

Your company's real estate holdings are a big investment, and an engineering-based real estate cost segregation study may provide significant tax savings. **BKD can help.** Our cost segregation consultants can help you accelerate real estate tax deductions, defer income taxes and increase cash flow. Add a personal, highly interactive and attentive service style, and you'll begin to understand how **our insight creates value.**

What Is a Cost Segregation Study?

A cost segregation study identifies assets embedded in a building's construction or acquisition costs that can be depreciated over five, seven or 15 years rather than the standard 27.5 or 39 years. The costs associated with these assets are then reclassified, allowing the building owner to accelerate depreciation of the property for tax purposes.

Who Qualifies for a Cost Segregation Study?

Any company or individual who has purchased, constructed, improved or expanded commercial or rental residential real estate since 1986 may qualify for a cost segregation study. Generally speaking, buildings worth more than \$1 million or improvements that cost more than \$500,000 are good candidates.

A cost segregation study may uncover tax savings for:

- Newly constructed buildings
- Existing buildings purchased (even if no construction documentation exists)
- Renovations and expansions
- Leasehold improvements
- Any of the above properties placed in service after 1986

Benefits for Prior Years

Under current IRS rules, you can perform a cost segregation study on a building that was placed in service during a prior year and "catch up" the additional depreciation amount to which you were entitled. 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.

Typical Savings

While the tax benefit resulting from a cost segregation study is dependent on the individual property and taxpayer, the following chart illustrates typical tax savings you may realize for a newly constructed or acquired building.

BUILDING USE	PRESENT-VALUE TAX BENEFIT PER \$1 MILLION IN BUILDING COSTS*
Heavy Manufacturing	\$80,000 to \$120,000
Hospital/Surgery Center	\$50,000 to \$70,000
Light Manufacturing	\$45,000 to \$65,000
Restaurant	\$45,000 to \$65,000
Grocery Store	\$40,000 to \$60,000
Auto Dealer	\$40,000 to \$60,000
Apartment Building	\$30,000 to \$50,000
Retail	\$30,000 to \$50,000
Office Building	\$25,000 to \$35,000
Long-Term Care Facility	\$25,000 to \$35,000
Warehouse/Distribution	\$15,000 to \$30,000

* Present value calculations assume a 10% discount rate and 35% federal income tax rate.

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Cost Segregation Tax Savings Example

To help understand how a cost segregation study may benefit you, consider the following example: If a business owner purchased a hotel seven years ago for \$5 million and uses a uniform depreciation method of 39 years, the current year depreciation before the cost segregation study would be \$128,200. After the study, the current year depreciation would increase to \$923,910, and the current tax liability would be reduced by \$278,499.*

Why Choose BKD?

BKD is one of the largest cost segregation service providers in the United States. Our dedicated team of engineers and tax professionals has more than 100 years of combined cost segregation experience, and we perform hundreds of studies every year for clients across the nation.

For More Information

For a complete list of our offices and subsidiaries, visit bkd.com or contact:

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