

# Cost Segregation Study: Valuable Tax Savings Embedded in Buildings

If you own real estate and pay federal income taxes, you can benefit from the results of a cost segregation study.

A **cost segregation study** is an analysis performed by trained professionals to identify property that should be classified as tangible personal property or land improvements, rather than real property that is depreciated over 27.5 or 39 years. This allows the taxpayer to identify property that can be depreciated over 5, 7, or 15 years instead of the 27.5 or 39 years that typically apply to real estate. This acceleration of deductions results in substantial tax savings benefits.

Cost segregation studies apply to both newly acquired or constructed property, leasehold improvements/fit-ups, and property that was placed in service in prior years (post-1986). For property placed in service in prior years, the IRS allows a "catch up" deduction in year 1 for the additional depreciation deductions that are identified in a cost segregation study that you were entitled to but did not claim in previous years. This can generate substantial tax savings in the first year of the study.

There is no limitation on the cost of property that is eligible for a cost segregation study. The benefit of a study for a smaller building will be less than that of a larger property, but may still be beneficial. Dean Dorton has worked with several industries to provide cost segregation studies including auto dealerships, banks, commercial and residential property owners, medical facilities, and manufacturing facilities.

Bonus depreciation and Section 179 expense elections allow taxpayers to write off 100% of qualified tangible property with a recovery period of 20 years or less. Thus, the 5, 7, and 15 year property that is identified in a study may qualify for this additional depreciation deduction that would not normally be identified if the property was being depreciated over 27.5 or 39 years. These tax incentives for 2021 make a cost segregation study even more beneficial for the current tax year as it applies to both newly constructed and existing properties. Similar tax incentives are also available for property placed in service in tax years 2008-2020.

One of Dean Dorton's most recent cost segregation studies was performed on a \$9.1 million manufacturing facility constructed in 2018. That study generated \$777,402 of tax savings in the first year. The present value of accelerated deductions (discounted at 8%) exceeded \$773,073. The return on investment for this study was 105.0 to 1.

Dean Dorton uses an Indianapolis-based engineering firm to provide cost segregation studies to our clients. This engineering firm conducts studies that conform to the Cost Segregation Audit Techniques Guide issued by the IRS. They have performed over 15,000 studies and have successfully defended all challenges brought forth by the IRS.

We work in tandem with your CPA, whether you are served by a large international firm, a regional firm, or a local accountant, to serve your best interests and save you money.



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