

COST SEGREGATION FOR BANKS

experience **insight** // For a growing bank, investments in new branch locations and operations facilities can be significant. You want to recover your investment as quickly as possible. **BKD can help.** Our cost segregation consultants can help you accelerate real estate depreciation deductions, deferring income tax and increasing cash flow. Experience how our insight can benefit your organization.



WHAT IS COST SEGREGATION?

A cost segregation study identifies assets embedded in a bank location's construction or acquisition costs that can be depreciated for tax over five, seven or 15 years, rather than the standard 39 years. The costs associated with these assets are then reclassified, allowing the bank to accelerate depreciation of the property for tax purposes.

HOW BANKS BENEFIT

Banks that have improved or expanded real estate in the last 15 years may qualify for a cost segregation study. Generally speaking, buildings costing more than \$1 million or building improvements costing more than \$500,000 are good candidates.

A cost segregation study may uncover tax savings for any of the following that has occurred over the last 15 years:

- Newly constructed buildings
- Purchase of existing buildings
- Renovations & expansions

BENEFITS FOR SHAREHOLDERS IN AN S CORPORATION

With recent federal tax increases, more investors in S corporation or "pass-through" banks are considering the tax consequences of their share of institution earnings. A top federal

tax rate of 39.6 percent, combined with Medicare and state tax rates, means some investors may pay as much as 50 percent tax on such earnings. When an S corp bank completes a cost segregation study, the tax benefits may be passed on to the shareholders.

BENEFITS FROM PRIOR YEARS

Under current IRS rules, a cost segregation study can be performed on a building placed in service during a prior year, allowing owners to "catch up" the additional depreciation amount. Amended returns are not required, so it doesn't matter if the statute of limitations has closed for the year the property was placed in service.

WHY CHOOSE BKD

BKD is one of the largest cost segregation providers in the country, and BKD National Financial Services Group works with approximately 1,100 financial institutions. Our dedicated team of cost segregation engineers and tax professionals help financial institutions realize millions in present-value tax benefits every year. In addition to our own clients, more than 150 other CPA firms put their trust in the BKD cost segregation team and outsource this work to us.

1100 CLIENTS

Experience a clear point of view with a firm that works with approximately 1,100 financial institutions and has professionals trained in the industry.

COST SEGREGATION RESULTS

OFFICE RENOVATION // For this \$1.9 million renovation of a community bank's 12,000-square-foot office, BKD engineers identified 33 percent of the construction cost as five- and seven-year depreciable property, resulting in a net present-value tax benefit of \$96,000.*

NEW FULL-SERVICE BRANCH // For this \$3 million construction of a new full-service bank branch, BKD engineers identified 42 percent of the building construction cost as shorter-life depreciable property, resulting in a present-value tax benefit of \$176,000.*

NEW HEADQUARTERS BUILDING // When this bank built a new 73,000-square-foot headquarters building including a full-service branch, BKD engineers identified 30 percent of the construction as shorter-life depreciable property, resulting in a present value tax benefit of \$398,000.*

BRANCH PURCHASE // For this \$1.7 million purchase of an existing banking facility, BKD's engineers identified 45 percent of the purchase price as shorter-life depreciable property, resulting in a present value tax benefit of \$112,000.*

**Present value tax benefit based on a present value calculation assuming a 5% discount rate and 35% federal tax rate.*



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Jason Jobgen // Business Development
jjobgen@bkd.com // 219.769.3900

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