

**Q & A:
ANSWERS TO THE
MOST COMMON
QUESTIONS ABOUT
THE USE OF COST
SEGREGATION**



What type of buildings can benefit from a cost segregation study?

Any commercial or residential rental property, which was either constructed, renovated or acquired from 1987 to present. The taxpayer must have a significant enough cost basis in the property so that the benefit obtained justifies the expense of the study. Typically, a cost basis of \$1,000,000 or more will result in a significant enough benefit to justify the expense.

How much does a cost segregation study cost?

This depends upon the physical characteristics of the building, its use, and the quality of contemporaneous construction records. If these records are limited, or unavailable, the greater the workload placed on the cost segregation expert. Ask your expert to provide you with a preliminary analysis of the benefits you can expect and the anticipated cost before you commit to them.

How long does a cost segregation study take to complete?

As with the cost of a study, the answer to this question depends on the physical characteristics of the building, its use and the quality of the contemporaneous construction records. Typically, a thorough study will take from 4 to 8 weeks to complete.

What qualifications should I look for in a cost segregation expert?

Cost segregation involves issues of architecture, structural engineering, electrical engineering, mechanical engineering, construction accounting and, of course, the application of tax laws. The expert you choose should be well versed in all of these areas. In fact, the experience and expertise of the preparer is one of the principal elements of concern for the IRS in the event of an audit.

Can new construction benefit from a cost segregation study?

Yes, in fact this is a perfect time for the preparation of a cost segregation study. A cost segregation expert can assist your design professionals in designing components that are easier to reclassify. For example, consider the exterior lighting example in the post entitled Cost Segregation 101. In addition, the expert can work directly with the contractor's contemporaneous cost records to establish a strong factual support for the costs of the reclassified components.

I've owned my building for more than 20 years, but in that time, I have invested more than a million dollars in capital Improvements.

Can cost segregation help me?

Yes. If your capital improvements have increased your tax basis, a cost segregation study can help you recover those expenses earlier through accelerated depreciation.

I have not been using cost segregation, am I prevented from using this strategy if it constitutes a change in my method of accounting?

The IRS takes the position that a change in recovery period is a change in the method of accounting. However, automatic consent to the change is given by timely filing a Form 3115.

Apart from an immediate federal tax benefit, are there any other benefits from a cost segregation study?

Yes. A detailed cost segregation study will allow you to retire specific components from your cost basis when those components are removed or replaced. For example, if you are using a 39-year depreciation for all of your property and you have to replace the roof after only 10 years, how are you going to remove that roof from your cost basis? A detailed cost segregation study will identify this cost and provide you with a factual basis for this position in the event of an audit. In addition, a cost segregation study may be able to assist you in reducing your state property tax obligations. Some states assess property taxes based on the value of the real property. A cost segregation study “reduces” this value by reclassifying a substantial percentage as personal property. A cost segregation study can also help increase your cash flow through reduced tax liability. This, in turn, improves your bottom line.