

Repair Regulations Create Opportunities

The IRS issued regulations dealing with the capitalization of assets, which opened up many opportunities for taxpayers. One of the largest opportunities is the ability to take partial disposals on assets when they are removed from service. McGuire Sponsel wanted to highlight a couple of examples where taxpayers have utilized these opportunities to save on their taxes:

Auto Dealership

McGuire Sponsel was hired to complete a cost segregation study on an auto dealership that was renovated in 2012. The original dealership had been purchased in 1999 at a cost of approximately \$4 million. A traditional cost segregation on this property saved the taxpayer over \$180,000 in year one with a \$170,000 Net Present Value. However as part of the renovation, the dealership removed a number of assets that were no longer being utilized. This included a replacement of much of the HVAC system, lighting system and other 39-year assets. By recognizing these assets, their first year savings increased to over \$290,000 with a Net Present Value exceeding \$275,000.

Office Properties

McGuire Sponsel was hired to review a portfolio of office properties with an original basis exceeding \$100 million. This review included a traditional cost segregation analysis as well as recognizing partial disposals and capital assets that could be treated as repairs under the new regulations. This review resulted in over \$8.5 million in catch up adjustments due to the cost segregation and over \$4.5 million in adjustments due to partial disposals and repairs. This resulted in saving the taxpayer over \$4.5 million in the first year after our study.

While these are only two examples, they demonstrate the importance of reviewing these regulations with a qualified provider.

