

Cost Segregation Studies

The Value of Cost Segregation Studies

Cost segregation studies are a valuable tool for businesses that have constructed, purchased, remodeled or improved a real property. Essentially, a study will separate structural components (39-year depreciable life) from land improvements and nonstructural elements (15-, 7-, or 5-year depreciable life). By accelerating depreciation of eligible assets, businesses can free up cash flow through reduced tax liability from accelerated depreciation schedules.

For the past 50 years, courts have supported segregating building costs. When Congress extended the depreciable life of commercial buildings to 31.5 years in 1987 (from 19), then to 39 years in 1993, the value of cost segregation studies grew more significant. In recent years, the IRS has issued its Cost Segregation Audit Techniques Guide, which defines a quality cost segregation study for purposes of accelerating depreciation of personal property. For look-back years, a change of accounting method form is filed so there is no need to amend past returns.

How Your Company Client Benefits

The average cost segregation study allocates between 20 to 40 percent of depreciable costs from 39 years to a shorter life of 15, 7 or 5 years. In dollar terms, moving \$100,000 of assets from real property to personal property with a 5-year life can translate into a net present value savings of more than \$25,000 over 10 years. Typical reallocation percentages are 30 to 60 percent for manufacturing facilities, 12 to 30 percent for commercial buildings such as offices and retail structures and 12 to 20 percent for distribution centers and warehouses.

continued on back

About Maloney + Novotny

Maloney + Novotny LLC is a firm of certified public accountants and business advisors whose business is based on four core values: commitment, integrity, teamwork and the will to win. The result... unparalleled service and dedication to our clients.

For more than 80 years, we have helped clients achieve financial success by providing attest, tax and advisory services, while building relationships that last.

Locally owned. Independent. Decades of service. Currently representing more than 4,200 clients in a variety of industries.

Our team of more than 120 professionals will personally invest in the best solutions to help your organization.



maloney + novotny LLC

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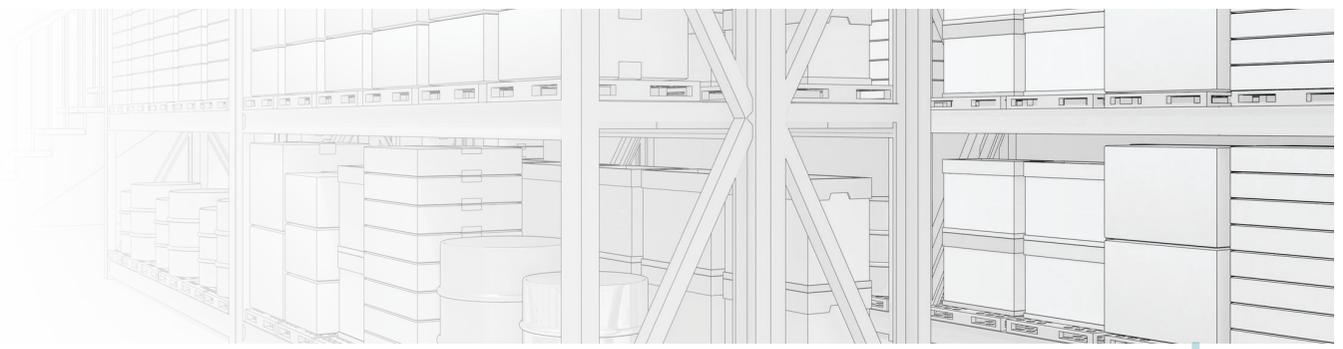
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While items in the categories of mechanical, plumbing or electrical tend to generate the most savings, other personal property can also provide savings such as

- + Landscaping and shrubbery
- + Carpeting
- + Computers and furniture
- + Phone lines

Who Is Eligible

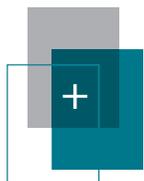
Any commercial property which was placed into service after 1986 is eligible for a cost segregation study. Businesses that have built new structures, as well as those that have purchased real property or made leasehold improvements, expanded or renovated existing property may benefit from a cost segregation study. Generally the cost-effective threshold for building projects or purchases is \$500,000.

Among business that may benefit from a study are:

- + Offices/Apartments
- + Distribution centers
- + Hotels/motels
- + Restaurants, including fast-food units
- + Medical centers and nursing facilities
- + Manufacturing facilities
- + Shopping centers/retail chains

How We Can Help

A cost segregation study includes expertise in accounting, architecture, engineering and tax. In its recently issued guide, the IRS specified a preference for an engineering-based approach to the study. Maloney + Novotny can offer your clients a staff of engineering and tax specialists with more than a dozen years of experience conducting cost segregation studies, as well as other engineering-related tax studies. In some cases, we have been able to combine the benefits of cost segregation and 179D depreciation.



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