

Defer your tax liability with a cost segregation study

by Mark Vorkapich (Supervisor, cost segregation services)

For the purpose of accelerating depreciation, cost segregation studies assign shorter federal tax lives to what would otherwise be locked in as 27.5- or 39-year real property. A cost segregation study is right for you if you are constructing a building or acquiring existing real property and want to defer your federal income tax liability.

The value of tax deferral can be substantial

Although the federal 50% bonus depreciation rate ended last year for most property, there are still big advantages for performing a cost segregation study. Here are some examples of property that would typically benefit, and an idea of the possible net present value (NPV) savings from a cost segregation study:

	Cost of the property	Possible net present value savings of a cost segregation study
Office building	\$5,000,000	\$122,401
Manufacturing building	\$3,000,000	\$108,814
Apartment complex	\$2,500,000	\$113,422
Retail strip mall	\$2,000,000	\$115,079

Actual results may vary because each property is unique

This illustration uses an assumed tax rate of 40% and a cost of capital rate of 8%. However, it is important to note that all projects are unique and that actual results may vary. For example, one office building might be situated on a five-acre

site versus another identical office building located on a two-acre site. The qualifying result will be very different in terms of 15-year property because of the different-sized sites.

Cost segregation studies pay for themselves many times over

The benefits of accelerated depreciation without the 50% bonus are still very apparent. Using the office building example, if the study costs \$6,000 to perform and results in a net present value of \$122,000, the fee to NPV ratio is 1:20. Simply stated, for every \$1 fee paid, the owner gets \$20 in net present value benefit.

Cost segregation is about saving money today and deferring tax payments to tomorrow. For more information regarding cost segregation, please contact your account director, or call Skip Grubanowitch or Mark Vorkapich at 888-556-5580 or 414-463-4411.



Mark Vorkapich specializes in cost segregation studies. In addition to almost seven years of experience in this area (which also includes purchase price allocations, Section 1031 exchanges, and look-back studies), Mark's background includes insurance valuation and tangible asset appraisals.