Cost Segregation Studies
Perception versus Reality

• You have already completed a study.	• Not unless an appraiser or engineer was specifically hired to breakout the costs.
• You have never heard of a cost segregation study.	• You probably have not unless you are working with an appraiser, engineer or a firm specializing in them.
• The IRS doesn’t allow it.	• People confuse cost segregation studies with component depreciation, which was abolished by the IRS beginning in 1987. In fact, the IRS requires a study in order to take the proper depreciation.
• You’ll get audited.	• Only if we take deductions we shouldn’t. Generally less than 1% of returns are audited. Over 400 IRS court cases and rulings support cost segregation studies. The most recent was Hospital Corporation of America.
• You won’t save any money.	• If you pay taxes, you save.
• You’ll get the deduction in the future anyway.	• Almost everyone would rather have the cash now to reinvest or meet current needs. The present or future value of money is usually substantial.
• You are in an alternative minimum tax situation.	• Cost segregation studies also reduce alternative minimum tax because alternative minimum tax depreciation is also accelerated when a study is completed.
• You’ll owe taxes when you sell the building.	• You will owe them anyway, except your deductions will be at ordinary rates and a majority of the taxes due on sale will be at capital gain rates. This is a permanent tax difference of 16% at the highest marginal tax rates.
• You are out of luck if the building was constructed or acquired in prior years.	• Special provisions enacted by the IRS allow you to “catch-up” on any missed depreciation for any buildings built or acquired since 1987. No amended returns are required.