

COST SEGREGATION

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› Cost Segregation Refresher

- What is Cost Segregation?
 - Componentization of a building's cost into building, land improvements and personal property
 - Applies to building purchases, new construction, renovations and tenant fit-outs
 - Pretty much any industry
 - Office buildings
 - Manufacturing
 - Auto dealerships
 - Apartment complexes
 - Retirement facilities
 - Retail



› Cost Segregation Refresher

- Why a good tax savings strategy?
 - Personal property and land improvements have a shorter depreciable life with accelerated depreciation methods and bonus depreciation
 - Shorter depreciable lives = lower taxable income = lower taxes due = more jingle in your pocket
- Look-back studies, too
 - Ability to look back in time to perform cost segregation
 - Difference between current depreciation and adjusted depreciation provides a one-time additional depreciation deduction in the current year
 - Takes into consideration all strategies available back at that time
 - Bonus, Qualified Leasehold, Retail and Restaurant Improvements



› Bonus Depreciation

- Makes cost segregation even more beneficial!
 - 50% bonus rate increased to 100% under TCJA

Year Placed In Service	Qualifying Property	Longer Production Period Property and Certain Aircraft
Acquired After 9/27/2017 – 12/31/2022	100%	100%
2023	80%	100%
2024	60%	80%
2025	40%	60%
2026	20%	40%
2027	None	20%



➤ Bonus Depreciation

- If in-service and acquisition dates prior to 9/28/2017, then PATH Act bonus rates are still applicable

Year Placed In Service	Qualifying Property	Longer Production Period Property and Certain Aircraft
Before 9/28/2017	50%	50%
2018	40%	50%
2019	30%	40%
2020	None	30%



➤ Bonus Depreciation Criteria

- Four requirements for 100% bonus under TCJA
 - (1) Qualifying Property
 - (2) Original use or meet acquisition requirements for used property
 - (3) Placed in service by specific date
 - (4) Acquired after 9/27/2017



› Bonus Requirement 1: Qualifying Property

- MACRS property with a recovery period of 20 years or less;
- Certain computer software;
- Water utility property;
- Qualified film or television production;
- Qualified live theatrical production;
- Certain plants; and
- Property acquired after 9/27/2017 and placed in service before 1/1/2018 and meets definition of:
 - Qualified leasehold, retail or restaurant improvement property
 - Qualified improvement property (QIP) => requires legislative technical correction to change to 15 year vs. 39 year



› Bonus Requirement 2: Original Use & Used Property

- Taxpayer or a predecessor may not use the property prior to acquisition
- Related Party Rules for Purchase of Used Property
- Many further specific rules and definitions



› Bonus Requirement 3: Placed In Service Date

- General rule for 100% bonus
 - Qualifying property if placed in service after 9/27/2017 and before 12/31/2026
 - For longer production period property, in-service before 12/31/2017
 - Special rules for qualified film or television productions, initial live staged performances and syndication transactions



› Bonus Requirement 4: Acquisition After 9/27/2017

- Written binding contract
 - Binding only if enforceable under state law and not limiting damages to specified amount
 - A contractual provision that limits damages to an amount equal to at least 5% of total contract price not treated as limiting damages to specified amount
 - Based on date on which contract entered into and includes cancellation periods and contingency clause conditions



› Bonus Requirement 4: Acquisition After 9/27/2017 (continued)

- Self-Constructed Property
 - General rule to meet acquisition rules of TCJA
 - Begin manufacturing, constructing or producing property after 9/27/2017
 - Includes work of a significant nature
 - Does not include preliminary activities such as planning, designing, financing, exploring or researching
 - Uses facts and circumstances test
 - Safe harbor
 - If pay or incur more than 10% of the project cost after 9/27/2017



› Bonus Requirement 4: Acquisition After 9/27/2017 (continued)

- New binding contract rules for acquisition of a trade or business or an entity
 - A contract to acquire all or substantially all of the assets of a trade or business or to acquire an entity only binding if enforceable under state law



› TARS and Cost Segregation

- Cost Segregation is a great tax strategy particularly because of the additional benefits of 100% bonus depreciation for five years
- Another important piece of our cost segregation analysis is the Capitalization Analysis under the Tangible Asset Regulations (TARS) any time there are renovations involved
- Also consider the safe harbor elections



› TARS & Safe Harbor Elections

- Safe Harbor Elections Include
 - De Minimis
 - Expense costs for both book and tax based on book capitalization policy threshold
 - Small Taxpayer
 - Meet criteria and don't capitalize anything
 - Routine Maintenance
 - Meet criteria and recognize maintenance as routine business expense



› TARS & Capitalization Analysis

- Why important step in our analysis?
- Process to determine if must capitalize a cost or can be recognized as repair/maintenance expense before considering further cost segregation analysis
- If must capitalize, can consider a partial disposition of the original asset so only depreciating the same asset once
 - Partial disposition must be recognized in year of disposition or opportunity lost



› TARS & Capitalization Analysis

- Two Step Process
 1. Identify the Unit of Property (UoP)
 2. Apply the three Improvement Standards
 - ❖ Betterment
 - ❖ Restoration
 - ❖ Adaptation
- If meet criteria under any of the three improvement standards, must capitalize the cost. If not, then considered a repair and maintenance expense



› Step 1: Identify Unit of Property (UoP)

- UoP Definition
 - A single UoP consists of all components that are functionally interdependent
 - One component is dependent upon another component to function
- Examples:
 - Functionally Interdependence
 - Automobile: Frame, chassis, engine, axle, etc.
 - Single Independent UoP
 - Table and a chair



› Step 2: Apply Improvement Standards

Betterment Improvement Standard

- Corrects material condition or defect that existed (whether known or not)
- Material addition (of the footprint)
- Increases productivity, efficiency, strength, quality or output



› Step 2: Apply Improvement Standards

- Restoration Improvement Standard
 - Replaces component deducted as a loss or after casualty if basis adjusted
 - Returns to operating condition if in non-functional disrepair
 - Rebuilds to like-kind condition after class life
 - Replace major or significant portion of a component or UoP



› Step 2: Apply Improvement Standards

- Adaptation
 - Adapts the UoP to a different or new use



› Conclusion

- Cost segregation is a beneficial tool to determine the best tax treatment for your building cost whether purchased, constructed or renovated.
- Just as importantly, we incorporate both Bonus Depreciation and the TARS Capitalization in that analysis to determine the best way to minimize your taxes
- This was a very high-level review, so feel free to reach out to us if you have any specific questions or would like a cost-benefit analysis so you can make an informed decision on the next steps



**FOCUSED.
ON YOU.**

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