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*Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.*



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## Did You Get Yours?

If you own a building and haven't performed what is known as a cost segregation study, chances are you are missing out on a way to accelerate depreciation and gain immediate tax savings. In simple terms, you could increase your cash flow.

Whether you've already constructed your new building or are about to expand on an existing one, there may be an opportunity for your property to generate much bigger tax savings than you realized. These savings are buried in construction costs, and a cost segregation professional can help you realize them.

The benefits of a cost segregation study include:

1. **Increased current cash flow** through accelerated tax depreciation of structure-related costs.
2. **Permanent net present value savings** on tax depreciation that may be significant.
3. **Independent third-party analysis** that will withstand Internal Revenue Service scrutiny.

## What Projects Qualify?

Any structure used in a business activity is eligible for the benefits of cost segregation.

## When and How Should a Study Be Done?

The optimal time to complete a study is for the year the building or improvements are placed in service. However, a study can be performed anytime after that. A simplified process introduced in 1999, allows us to easily go back and claim accelerated depreciation on assets acquired fifteen years ago or more. We can do this without amending prior years' tax returns.

## What's Involved?

Cost segregation studies examine the various components of a commercial project to determine applicable depreciation rates. For example, real property is generally depreciated over 39 years (commercial) or 27.5 years (residential), but certain equipment, security systems, mechanical and electrical systems, plumbing, and other items may qualify for depreciation over 5 or 7 years as tangible personal property. Land improvements may be depreciated over a 15-year period. By segregating out each classification of cost, we can gain the tax benefit of the accelerated portion of the depreciation. This means you don't have to wait a full 39 years to realize your tax benefit!

## The Process

- Examine all plans, cost records, contractor bid sheets, changes, company fixed asset ledgers, and tax records to identify which costs can be segregated into shorter depreciation classes.
- Use tax and engineering skills to analyze our findings and document these accordingly.
- Perform a physical inspection of the property to observe and identify those components that will qualify for rapid depreciation. Photos are taken to insert into the report making it a permanent record for future reference.

## How Much Can You Save?

At least 5 cents (and up to 20 cents) for every dollar you spend on new construction or a purchased building can be recouped through a cost segregation study. The following cash benefit analysis gives you an idea of the cash benefits involved.

### Cash Benefit Analysis for Cost Segregation Studies

PROPERTY	%OF BUILDING COST RECLASSIFIED (1)	\$CONSTRUCTION/ACQUISITION \$2 MILLION/\$10 MILLION			
		CASH	CBM(2)	CASH	CBM(2)
Department Store	5-15	50,000	25	250,000	80
Office Building	8-12	50,000	20	250,000	50
Retail	25-35	140,000	25	700,000	90
Distribution	10-15	60,000	24	300,000	75
Data Center	25-30	135,000	23	675,000	84

*(1) This column shows the reclassification of costs originally buried in a 39 year building life to 15 year site improvement and 5 or 7 year personal property. For apartments, building shell depreciable life is 27.5 years, while site improvement is 15 and personal property is 5. result is a significant cash benefit from accelerated tax depreciation. This cash often equates to \$.20 (20%) per dollar reclassified, or more. That amount is a cash return (after tax net present value). (2) CBM- Cash Benefit Multiple is the multiple comparing the average after tax present value (cash equivalent) to one-half of the average expected fee (cash outlay).*

## Complimentary Analysis/Offer

We enjoy working with business owners and helping them achieve their business goals. We will analyze your property on a complimentary basis to ensure you would derive real tax benefits from a cost segregation study. Give us a call today to discuss your unique scenario. ■