the Reference
// Cost Segregation & Fixed Assets

Cost Segregation and Fixed Asset Studies

Most companies overstate 39-year real property. A cost segregation study tackles this problem by reclassifying assets to maximize personal property. This optimizes depreciation deductions, resulting in substantial cash flow benefits.

Cost segregation requires an understanding of the complexities of the tax code and of the materials and methods of construction design. McGuire Sponsel's unique approach to cost segregation employs civil, structural and architectural engineering knowledge to identify components that qualify for accelerated depreciation. All actual and estimated asset costs along with their classifications are then documented to withstand IRS scrutiny.

When should you consider a cost segregation study?
If you have recently acquired business properties in any of the following ways, you may benefit from cost segregation:

- Construction of new buildings
- Renovation or remodel of existing structures
- Purchases of existing properties
- Leasehold improvements
- Any post-1986 real estate acquisition

What is a fixed asset review?
A fixed asset review can increase cash flow by accelerating depreciation. However, a fixed asset review considers all fixed assets rather than just specific real estate investments. It may include multiple cost segregation studies in order to maximize depreciation deductions. For companies with a significant quantity of assets on the books, a fixed asset study may generate a much higher current-year adjustment to taxable income as compared to a cost segregation study.

What size property justifies a cost segregation study?
In order to better answer this, we will analyze project results. The smallest property reviewed was a $300,000 medical office building with the largest property being many times that size. The average project size was just over $4.5 million. The average net present value of tax deferral was approximately $250,000 per project, or approximately 6 percent of the construction cost.

- Average Project Size $4,535,000
- Average NPV Savings $249,475
- Average 1st year increased cash flow $209,651
- Average 5 year increased cash flow $342,823
- Smallest Project (depreciable basis) $321,500

How accurate are preliminary projections?
We exceeded our preliminary estimates in all but one project this tax season. On average the net present value savings as a result of the study was 27 percent higher than the preliminary projections.

While these are averages, they provide an idea as to the magnitude of the potential savings. If you have any questions about qualifying for cost segregation or fixed assets, please contact us.

“We use a full engineering approach to optimize your depreciation deduction and maximize the return on your investment.”

– David McGuire
Director
McGuire Sponsel

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