

Cost Segregation Services

Increase cash flow by accelerating depreciation benefits

If you've constructed a new facility, acquired an existing facility, performed construction leasehold improvement, or renovated an existing facility you may be paying too much federal income tax. Our company works with clients from across the nation to increase cash flow by accelerating depreciation expense deductions.

SourceCorp's cost segregation analysis typically results in:

- Increased depreciation benefits
- Improved cash flow
- Identified costs to be expensed
- Documented detail for fixed asset record
- A detailed record for audit defense

Property types can include:

- Apartments
- Business and office parks
- Data centers
- Distribution centers
- Golf courses
- Industrial buildings
- Manufacturing facilities
- Office buildings
- Power centers
- Regional malls
- Shopping centers



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Specialized Business Tax Consulting - Pay Less Tax. Save More Money.™

Increased Cash Flow:

For businesses that own or lease a facility, depreciation is a significant, but often overlooked opportunity to reduce income tax liability.

The principle goal of a cost segregation study is to increase cash flow from constructed buildings, purchased properties and renovations by accelerating depreciation expense deductions.

SourceCorp Cost Seg Process:

The components of a building are reclassified into proper class lives according to MACRS (the Modified Accelerated Cost Recovery System), case law and IRS revenue rulings. MACRS property is tangible, depreciable property as prescribed by the Tax Reform Act of 1986. For example, a building's floor, roof and walls might be classified as 39-year section 1250 real property; site improvements such as sidewalks and landscaping would be classified as 15-year section 1250 real property; communications equipment and general office furnishings as 7-year section 1245 tangible personal property and carpeting, decorative lighting and computer associated items as 5-year section 1245 personal property.

Performing a Cost Segregation Study:

A cost segregation study may be conducted on any building that has been placed in service since December 31, 1986 by a tax paying company that does not show an operating loss or will be profitable in the near future. The property owner must be a taxpayer (not tax exempt). Some types of projects are more feasible than others. The best-case scenario is a large new manufacturing or R&D facility while the worst-case scenario might be a small warehouse. The following are examples of good cost segregation opportunities:

- New Construction & Renovations
- Acquisitions of property
- Buildings previously placed in service without a cost segregation study and are currently depreciating entirely over 27.5 or 39 year
- Clients with a large asset base such as large retailers that have numerous small assets

The Benefits Of Cost Segregation:

The benefits of cost segregation, resulting from a deferral of tax payment and accelerated depreciation, are easy to demonstrate. For each dollar that is reclassified into a 7-year class life, the taxpayer realizes from \$ 0.15 to more than \$0.20 in the cumulative present value of taxes deferred. Similarly, for each dollar that is reclassified into a 5-year class life, the taxpayer realizes from \$.19 to more than \$.23 in the cumulative present value of taxes deferred. These are approximations and the exact amounts depend on factors such as the tax rate, discount rate and whether the subject property qualifies for bonus depreciation.

Example:

A \$10,000,000 office building. It has a 35% tax rate and an 8% discount rate. If 8% of the building is reclassified into a 5-Year class life, 1% into 7-Year, and 8% into 15-Year, the cumulative present value of taxes deferred, using the half-year convention, is over \$261,000. Note that this is an example and the actual percentages of reclassified property will vary greatly depending upon the use of the building, the quality of finish out, and the tax and discount rates.

The SourceCorp Cost Segregation Team:

- Completely dedicated to segregation work
- Treats each project as a unique engagement
- Performs cost segregation projects in-house
- Understands correct methodologies and employs accurate engineering-based estimating techniques
- Meets with and involves the client and the client's CPA
- Works with a client's CPA to determine which strategies, needs and timetables are most appropriate
- Educates our clients in how they may best contribute to the cost segregation process without incurring additional expenses
- Use professionals with backgrounds in architecture, engineering and construction science
- Have in-house CPAs and a research staff who stay abreast of the latest revenue rulings, legislation and court cases pertaining to cost segregation
- Break-out of all of the assets (costs) that are considered in a cost segregation study per the IRS Audit Techniques Guide

Whether you are buying, building or improving a building, SourceCorp can help maximize your income tax deductions through our in-depth cost segregation service.



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