



DRAPER TAX CONSULTING
Fixed Asset Solutions



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**COST
SEGREGATION**

COST SEGREGATION

“A taxpayer can substantially increase cash flow by segregating property costs.” — *Cost Segregation Applied, Journal of Accountancy August 2004.*

WHAT IS COST SEGREGATION?

Proper identification and segregation of assets associated with the purchase of a building, new construction or remodeling can result in substantial tax benefits.

In many cases, companies group assets that could be assigned a shorter life (5, 7 or 15 years) with real property which is assigned a 39-year life.

A cost segregation study is an analysis of assets that results in the assignment of appropriate, generally shorter, recovery lives to personal property and land improvements. Thus assets are depreciated faster and the associated tax deductions are realized sooner.

WHEN SHOULD YOU PERFORM A COST SEGREGATION?

If you have recently:

- Constructed a new building
- Acquired real estate
- Renovated or expanded existing buildings

Ideally, a cost segregation study is initiated before the construction begins but can commence at any stage of construction, even after completion.

WHAT IS THE BENEFIT OF COST SEGREGATION?

The Net Present Value of the tax savings is approximately 16% of every dollar of cost moved from 39-year life to a 7-year life (17% for 5-year life and 11% for 15-year life).

Example:

Construction/Acquisition Costs:	\$10,000,000
Amount reclassified from 39-year to 7-year:	\$2,000,000
First year tax savings:	\$100,000
Five year cumulative tax savings:	\$470,000
Net Present Value tax savings:	\$320,000

COST SEGREGATION PROJECT EXAMPLES:

- Biotech manufacturing facility resulting in over \$12 million in tax savings.
- High tech manufacturing facilities resulting in over \$3.5 million in tax savings.
- Retail discount warehouses resulting in over \$9.2 million in tax savings.

OTHER COMPLEMENTARY SERVICES PROVIDED BY DRAPER TAX CONSULTING:

- Depreciation Study of Prior Fixed Asset Depreciation Reporting
- Real Property Tax Consulting
- Personal Property Tax Reduction
- Personal Property Tax Compliance