



Real Estate

Accelerated Depreciation

*Techniques
and
Concepts*

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Cost Segregation Analysis Goals



- Increase the ROI of the Property by Improving Cash Flow
- Maximize the Owner's Tax Benefit

Project Profiles



- New Construction
- Acquisition of Property
- Additions
- Renovations
- Remodeling
- Leasehold Improvements
- Properties Acquired in the Past

Why Bother?



Many Expenditures Related to a Building Can Be Depreciated Faster (39 years)!

What kind of items have shorter lives?



- Foundations
- Equipment Services
 - Electrical
 - Plumbing
 - Gases
- Telephone and Computer Equipment
- Cabinetry
- Carpeting
- Dock Bumpers and Seals
- Exhaust Systems
- Task Lighting
- Signage

Building Types



Generally, the more complex a building, the more opportunity for benefit from cost segregation.

Higher Benefit

- Process Plants
- Manufacturing Buildings
- Office Buildings
- Banks
- Retail Stores

Lower Benefit

- Warehouses
- Storage Facilities

Sample Facts



- Sample Property
 - New manufacturing building
 - \$5,000,000 in construction cost
 - 39% effective tax rate
 - Discount factor for project evaluation 6%
 - Bonus depreciation is not included
- Amount to Reclassify (estimated at \$1,250,000)
 - 15-year property, 10%, \$500,000
 - 7-year property, 15%, \$750,000
 - 5-year property, minimal

Percentage Reclassified – Acquisition



| Recovery Life: | Before Cost Analysis | | After Cost Analysis | |
|----------------|----------------------|-------------|---------------------|-------------|
| | \$ | % | \$ | % |
| Land | - | 0% | - | 0% |
| 39 Years | 5,000,000 | 100% | 3,730,000 | 75% |
| 15 Years | - | 0% | 500,000 | 10% |
| 7 Years | - | 0% | 750,000 | 15% |
| 5 Years | - | 0% | 20,000 | 0% |
| Total | 5,000,000 | 100% | 5,000,000 | 100% |

Benefit – Acquisition



| Tax Year | Before Cost Analysis | After Cost Analysis | Additional Deduction | After-Tax NPV Benefit |
|------------------------|----------------------|---------------------|----------------------|-----------------------|
| 2008 | \$64,100 | \$183,994 | \$119,894 | \$46,759 |
| 2009 | 128,200 | 333,212 | 205,012 | 75,429 |
| 2010 | 128,200 | 273,402 | 145,202 | 50,399 |
| 2011 | 128,200 | 230,116 | 101,916 | 33,373 |
| 2012 | 128,200 | 199,566 | 71,366 | 22,046 |
| 2013 | 128,200 | 194,839 | 66,639 | 19,421 |
| 2014 | 128,200 | 192,112 | 63,912 | 17,572 |
| 2015 | 128,200 | 158,587 | 30,387 | 7,882 |
| 2016 | 128,200 | 125,187 | (3,013) | (737) |
| 2017 | 128,200 | 125,137 | (3,063) | (707) |
| Ten-Year Effect | \$1,217,900 | \$2,016,153 | \$798,253 | \$271,436 |

Present Value Savings Over the Life of the Project

\$199,735

Key Items to Consider



- Current Construction or Acquisition
- Prior Years' Acquisition
- New NOL Carryback Opportunities
- Engineering-Based Study With Necessary Audit Support

Sec. 179



- Immediate first-year expensing of qualifying capital expenditures
- Tax years beginning in 2009
 - Maximum deduction is \$250,000.
 - The phase-out threshold for deduction is \$800,000.
- Tax years beginning in 2010
 - Maximum deduction reverts back to \$125,000 (adjusted for inflation).
 - Phase-out threshold reverts back to \$500,000 (adjusted for inflation).

Bonus Depreciation



- The Stimulus Act also extends the 50% first-year bonus depreciation break to cover qualifying new (not used) assets that are both acquired and placed in service by no later than 12/31/09.
- Unlike Sec. 179, there is no maximum limit on the amount of the write-off and no phase-out as capital expenditures increase beyond certain thresholds. Therefore, even the largest businesses can benefit from this incentive.

Bonus Depreciation (continued)



- Assets eligible for bonus depreciation are also completely excluded from AMT. Again, since many taxpayers are now subject to AMT, this is an extremely significant benefit.
- To be eligible for 50% first-year bonus depreciation, an asset must pass all three of the following tests:
 - It must be "qualified property" (which includes most MACRS property with a recovery period of 20 years or less, purchased software, and qualified leasehold improvements).
 - It must be acquired and placed in service by 12/31/09.
 - The original use of the asset generally must commence with the taxpayer after 12/31/08.

Qualified Leasehold Improvements



- This classification is huge for the real estate industry, allowing the taxpayer to both claim 50% bonus depreciation and use a tax life of 15 years rather than 39 years on qualifying real property improvements.
- Qualifying property
 - Interior improvement to a nonresidential building
 - Made by the lessor or lessee pursuant to a lease to an unrelated party
 - Placed in service more than 3 years after the building was first placed in service (by anyone) – so improvements to a newly constructed building will not qualify
 - Does not apply to:
 - Improvements to common areas of the building.
 - Any improvement attributable to the enlargement of the building, an elevator, or the internal structural framework of the building.



Thank you

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