



## Cost Segregation Studies For Real Estate

While the straight-line method of expensing real estate costs is most commonly used by real estate investors, completing a cost segregation study may be worth consideration to help reduce taxable income and increase operating cash flow.

### WHAT IS IT

A cost segregation study identifies personal property asset groups that would typically be depreciated as one group (e.g., a building). For example, instead of using this lump-sum group, an engineer, with the help of a tax professional, will break the building down into different structural components, like a roof, windows, electrical fixtures, and HVAC systems.

### BENEFITS OF STUDYING

According to the IRS, nonresidential buildings have a 39-year life. That generally means you'll write off the cost of the building over 39 tax years. But, with cost segregation, parts of that building would fall into different tax categories and could be written off quicker, lowering your taxable income in earlier years.

For example, land improvements for fences, sidewalks, and shrubbery have a 15-year life. That means you could deduct those costs over 15 years instead of over 39 years.

You might also find other tax breaks from completing a cost segregation study. The Commercial Building Energy Efficiency tax deduction is available for certain real estate owners who make energy-efficient improvements to HVAC and lighting systems.

## STUDY PITFALLS

Cost segregation studies can cost several thousand dollars, so make sure it's a wise use of your company's cash. It is vital. Also, you'll want to be able to hold the property for at least five years to receive a payoff. That's because when the short-life assets found in a study are sold, they can be subject to the depreciation recapture rules that tax the gain at ordinary income tax rates instead of favorable capital gain rates.

When depreciating your real estate investment, multiple factors exist, including bonus depreciation and Section 179. So, you'll want to discuss your options with your tax professional.



(516) 294-0400



(516) 938-0491



415 CROSSWAYS PARK DR.  
SUITE C  
WOODBURY, NY 11797

KVLSMCPA.COM



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