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BUSINESS AND TAX RELATED SUBJECTS

Depreciate buildings faster with cost segregation

by Skip Grubanowitch (Manager, cost segregation services)

Would you welcome the opportunity to depreciate part of a newly purchased or constructed building over a favorable recovery period? You can recover qualifying costs over 15, 7, or even 5 years instead of the 39-year life required for the building.

These costs relate to depreciable assets which are buried in the building's cost, but have shorter lives than that of the building itself.

The cost of a purchased building may include depreciable land improvements

When you purchase an existing building, for example, the items most often overlooked are land improvements. Check the site for the following items, which qualify as 15-year property:

- Paving
- Sidewalks and curbs
- All incoming utilities
- Landscaping
- Fencing
- Site lighting
- Site signage

Identify qualifying assets with a cost segregation study

A cost segregation study identifies, establishes the cost, and then assigns appropriate federal tax lives to qualifying assets for depreciation purposes. The shorter tax lives maximize current depreciation expense, which will reduce your taxable income.

The new 50% write-off may also apply

In addition, for assets with tax lives of less than 20 years, the Jobs and Growth Act of 2003 provides a new 50% bonus first-year depreciation, expanding the 30% bonus first-year depreciation enacted in 2002.

The 50% bonus depreciation is generally available for qualifying property acquired and placed in service after May 5, 2003 and before 2005.

Some construction assets are easy to miss

Examples of qualifying construction assets that are easy to overlook are as follows:

- Dedicated electrical service used primarily for production purposes (allocating between building and process/personal property incoming power loads)
- Special temperature and humidity-controlled production areas with strict temperature and humidity production requirements
- Exhausting ductwork in place solely to serve items of personal property, like paint booths or welding areas

If you miss these items, you will overstate the building's true cost and lose the tax benefit of accelerated depreciation.

Is a cost segregation study right for you?

Did you recently purchase, construct, or substantially improve a business building? Are you currently in a taxable position, or will you become profitable and taxable in the very near future? Answering "yes" to these questions means a cost segregation study is something you should consider.

Please contact your account director, or call Skip Grubanowitch at 888-556-5580 or 414-465-5622 to discuss how a cost segregation study can help you reduce your federal income tax.



M.J. "Skip" Grubanowitch has more than 20 years of experience in cost segregation, helping clients defer tax payments and improve cash flow. He also provides expert witness support for construction-related issues.