertise of an engineering-based cost segregation firm, property owners can realize substantial increases in cash flow.

"Ernst & Morris has obtained for us substantial tax benefits in the form of current tax refunds—and with minimal disruption to our business. They are experts in the cost segregation business!"

Jeffrey Van Riper,
Controller and Secretary
Seneca Foods



SINCE 1993

Ernst & Morris • 2190 Dallas Highway • Marietta, Georgia • 30064

Fax: 770-427-4004 • info@costseg.com • 1(800)COST-SEG • www.costseg.com

 **ERNST & MORRIS**
THE LEADER IN COST SEGREGATION