



COST SEGREGATION



DOEREN MAYHEW
SPECIAL PROJECTS GROUP

R&D Tax Credits and Cost Segregation Studies

Cash Flow Improved

Significantly

Doeren Mayhew's engineering-based cost segregation studies help generate significant cash-flow savings from your property.

time value of money

A tax deduction today is worth more than a tax deduction next year, and worth a lot more than a tax deduction forty years from now. Cost segregation operates on the same principal – by decreasing current income, you defer taxes to a later tax period, and gain financially due to the time value of money related to the tax deferred.

Cost segregation is the process of identifying costs to accelerate depreciation expense for qualifying building components. Typically, buildings are assigned a depreciation period of 39 years. With a cost segregation study, many building costs can be segregated and are depreciated over a 5-, 7-, or 15-year recovery period.

While the primary benefit is significantly improved cash flow, cost segregation may also allow for a reduction of estimated quarterly tax payment, property tax savings, transfer tax savings, and lower insurance premiums.

qualifying properties

Any type of commercial or residential rental property, of any size, placed in service after December 31, 1986, qualifies for a cost segregation study. Additional depreciation not taken in the previous years (even those closed by the statute of limitations) can be deducted in the year of the study.

While the ideal time to initiate a cost segregation study is prior to beginning construction, there are additional applications for this strategy that apply to the various stages of real estate ownership and development.

- New construction
- Soon-to-be constructed buildings
- Existing properties
- Acquisitions
- Renovated and/or remodeled buildings
- Redevelopment
- Leasehold improvements



Payback from your investment.

Generally, for every \$100,000 of 39-year property reclassified as 7-year property, the present value of cash flow at 8% will be approximately \$20,000.



typical reallocation

sample successes

The table below illustrates the most common building types and how much of the “building” costs can generally be reclassified to asset classes with write-off periods less than 39 years.

Property Type	Typical Reallocation
Hotels	20-35%
Retail Plazas	25-40%
Commercial Buildings	10-15%
Apartment Complexes	25-40%
Warehouses	12-20%
Nursing Homes	15-25%
Manufacturing Buildings	18-30%
Restaurants	15-40%

Manufacturing Facility

\$772,800 total net present value of tax deferral

The facility was purchased in 1999 for approximately \$14 million. A cost segregation study was performed in 2006 providing additional first-year depreciation of \$2,683,400, resulting in a 2006 tax deferral of \$1,073,300.

Apartment Complex

\$1,065,900 total net present value of tax deferral

The complex was constructed in 2005 for approximately \$23 million. A cost segregation study was performed in 2006 providing additional first-year depreciation of \$2,437,000, resulting in a 2006 tax deferral of \$974,800.

Office Building

\$376,000 total net present value of tax deferral

The multi-tenant office building was purchased in 2002 for approximately \$10 million. A cost segregation study was performed in 2004 providing additional first-year depreciation of \$765,800, resulting in a 2004 tax deferral of \$306,300.

