

## Cost segregation study does more than defer income taxes

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There are many ways you can benefit from a cost segregation study. The number one reason for having the study, of course, is to minimize today's tax burden by accelerating your current depreciation deduction. This gives you the use of future dollars today, which makes it number one on the list of five benefits below.

Do you know that there are other advantages of having a cost segregation study performed? This article focuses mostly on items 2 through 5 on the list below, giving you four additional ways you may benefit from this useful tool for minimizing federal income tax.

A cost segregation study provides the following benefits:

- 1) It relieves your current income tax burden by accelerating depreciation
- 2) It separates assets into their proper components for financial accounting purposes
- 3) It gives you a solid foundation for addressing insurance valuation concerns
- 4) It assists with sales and use tax issues in manufacturing projects
- 5) It provides a reasonable basis for challenging property tax assessments

### **A cost segregation study separates assets into components, which is useful for financial accounting purposes**

One by-product of a cost segregation study is a detailed componentized schedule of assets. Because we use an engineering approach, which is the IRS's number one accepted way for performing cost segregation studies, we detail both the 1245 personal property assets and the 1250 building assets.

This gives you the detail you need to set up your financial accounting schedule of assets so when the time comes to replace a building asset, you will have the information you need to retire it for book and tax purposes.

An example would be a new roof your building may need sometime in the future. When that happens, you will have the detail already in place and it will be very easy to go to your financial schedule of assets, remove the cost of the old roof, and replace it with the cost for the new roof.

If you have no building detail (which is likely to be the case if you don't have a cost segregation study), you won't know how much of the cost to retire. How much of the building's cost is attributable to the roof and other components is a question you should always ask, but it can be difficult to get a clear answer. As a result, owners are likely to overstate the cost of their buildings.

### **A cost segregation study provides a basis for addressing insurance valuation concerns**

Another by-product of the cost segregation study is assistance with insurance valuation. The trap most building owners fall into is assuming that the cost of the building is its insurable value – and this just isn't true!

The following items are always included in the contractor's cost, but should not be insured:

- Architect fees
- Overhead
- Profit and permits
- Incoming building utilities
- Land improvements (which can account for up to 5% of the building's cost)
- Below-ground foundations (which are normally an exclusion in the insurance policy)

These are a few of the many costs that you should exclude when arriving at a building's actual cash value (ACV) for insurance purposes. Ever since the 9/11 disaster, insurance premiums have skyrocketed, and no one should be paying more than they need to.

### **A cost segregation study provides information for sales and use tax studies and property tax assessment challenges**

The other two areas where a cost segregation study can lend some additional help are in sales and use tax studies for manufacturers, and in property tax assessment challenges. If you need a sales and use tax study, you have the expertise of our firm's Joel Lauscher readily available. Joel's background as a Wisconsin field auditor makes him uniquely qualified to perform these studies. In the property tax assessment area, Mark Weber heads up this newest service of our Real Estate and Construction Team. Mark has a property tax background that is without equal. He spent the majority of his business career with the Wisconsin Department of Revenue as a senior reviewer and manager. Those years of experience are now a part of our Real Estate and Construction Team for the benefit of our clients.

In summary, ask your account director if a cost segregation study might benefit you for financial accounting purposes, or for an insurance review, a sales and use tax study, or a property tax review.



**M. J. "Skip" Grubanowitch has more than 20 years of experience in cost segregation for new construction and existing real estate, helping clients maximize their cash flow by deferring income tax liability. In addition, Skip provides expert witness support for construction-related issues.**