

# STRATEGIC

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Strategic Integrated Planning

## Cost Segregation Analysis

There is a very important tax break approved by the IRS for owners of residential rental property and other types of buildings. This tax break is called "cost segregation." The tax savings can be very substantial and realized immediately.

Most owners of residential rental property depreciate the entire cost of their building over 27.5 years. Owners of other types of buildings, such as offices, retail space, grocery stores, restaurants, warehouses, and manufacturing plants often depreciate the entire cost using a 39-year or 31.5-year depreciation period, depending upon the date of acquisition. Additionally, the *Emergency Economic Stabilization Act of 2008* provides a shorter depreciation period for certain buildings. Under IRS cost segregation guidelines, however, a significant portion of a building's cost can be depreciated over much shorter periods, usually five or seven years.

The cost segregation rules are complicated, but in brief, they allow a taxpayer to separately depreciate components of a building that are unrelated to its "operation and maintenance" over the shortened depreciation periods. In addition, these depreciation deductions are computed using an accelerated depreciation method (the "200 percent declining balance method") which allows costs to be recovered at twice the rate that applies under the "straight-line" method. The slower straight-line method is used to depreciate residential rental property and other types of buildings.

Many types of building components can qualify for the shortened depreciation period and accelerated depreciation method. It would be impossible to list them all, but common examples include molding, millwork, and other decorative elements, carpeting, wall coverings, partitions, window treatments, counters, cabinets, shelving, special lighting, specialized machinery and equipment (such as kitchen equipment), and the costs of plumbing and electrical components allocable to such equipment. In addition, certain land improvements located outside of a building may be depreciated over 15 years. Land improvements include items such as landscaping, fences, sidewalks, curbs, parking lots, lighting, utilities, signs, swimming pools, tennis courts, and playgrounds. Depending upon the type of building, you can expect to deduct between 10 and 60 percent of its cost over the shorter recovery period.

If you would like more information on cost segregation or if you feel you may benefit from a cost segregation analysis, please contact our office at your earliest convenience so that we may discuss this in greater detail. 1-866-657-0246 or [jwaage@strategiclawgroup.com](mailto:jwaage@strategiclawgroup.com)