

# Cost Segregation Services

A cost segregation study is a highly effective tool for reducing income taxes. By thoroughly reviewing building and building related expenditures, our team of cost segregation specialists can analyze and classify these costs to maximize tax depreciation benefits in accordance with the Tax Reform Act of 1986 under MACRS (Modified Accelerated Cost Recovery System) and the Revenue Reconciliation Act of 1993.



By accelerating tax depreciation and taking advantage of certain deductions, the building owner lowers both taxable income and income tax liability. The end result is a dramatic increase in after-tax cash flow. This is particularly significant over the first five to seven years of placing the asset in service.

## What is Cost Segregation Analysis?

A cost segregation analysis is a detailed study of building costs that are typically capitalized and depreciated over a 39- or 27.5-year recovery period. The purpose of the study is to identify certain components of the building that qualify as personal property and can be depreciated over a five or seven year recovery period, or as site improvements that may be depreciated over a 15-year recovery period.

## How Does it Work?

Taxpayers who construct, acquire, or hold real estate and leasehold improvements typically depreciate real estate over 39 years. However, embedded within these costs are certain building components that can be depreciated over much shorter lives.

To identify and quantify these shorter-lived assets, our team of cost segregation specialists analyze in detail all project related cost documentation. These documents include general contractor payment applications, subcontractor detail, change orders, project budgets and purchase orders. Assets that qualify as 5-, 7- or 15-year property are identified from these documents and included in our report.

OUR COST SEGREGATION SERVICES OFFER YOU THE OPPORTUNITY TO MAXIMIZE TAX DEPRECIATION WHILE MINIMIZING THE RISK OF AUDIT EXPOSURE. WE WILL EXAMINE THE PROPERTY, IDENTIFY QUALIFYING COSTS AND RECLASSIFY THOSE COSTS INTO THE APPROPRIATE MACRS RECOVERY PERIOD.

## How Does it Work?

Because many items that can be depreciated over shorter lives are often not specifically identified in the cost detail – or in the case of an acquired building where no detail is available – our approach also includes a detailed review of construction blueprints and visual inspection of the facility. During this phase of the analysis, our team of cost segregation specialists reviews electrical, plumbing, HVAC and architectural drawings to identify and quantify assets that may qualify as shorter-lived property.

This two-phase approach ensures that the maximum amount of shorter-lived property is identified and the maximum value of the analysis is realized.

### When Should I Perform a Cost Segregation Study?

You construct or renovate a building or perform leasehold improvements – We can begin our analysis prior to, during or at the completion of construction. Preliminary reports can be issued prior to completion of construction that can be used for tax planning purposes. Final reports are issued once construction and accounting of all costs is complete.

**You acquire a building** – Acquisition of a building will in most cases trigger a new tax basis no matter the actual age of the

building. We can provide a cost segregation study of the acquired building as of the date of acquisition that classifies the purchase price into appropriate tax lives and maximizes tax depreciation benefits.

**You acquire a company that owns a building(s)** – During the purchase price allocation process, we can analyze values allocated to buildings and building improvements to capture and classify building costs, which maximizes tax depreciation benefits.

**You own a building and have never done a cost segregation study** – Current IRS revenue procedures allow taxpayers to change their current depreciation methods to the appropriate method. The method change allows for a “catch-up” of all depreciation benefits previously unclaimed under the old depreciation method. The entire “catch-up” amount is claimed in the year the change is made.

### Present Value Savings for Every Dollar Classified as 5- or 7-Year Property Rather Than 39-Year

No Cost Seg		With Cost Seg	NPV Savings Per \$1
39-yr	to	5-yr	\$0.24
39-yr	to	7-yr	\$0.21
39-yr	to	15-yr	\$0.12

### Percent of Tax Basis Typically Classified as 5- or 7-Year Property

Property Type	% Typically Reclassified
Offices	5–20%
Hotel	10–30%
Manufacturing Facility	15–50%
Retail Store	10–30%
Warehouse	5–30%
Apartments	10–25%
Health Care	10–35%
Leaseholds	15–60%

#### Example:

A sample analysis of a \$10 million suburban office building yields the following results.

Class	Basis
5-yr	\$ 1,150,000
7-yr	250,000
15-yr	1,400,000
39-yr	7,220,000
<b>Total</b>	<b>\$10,000,000</b>

The analysis yielded a reclassification of \$2.8 million to shorter lived property resulting in a net present value of the analysis of \$495,000.

#### Other Benefits of the Analysis:

- Provides appropriate detail for fixed asset reporting.
- Detailed reports can be defended in the event of review by taxing authorities.
- May assist taxpayers in claiming sale and use tax exemptions.
- May assist in identifying non-value added cost for property tax purposes.

For more information please visit our website:

[www.duffandphelps.com](http://www.duffandphelps.com)

### About Duff & Phelps

As a leading global independent provider of financial advisory and investment banking services, Duff & Phelps delivers trusted advice to our clients principally in the areas of valuation, transactions, financial restructuring, dispute and taxation. Our world class capabilities and resources, combined with an agile and responsive delivery, distinguish our clients' experience in working with us. With offices in North America, Europe and Asia, Duff & Phelps is committed to fulfilling its mission to protect, recover and maximize value for its clients.

Investment banking services in the United States are provided by Duff & Phelps Securities, LLC. Investment banking services in the United Kingdom and Germany are provided by Duff & Phelps Securities Ltd. Duff & Phelps Securities Ltd. is authorized and regulated by the Financial Services Authority. Investment banking services in France are provided by Duff & Phelps SAS. For more information, visit [www.duffandphelps.com](http://www.duffandphelps.com). (NYSE: DUF)