



The Power of Cost Segregation





About Dave Mitchell



- Director of Business Development
- Responsible for Illinois, Wisconsin, Indiana
- Over 20 years experience helping Manufacturing and Engineering companies
- Proud affiliate member of TMA



About Kim Lochridge



- Executive Vice President
- Partner
- Multiple Board Positions – 1031 Exchange, ETS
- Over 20 years in public accounting
- Multi-national speaker – Israel, Australia, UK
- Tax Committee for the Real Estate Round Table D.C.



About ETS

NATIONAL LEADER OF SPECIALTY TAX

100+ employees

Tax Attorneys, Engineers,
CPAs on staff

16 offices

Established in 2000

Cost Segregation

Tangible Property Repairs Regulations

Repairs & Maintenance Reviews

Partial Asset Distributions Studies

R&D Tax Credit Studies

Historic Tax Credits

State and Local Incentives

Real Estate Roundtable / Government



Presentation
Outline

Cost Segregation

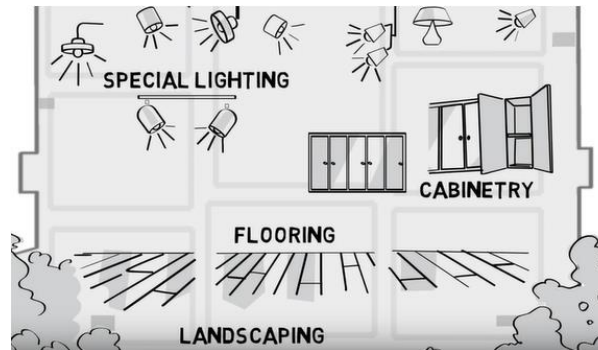
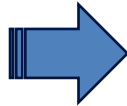
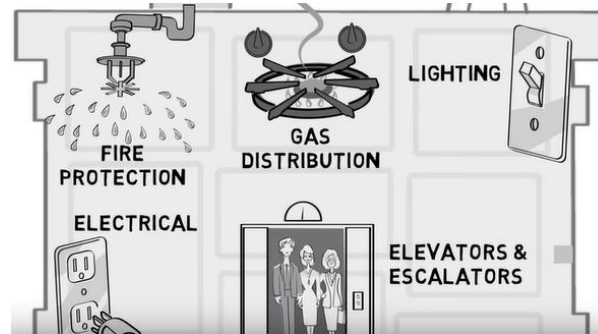
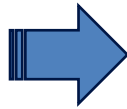
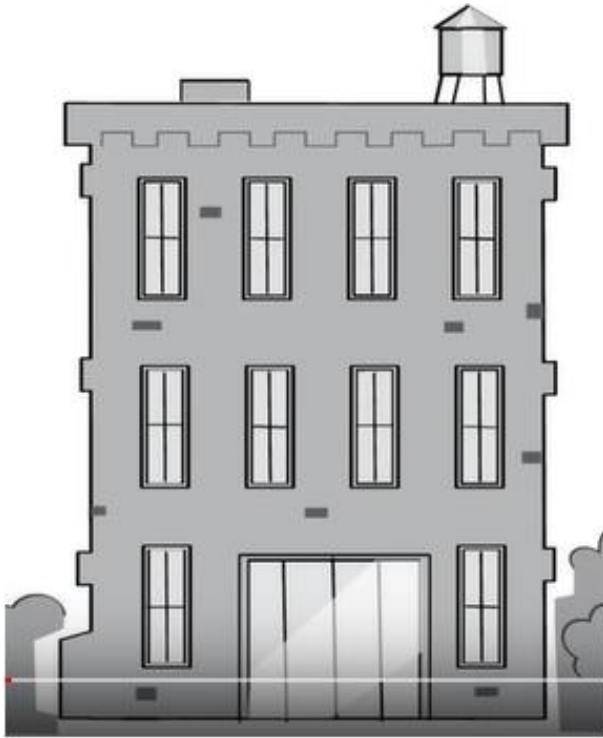
Due Diligence

Bonus Depreciation

Question & Answer



Cost Segregation Definition



Cost Segregation

A Cost Segregation Study is the process of evaluating a commercial or investment property to identify:

Real Property (27.5 year or 39 year property)

Vs.

Personal Property (3,5,7, or 15 year property)

WHY?

- Accelerated Depreciation
- To fall within IRS's "preferred method" of depreciation.
- To optimize annual write-offs for:
 - Repairs and Routine Maintenance
 - Retirement of assets or demolition.
- Bonus Depreciation



Qualifying Parameters



A good candidate will fall within the following:

- Own commercial or investment property
- Have approximately \$250,000 in leasehold improvements.
- Paying federal income tax
- Operating as a for-profit entity
- They plan to hold the property for at least 1 more year.





Properties That Benefit:

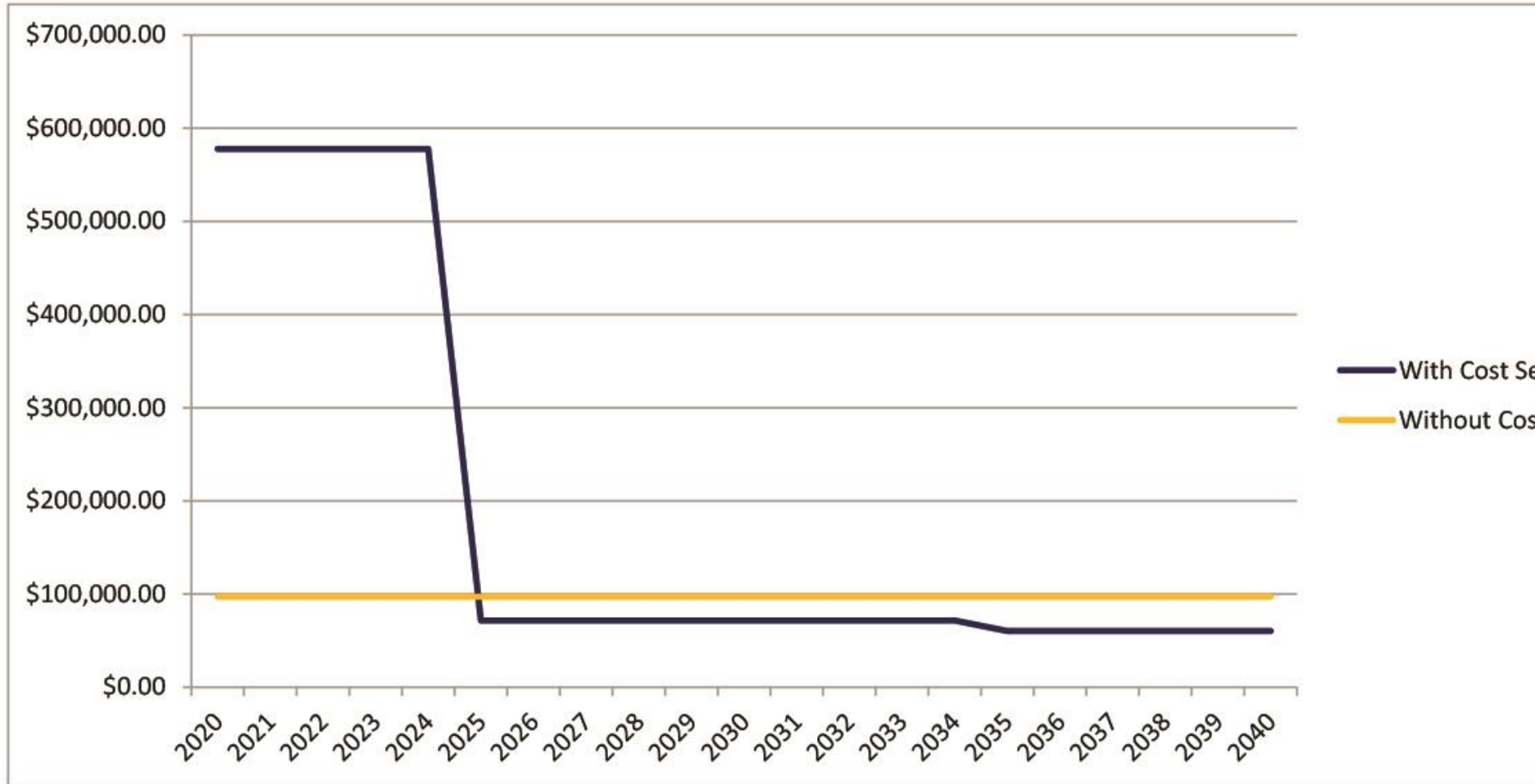
- New Construction
- Renovations
- Existing Properties
- Recent / New Acquisitions
- Leasehold Improvements
- Step-Up in Basis (i.e. inheritance, partnership)
- 1031 Exchanges



More Than A Timing Difference



With/Without Cost Segregation – You Decide



Engineering Study Uses

Class Life

- Depreciation Schedules Reflecting Accelerated Assets

UOP

- A breakdown of each Unit of Property
- A clear basis for each of the systems identified by the IRS

Asset Detail

- A full replacement value detail of assets
- A provision for application of repair definitions



Fixed Asset Detail/Engineering

R.S. Means	Description	Class Life	Quantity Unit	Unit Price	Reference	Total Price
3352930.0850	SLAB ON GRADE - Finishing floors, granolithic topping, 1:1:1-1/2 mix, 1" thick	39 Year CL	11,000.00 SF	3.17	R. S. Means	34,866.70
3352930.2100	SLAB ON GRADE - Finishing floors, hardener, metallic, heavy service, 1.0 PSF, add	39 Year CL	11,000.00 SF	1.42	R. S. Means	15,619.56
3352960.0020	BASEMENT WALLS - Finishing walls, break ties & patch voids	39 Year CL	45,000.00 SF	0.58	R. S. Means	26,102.25
3352960.0020	EXTERIOR WALLS - Finishing walls, break ties & patch voids	39 Year CL	17,000.00 SF	0.58	R. S. Means	9,860.85
3392313.0300	SLAB ON GRADE - Curing, sprayed membrane curing compound	39 Year CL	110.00 CS	9.89	R. S. Means	1,087.95
						711,629.58
5 Metals						
5511350.1500	STAIRS - Stair, landing, steel pan, conventional	39 Year CL	120.00 SF	64.53	R. S. Means	7,743.60
5511350.1500	STAIRS - Stair, landing, steel pan, conventional	39 Year CL	240.00 SF	64.53	R. S. Means	15,487.20
5511950.0050	STAIRS - Stair, shop fabricated, steel, 4'-0" W, incl pipe railing, stringers,	39 Year CL	80.00 RIS	405.91	R. S. Means	32,472.79
5511950.0050	STAIRS - Stair, shop fabricated, steel, 4'-0" W, incl pipe railing, stringers,	39 Year CL	160.00 RIS	405.91	R. S. Means	64,945.58
						120,649.17
6 Wood, Plastics, and Composites						
6111018.2740	ROOF CONSTRUCTION - Framing, joists, 2" x 12"	39 Year CL	18.15 MB	970.00	R. S. Means	17,605.57
6111026.0400	INTERIOR PARTITIONS - Part,wd std W/sgl bot pl,dbl tp pl,std&btr lbr,2"x4" std,10' H,16" OC	39 Year CL	245.00 LF	9.80	R. S. Means	2,401.20
6111026.0800	EXTERIOR WALLS - Part,wd std W/sgl bot pl,dbl tp pl,std.&btr lbr,2"x6" std,8' H,16" OC	39 Year CL	1,062.50 LF	11.69	R. S. Means	12,420.56
6132310.0600	COLUMNS - Framing, heavy, columns, structural grade, 1500f, 12" x 12"	39 Year CL	15.00 MB	2,910.00	R. S. Means	43,650.00
6132310.1760	FLOOR CONSTRUCTION - Wood framing, heavy mill timber, joists, fir, 3" x 12"	39 Year CL	145.20 MB	1,540.00	R. S. Means	223,608.51
6162310.0011	FLOOR CONSTRUCTION - Subfloor, plywood, CDX, 1/2" thick	39 Year CL	46.20 SFF	0.93	R. S. Means	43.03
6163610.0030	ROOF CONSTRUCTION - Sheathing, plywood on roof, CDX, 5/16" thick	39 Year CL	11,550.00 SF	1.00	R. S. Means	11,550.00
6163610.0600	EXTERIOR WALLS - Sheathing, plywood on walls with exterior CDX, 1/2" thick	39 Year CL	8,500.00 SF	1.06	R. S. Means	9,009.83
						320,288.70
7 Thermal and Moisture Protection						
7211620.0460	EXTERIOR WALLS - Wall/ceiling insul, fbgl, foil faced, batt/blkt, 6" thk,	39 Year CL	8,500.00 SF	0.77	R. S. Means	6,544.83

Final Results

The results of our Comprehensive Cost Segregation analysis are summarized below and show the reclassification percentages for each class life:

Purchase

Class	Depreciation Method	Basis	%
05 Yr CL	200% db	\$239,968.05	24.00%
15 Yr CL	150% db	\$116,744.20	11.67%
39 Yr. CL	Straight Line	\$643,287.75	64.33%
TOTAL		\$1,000,000.00	100.00%

We are relying upon the relevant provisions of the Internal Revenue Code of 1986 as amended, the regulations within, and the judicial and administrative interpretations thereof, which are subject to change or modification by subsequent legislative, regulatory, administrative, or judicial decisions. Any such change could also have an effect on the validity of our conclusions. Unless specifically requested, we will not update our advice for subsequent changes or modifications to the law and regulations or the judicial and administrative interpretations thereof.

Please note that the regulations require that the taxpayer's record show the cost basis and depreciation allowances for each item. Accordingly, we recommend that you maintain sufficient records and documentation to meet this requirement.

Disposition/Partial-Disposition

A disposition of MACRS property occurs when ownership of an asset is transferred or when the asset is permanently withdrawn from use when an asset is:

- Sold
- Exchanged
- Retired
- Physically abandoned
- Destroyed
- Transferred to a supplies, scrap, or similar account

**If repairs or improvements are made that involve removal/demolition of existing building components partial asset disposition (PAD) should be accounted for and a cost segregation study helps support PAD.*

Bonus Depreciation

❖ Accelerated Depreciation


- ✓ 100% Bonus Depreciation beginning September 27, 2017 – December 31, 2022
- ✓ 2023 – 80%, 2024 – 60%, 2025 – 40%, 2026 – 20%, 2027 - Zero
- ✓ Cost Segregation will add value any property with CL < 20 yrs
- ✓ Used Property (Purchases) now qualify for Taxpayers First Use





Time is Running Out



- 
- Rev. Proc. 2019-33
 - Rev. Proc. 2020-25
 - Rev. Proc. 2020-50
 - For property acquired and PIS after 9/27/2017 (TCJA)
 - After April/May 2021, cannot revoke a late election!





Q&A

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