



COST SEGREGATION

American Apartment Owners Association



KEVIN JERRY

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CSSISTUDY.com

A close-up photograph of a person's hand holding a yellow sticky note. The person is wearing a light-colored, possibly white, button-down shirt. The background is a soft, out-of-focus light gray.

**Good
Afternoon**

“Eighty percent of success is showing up”

WOODY ALLEN

WHAT IS COST SEGREGATION

Cost Segregation is a congressionally **approved application** by which commercial property owners restructure depreciation and reduce the amount of taxes owed either in the near future if the building is new or right now if the building is already in occupancy.

This savings generates substantial cash flow that owners use to reinvest in business, purchase additional property, apply to their principle payment or spend on themselves.

Cost Segregation is simple, legal and has been recommended by the Journal of Accountancy, the AICPA, the Big Four Accounting firms and even the US Treasury.

“A taxpayer can substantially increase cash flow by segregating property costs.”

AMERICAN SOCIETY OF CPA'S

WHO IS KEVIN JERRY

- Kevin Jerry is the Executive Vice President of Cost Segregation Services, Inc. (CSSI).
- Kevin is a nationally recognized speaker and consultant on the subject of Cost Segregation, and the Tangible Property Regulations, two tax saving strategies (based on Supreme Court Cases and IRS tax law) that all building owners should understand.
- Kevin has recently spoken at such venues as the American Institute of Certified Public Accountants; the Maryland CPA Association, the Kentucky CPA Association, the Florida CPA Association, Hong Kong Trade Association, the California Real Estate Association and Penn State University.
- Kevin has two finance and accounting degrees and will complete his advanced degree in Foreign and Domestic Taxation Special Issues from the University of Cincinnati in early 2018.

WHO IS CSSI

- CSSI is the nations premier engineering based cost segregation firm.
- We have performed over 20,000 studies. We have never had a study overturned by the I.R.S. We have never missed a deadline. The buildings we segregate are between brand new and twenty years old (from date of occupancy). The bases of our projects range from \$150,000 to \$950,000,000.

Cost Segregation

WHY ARE YOU HERE TODAY AND WHAT DO YOU NEED TO KNOW

Time Value of Money



WHAT IS DEPRECIATION

\$1,000,000 Building

- The IRS allows you to depreciate your building at \$25,641 per year with straight line 39 year depreciation
- Simple math. $\$1,000,000/39$ years
- \$25,641 per year with straight line 39 year
- \$10,256 tax savings per year (based on 39.6%)
- But inflation wipes away 2% per year.
- In 10 years instead of having \$100,000 in buying power, you only have \$8,000. Inflation erodes the future benefit of depreciation .

WHAT IS DEPRECIATION USING COST SEGREGATION

SAME \$1,000,000 Building

The IRS allows you to accelerate the depreciation on your building that is not structural related. 20% -30% of a typical building can be accelerated.

This will create **additional** depreciation of \$140,000.

More importantly a \$55,000 tax savings right now.

Inflation (interest) is now working for you.

In five years you turn \$55,000 into \$81,000. In 10 years you have \$118,000.

“Some taxpayers are reluctant to use cost segregation, equating it with a high-risk tax shelter. In truth, this reluctance is misplaced. If the cost of the components in the engineering report is well-documented, the **cost segregation technique is no more aggressive than using any permissible depreciation method** under the Internal Revenue Code”.

- JOURNAL OF ACCOUNTANCY

Never an Audit

Never an Amended Return

Not Just for New Buildings

Not Too Expensive

How the Process Works

EXACTLY HOW DOES COST SEGREGATION WORK

Personal property is separated from real property (1245 vs 1250)

- Code Sec. 1245 personal property ([Code Sec. 1245\(a\)\(3\)\(A\)](#)), which consists of items such as business machinery and equipment, office furniture and fixtures, and appliances that are furnished to tenants. The principal characteristic of Code Sec. 1245 personal property is that it is readily moveable rather than permanently affixed.
- Code Sec. 1245 real property ([Code Sec. 1245\(a\)\(3\)\(B\)](#)), which generally consists of property that is used as an integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services.
- New construction is not the only circumstance when cost segregation can be performed. **Any buildings with a remaining depreciable basis no matter when they were put in occupancy are candidates because of [Form 3115 and IRC Section 481](#).**

2015 DEPRECIATION AND AMORTIZATION REPORT
 High Tech

R- 3

Asset No.	Description	Date Acquired	Method	Life	Line No.	Unadjusted Cost Or Basis	Bus % Excl	* Reduction In Basis	Basis For Depreciation	Accumulated Depreciation	Current Sec 179	Current Year Deduction
301	Building (90%)	11/29/07	SL	39.00	17	196,173.			196,173.	35,840.		5,030.
302	Land (90%)	11/29/07	L			22,500.			22,500.			0.
	* Total Rental Depreciation					218,673.			218,673.	35,840.		5,030.

Cost Segregation Study

BUILDING ELEMENTS UNITS OF PROPERTY

Building Components

Cabinets / Millwork	\$	20,085.41
Moldings	\$	8,286.30
Wood Paneling	\$	2,062.22
Flooring - Vinyl Tile	\$	519.68
Flooring - Carpet	\$	9,084.00
Window Treatments	\$	187.90
Air Curtain	\$	1,709.08
Building Signage	\$	122.56
Specialty Electrical - Kitchen Equip.	\$	15,216.78
Communication / Data	\$	32,356.35
Specialty Plumbing - Cooler Equip. / Kitchen Sinks	\$	10,181.63
Security / Exterior Lighting	\$	9,827.88
FRP Wall Panels	\$	1,003.24
Rear Entry Canopy	\$	20,084.92
Interior Overhead Doors - Security	\$	21,931.82
Slatwall / Pegboard Paneling	\$	9,657.00
Surveillance System	\$	4,375.25
Interior Wood Trellis Systems	\$	6,046.21
Liner Panels	\$	109,271.70
Paging System	\$	1,688.23
Windmill	\$	17,244.53
Exhaust Hood	\$	11,258.61
Fire Extinguishers	\$	1,833.25
Cooler	\$	10,635.63
Movable Storage Units	\$	30,431.69

Site Work / Improvements

Water Well	\$	19,318.45
Site Drainage	\$	48,990.57
Parking Lot	\$	138,639.38
Exterior Signage Structure	\$	17,790.84
Parking Lot Striping / Barriers	\$	23,325.00
Sidewalks	\$	711.12
Landscaping	\$	68,635.17
Security Lighting Poles	\$	6,374.77
Aggregate Base Paved Area	\$	192,436.06
Exterior Fencing / Decking	\$	31,986.93
Retaining Walls	\$	16,024.07
Fabricated Steel - Bollards	\$	2,926.12
Patio Concrete	\$	10,848.65
Exterior Wood Trellis Systems	\$	2,783.73
Gazebo	\$	4,605.26

Building Structure

Structural Components	\$	559,508.38
Roofing Systems	\$	66,975.93
Foundations	\$	234,535.89
HVAC	\$	179,747.78
Electrical	\$	242,472.40
Plumbing	\$	68,844.81
Masonry	\$	40,657.35
Doors & Windows	\$	17,063.50
Insulation	\$	43,168.87
Gas Distribution	\$	4,989.84
Drywall	\$	13,092.14
Painting	\$	23,796.64
Fire Protection & Alarm	\$	15,192.82
Gutters & Downspouts	\$	12,335.58

A Simple Change of Accounting

FORM 3115

3115 basics

- Form 3115 is a change of accounting form.
- Any time a method of accounting is in place more than 12 months and a change is needed, the IRS must be notified.
- The change is automatic.
- Other popular changes were cash to accrual and inventory changes. There are 220 method changes.
- The eligibility rules are:
 - The taxpayer cannot be under audit for depreciation errors
 - The taxpayers business cannot be in the last year of it's existence.

FORM 3115

3115 basic changes

- *The following is a non-exclusive list of accounting method issue areas commonly encountered by examiners:*
- *Capitalization issues – IRC 263(a) and IRC 263A relative to inventory, tangible assets and intangible assets*
- *Accounting for liabilities that involve timing – IRC 461*
- *Accounting for when income is recognized – IRC 451*
- *Depreciation method change issues involving changes in recovery periods, conventions, safe-harbor methods, or additional first-year depreciation*
- *Inventory valuation issues including LIFO inventory – IRC 471 and IRC 472*
- *Accrual to cash (and vice versa) – IRC 448*

FORM 3115

481 adjustments

IRC 481(a) Adjustment Calculation

*“A change in method of accounting requires restatement of the tax accounts of the taxpayer on the first day of the year of change **as if the taxpayer had always used the new method of accounting**. The taxpayer uses the new method of accounting to determine income from that day forward. The tax accounts at the close of the preceding tax year and taxable income for that tax year remain as determined under the old method of accounting.*”

Questions on 3115's or 481a?

Good Prospects for Cost Segregation

2016 DEPRECIATION AND AMORTIZATION REPORT
 High Tech

R- 3

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	* Total Rental Depreciation					218,673.			218,673.	35,840.		5,030.

Federal Asset Report West Lee Road

Asset	Description	Date In Service	Cost	Bus Sec % 179 Bonus	Basis for Depr	PerConv Meth	Prior	Current
Non-Residential Real Property:								
18	Plant 1 Addition	2/04/16	122,000		122,000	39 MMS/L	0	2,737
			<u>122,000</u>		<u>122,000</u>		<u>0</u>	<u>2,737</u>
Prior MACRS:								
1	1008 West Lee Road	11/09/09	50,181		50,181	39 MMS/L	7,881	1,287
8	Plant 2 Addition (CSS)	12/31/13	8,502	X	4,251	5 HY 200DB	7,278	489
9	Plant 2 Addition (CSS)	12/31/13	31,498		31,498	39 MMS/L	1,649	808
10	Storage Bay (CSS)	12/05/14	83,863		83,863	39 MMS/L	2,240	2,150
11	Storage Bay (CSS)	12/05/14	22,637	X	11,318	5 HY 200DB	17,204	2,173
12	Plant 2 Improvements (CSS)	2/26/15	3,045	X	1,522	5 HY 200DB	1,827	487
13	Plant 2 Improvements (CSS)	2/26/15	11,281		11,281	39 MMS/L	253	289
14	Office Building (CSS)	2/27/15	67,873	X	33,936	5 HY 200DB	40,724	10,859
15	Office Building (CSS)	2/27/15	60,625	X	30,312	15 HY 150DB	31,828	2,880
16	Office Building (CSS)	2/27/15	190,828		190,828	39 MMS/L	4,281	4,893
			<u>530,333</u>		<u>448,990</u>		<u>115,165</u>	<u>26,315</u>
Other Depreciation:								
2	.136 Acres Warehouse Drive	11/09/09	10		10	0 - Land	0	0
3	1.566 Acres Chick Spring	11/09/09	80,000		80,000	0 - Land	0	0
4	3.56 Acres Greenville County	11/09/09	150,000		150,000	0 - Land	0	0
5	Parcel A, B, C & D Greenville County	11/09/09	140,000		140,000	0 - Land	0	0
6	Parcel Chick Springs	11/09/09	33,000		33,000	0 - Land	0	0
7	Parcel Paris Mountain Township	11/09/09	25,000		25,000	0 - Land	0	0
17	Office Building Land	2/27/15	80,237		80,237	0 - Land	0	0
	Total Other Depreciation		<u>508,247</u>		<u>508,247</u>		<u>0</u>	<u>0</u>
	Total ACRS and Other Depreciation		<u>508,247</u>		<u>508,247</u>		<u>0</u>	<u>0</u>
	Grand Totals		1,160,580		1,079,237		115,165	29,052
	Less: Dispositions and Transfers		0		0		0	0
	Less: Start-up/Org Expense		0		0		0	0
	Net Grand Totals		<u>1,160,580</u>		<u>1,079,237</u>		<u>115,165</u>	<u>29,052</u>

COST SEGREGATION

Actual results of 3115 based cost segregation

DENTAL OFFICE #9501

- Building Cost
\$ 250,176 (with-out land)
- Tax Savings Benefit: \$32,845
- Study Fee Before Tax: \$2,420
- Study Fee After Tax: \$1,549
- ROI: 21:1

OFFICE CONDO #10,500

- Building Cost
\$324,000 (with-out land)
- Tax Savings Benefit: \$52,856
- Study Fee Before Tax: \$3,400
- Study Fee After Tax: \$2,176
- ROI: 24:1

OFFICE WAREHOUSE # 9503

- Building Cost
\$5,246,908 (with-out land)
- Tax Savings Benefit: \$312,687
- Study Fee Before Tax: \$14,900
- Study Fee After Tax: \$9,536
- ROI: 33:1

Why hasn't my CPA done this?

DUTIES OF CPA – FROM AICPA

- Organize and update financial records as needed (digital and physical)
- Analyze transactions and prepare reports
- Perform regular, detailed audits to ensure accuracy in financial documents, expenditures and investments
- Forecast revenue and analyze profit margins
- Oversee ledger reconciliation and manage accounts payable/receivable
- Participate in budgeting processes
- Brief senior managers regularly on the company's financial status
- Liaise with Tax Accountants to track tax payments and returns
- Monitor bookkeeping activities regularly
- Keep company financial information confidential
- Establish accounting policies and procedures
- Stay informed on industry developments and changes in regulations

COMMON MISCONCEPTIONS

- *“You have to pay it all back anyway”*
 - It’s called recapture, BUT:
 - 1031 exchanges have no recapture.
 - Passing on to heirs has no recapture
 - Through a [form 4797](#) the most you would pay 50% back. You have full use of the cash to grow your business so the 50% recapture would be a drop in the bucket compared to the multiplying effect of putting cash into your business.

COMMON MISCONCEPTIONS

- *“It triggers an audit”*
 - 20,000 studies. Never triggered an audit
- *“Why would you pay for something that you’re going to get anyway”?*
 - Are you serious?
- *“Studies are too expensive”*
 - Our studies are less than 10% of the savings.

Instructions for Form 3115 - Notices



Table of Contents

- [Privacy Act and Paperwork Reduction Act Notice](#)

Privacy Act and Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. Section 446(e) says that you must obtain IRS approval before you change your method of accounting, except where otherwise provided. To obtain this approval, you are required to provide the information requested on this form. This information will be used to ensure that you are complying with the applicable laws, and to figure and collect the right amount of tax. Failure to provide all of the information requested may delay or prevent processing of this form. Providing false information may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and to U.S. commonwealths and possessions for use in the administration of their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal non-tax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
3115	38 hr., 29 min.	19 hr., 54 min.	23 hr., 48 min.
Sch. A	3 hr., 21 min.	1 hr., 51 min.	3 hr., 11 min.
Sch. B	1 hr., 25 min.	30 min.	33 min.
Sch. C	5 hr., 1 min.	45 min.	2 hr., 4 min.
Sch. D	27 hr., 30 min.	1 hr., 59 min.	2 hr., 31 min.
Sch. E	3 hr., 49 min.	1 hr., 59 min.	2 hr., 8 min.

WORKFLOW FOR COST SEGREGATION

This is about as simple as it gets moving forward

**ALLOW CSSI TO
ANALYZE
DEPRECIATION
SCHEDULES**

Send CSSI your one page
depreciation schedule

STEP 1

STEP 2

COST SEGREGATE

Take new class lives and
calculate the tax savings
which is one number

STEP 3

**WE WILL CREATE
AN ANALYSIS AT
NO COST**

STEP 4

POPULATE THE 3115

Populate the fields and
check
the boxes on 3115.

YOU'RE DONE

Attach the 3115 to
your tax return.

STEP 5

The most
dangerous phrase
in the language is "we've
always done it this way."

Don't know Don't know



“We cannot change the cards we are dealt, just how we play the hand”.



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