MANUFACTURING & DISTRIBUTION

Cost Segregation Studies

Accelerate Depreciation. Increase Cash Flow.

Perhaps no other industry stands to benefit more from cost segregation studies than the manufacturing industry. With the accelerated depreciation that cost segregation allows, you can increase tax deductions and pay less tax during the early stages of a property's life, resulting in increased cash flow. Even if you built or purchased your facility several years ago, the benefits of a cost segregation study are not lost.

How can manufacturers take full advantage of the benefits a cost segregation study can provide?

A Unique Tax-Savings Opportunity for Manufacturers.

In manufacturing, what may appear to be structural elements of a facility – steel and concrete – may actually be considered short-lived equipment costs if they exist solely to support the manufacturing equipment within that facility. Additionally, building systems, such as plumbing, HVAC and electrical systems used to support, maintain or operate manufacturing equipment may also qualify as short lived property in many instances.

In studies our team members have performed, light manufacturers have benefited by reclassifying anywhere from 15% to 40% of the depreciable cost of a facility to a shorter tax life. Heavy manufacturers have been able to reclassify 25% to 70% of the cost to a shorter tax life, and processing plants often can reclassify 60% to 90% of their facility depreciable cost to short-lived property.

Example of Potential Tax-Savings.

Assume a $5,000,000 facility was placed in service by a taxpayer and depreciated over 39 years in 2008. Assume further that a cost segregation study was performed in 2013, and as a result of that study, 30% of the building cost was reclassified to a seven-year property and 15% was reclassified as a 15-year property.

By filing for a tax accounting method change in 2013 to reflect the cost segregation study, the taxpayer would have an additional $1.3 million dollar tax deduction to reflect the missed depreciation expense from prior years. At a 40% tax rate, that's $520,000 taxes not paid in 2013. Assuming a 6% borrowing rate, the net present value of accelerating the depreciation deductions for this taxpayer would be approximately $370,000.

WHAT IS A COST SEGREGATION STUDY?

A tax-savings strategy that involves a comprehensive analysis of capital expenditures related to your property. The study identifies all of the different non-structural elements that go into your property – ranging from electrical to plumbing costs – and reclassifies them so they can be depreciated over lesser timeframes, resulting in increased tax deduction and less taxes in the early stages of a property's life, thereby increasing cash flow.

- Increased cash flow through accelerated depreciation deductions
- Possible "catch up" depreciation on previously misclassified assets
- Reduced income taxes

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Cost Segregation Studies for the Manufacturing Industry (continued)

Why Now?

As tax rates increase, so does the value of your tax deductions. Even though a cost segregation study allows you to "catch-up" your missed depreciation from prior years, you still get to take the deduction at today's tax rate – not what the rates were when the facility was first placed in service.

Since a cost segregation study only accelerates the tax deductions you would have over a 39-year timeframe, each year that passes reduces the net present value benefit of taking tax depreciation deductions now instead of waiting for them.

What to Expect?

To maximize your tax savings and meet complex compliance requirements, it's essential to select a firm with a demonstrated track record of success conducting cost segregation studies. RKL stands apart in Central and Eastern PA for our experience and expertise in providing cost segregation studies to the manufacturing industry. Before engaging in the study, we will provide you with an analysis of benefits based on our experience with other projects that have similar characteristics.

RKL's MANUFACTURING & DISTRIBUTION SERVICES GROUP

RKL provides a portfolio of accounting, tax planning and compliance and specialized consulting services aimed directly at the challenges and opportunities facing Central and Eastern PA manufacturers. Comprised of leaders from RKL's Audit, Tax and Business Consulting Services, the group brings unmatched experience serving manufacturing and distribution companies and draws on that experience and their discipline-specific expertise to serve you. Learn more at www.RKLcpa.com.

For more information about tax, accounting and business consulting services for the Manufacturing & Distribution Industry, contact:

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WHO CAN BENEFIT FROM A COST SEGREGATION STUDY?

Many companies erroneously believe that a cost segregation study must be conducted in the year that real estate is acquired or constructed. Companies can use cost segregation studies and related tax laws to recalculate their depreciation today as though the study was performed in the year the facility was placed in service and deduct the "missed" depreciation via an accounting method change. In the many cases, the result is a significant tax deduction in the year that the cost segregation study is completed.

Ideal candidates for cost segregation studies include:

- New building currently under construction
- Existing buildings undergoing remodeling, expansion or restoration
- Renovations made to a leased building
- Existing buildings that are being depreciated over 39 years