# 5 Quick questions about cost segregation

Real estate developers, buyers, and investors often miss the significant tax opportunity presented by cost segregation studies. These studies can result in substantial tax deferrals, increased cash flow, and immediate capital boosts for new projects. Here are a few frequently asked questions to help you understand how you may be able to benefit.

### Q: What is a cost segregation analysis?

A cost segregation analysis is an engineering-based study of all the costs associated with the construction or purchase of a commercial real estate property or a residential rental property. The analysis aims to allocate the costs of constructing or acquiring a real estate property to different asset classes in order to identify the costs eligible for accelerated depreciation.

### Q: What types of properties are eligible for cost segregation?

A cost segregation analysis can be conducted on any type of commercial real estate property, including retail and shopping plazas, offices, manufacturing plants, mixed-use, warehouses, restaurants, banks, dealerships, hotels and more, as well as residential rentals such as apartment buildings and single-family homes.

### Q: How are assets reclassified through cost segregation?

Instead of depreciating an entire real estate property over 39 years (for commercial property) or 27.5 years (for a residential rental) with a straight-line method, personal property assets identified during the cost segregation analysis are assigned shorter cost-recovery periods of five or seven years and can be depreciated using accelerated methods. Costs inherent to certain land improvements can be assigned to a 15-year recovery period.

Costs assigned to personal property and land improvements are also eligible for bonus depreciation, which can result in even faster depreciation than other accelerated depreciation methods. Therefore, a cost segregation analysis leads to faster depreciation deductions that can result in significant tax benefits for a taxpayer who owns commercial (or certain types of residential) real estate.

### Q: Are there other benefits of cost segregation?

Cost segregation is also a valuable tool that can be used in future partial disposition of an asset, a concept that can yield significant tax savings.

### Q: How can I get a cost segregation analysis for my properties?

Cost segregation involves principles of both tax and engineering and is usually performed by firms who have expertise in both fields. A qualified tax professional with an engineering background can conduct a cost segregation study to reclassify assets in order to accelerate depreciation, defer tax, and increase cash flow. Contact Kaufman Rossin's tax credits and incentives team to learn more.