

# Transmercial COMMERCIAL REAL ESTATE INVESTMENTS

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## Cost Segregation Maximizes Investor's Cash Flow

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### Why Should You Care?

A Cost Segregation Study (CSS) allows you to accelerate on average 20-50% of your depreciation on your commercial property. It does not add depreciation, only accelerates from the cost basis. This reduces your income taxes liability and in turn increases your cash flow from the property-

### What is a Cost Segregation Study?

This IRS-defined engineering approach accurately classifies an investment property into two asset groups:

1. Structural components which have a longer depreciable life, such as 27.5 or 39 years, classified as real property;
2. Non-structural components, e.g. furniture, carpets, landscaping, plumbing, electrical, HVAC systems, parking lot, which have a shorter 5, 7, or 15 year depreciable life, classified as personal property.

So, you may deduct your properties depreciation over a shorter period by classifying more of the property as non-structural components (or personal property).

A CSS is usually performed by a cost segregation company. The company will conduct a site inspection to determine which components qualify for acceleration. It then provides you with a CSS comprehensive report. This report includes a breakdown of each component along with the reported year-life to support and document the classification of costs according to the strict IRS-approved methodologies. The result of a CSS is then given to your CPA or tax accountant for income tax reporting.

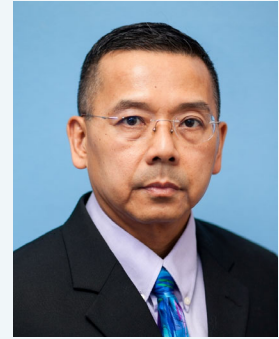
Without a CSS, you will just use the standard depreciation schedule for improvements: 27.5 years for apartments and other long term residential rentals and 39 years for other commercial properties. As much as 90% of investors are only claiming the standard depreciation over the longer period. So, if you have not heard of Cost Segregation, chances are you are missing the faster depreciation.

### Benefits to Investors

By shifting a portion of the property into the non-structural classification, the CSS allows you to reduce your income tax by accelerating on average 20-50% in depreciation and thus increase your after-tax cash flow.

Of course, the higher your tax bracket, the more tax savings you will realize. The saving is even more if you also have to pay state income tax as a CSS may also be allowed -- depending on the state -- on your state income tax return. These tax savings are maximized during the first 5 years of ownership. Once the accelerated depreciation runs out, you will still have a straight line tax benefit.

### Who Can Benefit from a CSS?



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If you own any of the following properties, you should be able to benefit from a CSS:

- Retail/shopping Center
- Office building
- Restaurant
- Nursing Homes, Assisted Living Facilities
- Hotel/Motel
- Warehouse/distribution center
- Industrial building
- Public Storage
- Resorts
- Auto Repair Shop
- Auto Dealer Property
- Hospital, medical center
- Sport/entertainment Facility
- Or any other commercial/residential property that generates income and a tax liability.

### CSS Companies

Below are a few companies that perform a CSS. Most companies will provide you with a free estimate for the CSS of your property.

1. **ELB Consulting, Inc.**, (888) 796.2112 Ext.111 or (727) 841-0778, [www.elb360.com](http://www.elb360.com)
2. **Commercial Cashflow Advisors**, (408) 910-1701, [www.ccashflow.com](http://www.ccashflow.com).
3. **Cost Segregation Authority LLC**, (801) 764-9100, [www.CostSegAuthority.com](http://www.CostSegAuthority.com).
4. **Cost Segregation Services, Inc.**, (866) 277-9121, [www.cssistudy.com](http://www.cssistudy.com)
5. **M&E Cost Segregation**. 612-963-4004. [www.costsegleader.com](http://www.costsegleader.com)

### Do's and Don't

1. If you own commercial property valued at \$1M or more, you should explore the benefits of a CSS, especially when you are in a high tax bracket and can benefit from the additional depreciation deduction.
2. If your property is part of a 1031, you will need your CPA to provide CSS companies with new cost basis for the new property.
3. Use the Cost Segregation Calculator on [www.bdo.com/cost-segregation-calculator](http://www.bdo.com/cost-segregation-calculator). You just need to provide: property type, building cost, your tax rate, and it will give you an estimated tax saving. Use this as a go or no go test to see if it is worth pursuing further.
4. Take advantage of the free estimates that most CSS companies offer. It tells you the costs of a CSS and the estimated potential tax savings over the first 5

- years. So get a couple estimates. Some companies give a 20% discount for virtual site inspection with the assistance of your local property manager as they don't have to send an inspector to visit your property.
5. Don't let the cost of a CSS deter you. It costs money to make more money.-Some cost segregation companies provide a lower-level detail study, which can provide a lower tax benefit for a lower cost; or a higher detail study, which can provide a greater result, but at a higher cost.
  6. Discuss the estimate provided by the CSS companies with your CPA or tax accountant to see if your CPA would advise you to proceed.
  7. You may want to consider a CSS at the time of purchase of a commercial property as part of your investment and exit strategy.
  8. You will maximize the tax savings if you hold the property for 5 years; it probably does not make financial sense to perform a CSS and sell the property shortly after that depending on your tax strategy.
  9. If you own the property for several years, the IRS may allow you to "catch up" underreported depreciation from prior years by filing a Form 3115. Some companies provide this free of charge which others charge up to \$1000 for it. If you purchase a property more than 5 years of the CSS and plan to do a "catch up", you may want to check with your CPA to see if a CSS is advisable as the benefits may be less.
  10. If you have remodeled or renovated your property or given your tenant credits for tenant's improvements, a CSS can also dispose of a significant portion of the asset value which you have abandoned as well as additional costs of improvements.