



## 10 Myths of Cost Segregation Studies



### 1. **My accountant probably did one.**

Unless it was done subsequent to May 13, 1996 when the tax laws changed, then you are probably depreciating your assets incorrectly. In the case of purchased buildings, if you do not have a specific appraiser's report or a professional who has construction cost estimating expertise using national industry costing manuals such as RS Means or Marshall and Swift breaking out the various building components, then you definitely did not have a cost segregation study performed on the building.

### 2. **A cost segregation study won't save any money.**

This is true only if the entity or pass thru entity is losing money and has no ability to either carryback or carryforward the losses generated. Otherwise, the savings generally range from 35% to 46%\* of the additional depreciation generated from the study. For example, if a cost segregation study results in additional depreciation of \$1,000,000, then a taxpayer in the 46% tax bracket would save \$460,000 in federal and New York state taxes over four years.

### 3. **We don't have any assets to reclassify.**

Generally, 20-55% of building costs can be reclassified to shorter depreciable lives.

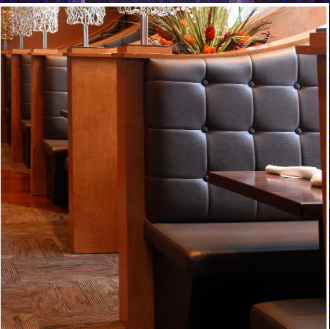
### 4. **Our chances of being audited will increase.**

Not according to the IRS. You are filing an automatic change in accounting method which the IRS has preapproved assuming the form is filed correctly. In addition, the IRS has issued a publication to follow in order to properly record the changes in depreciable lives. Keep in mind that you are going from an incorrect method to a correct method and the changes made are generally black and white issues within the tax code.

### 5. **There is no support if the IRS does perform an audit.**

There are over 75 IRS rulings, procedures and court cases which allow for cost segregation studies. The report we provide details out every change with applicable support and documentation. Our firm has spent over 1,000 hours on researching cost segregation studies and performed hundreds of such studies.

\* Assumes federal tax rates between 28% and 39% (maximum marginal rate) and approximately 7% New York state taxes.



**6. We will get the deduction in the future anyway.**

Yes this is true, but a cost segregation study in effect gives you an interest free loan from the government for the first 15 years which you will then repay interest free over the remaining 25 years. Who do you want holding your money? There are also advantages to doing a study if the building is going to be sold or upon the death of a building owner.

**7. We are in an alternative minimum tax (AMT) situation and/or the cost segregation study will put us in one.**

Congratulations! You are probably flush with cash. If this does occur, the savings will be at the 28% federal tax rate and not the 35% to 39% tax rate. Of course the amounts are large enough so it shouldn't matter. In addition, the AMT taxes can be used against regular taxes in future years.

**8. My CPA has segregated percentages of construction costs based on invoices or contractor applications for payment, so our company is already benefiting.**

Without the contractor/engineer expertise coupled with the tax law guidance, there will likely be valuable tax benefits left on the table. More importantly, this methodology will not withstand IRS scrutiny.

**9. A cost segregation study will complicate estate planning.**

Yes it might, but the rewards of performing a study have great financial benefits if the owner of the building dies before the building is fully depreciated. Due to the "step-up in basis" rules, it is one of the rare times a taxpayer can "have his cake and eat it too." If done properly, a cost segregation study is an estate planning home run.

**10. There is no negative impact to not performing a cost segregation study.**

This is an incorrect assumption. IRS regulations require that a taxpayer compute depreciation on what is allowed or allowable. Therefore, if you improperly depreciate a 7-year asset over 39 years, the IRS could disallow the depreciation on the asset beginning in year 8. In addition, if the building is sold the IRS could increase the gain by reducing the basis in the building by the depreciation that should have been taken in prior years, but was not.



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