



Cost Segregation Studies

BDO Engineering Business Services

“Engineering-based methodology for maximizing federal tax depreciation on newly constructed or acquired buildings as well as your existing real estate holdings”

This handout has been prepared to provide you with a brief overview of cost segregation services available from **Weber O'Brien, Ltd.** in conjunction with the Engineering Business Services Group from BDO Seidman, LLP. The cost segregation studies are performed by professional engineers from BDO with design/construction experience who work together with our firm's tax department who have many years of experience in this area.

The primary goal of these studies is to identify all property that qualifies for shorter federal tax depreciation lives (5-, 7-, or 15-year life as opposed to the 39 years required for buildings). The direct benefit from the analysis is increased depreciation in the early years of the ownership of the facility resulting in increased tax savings and more available cash for other uses. The cost segregation study is completed in order to maximize the federal tax depreciation to be claimed on your facilities whether they are newly constructed or acquired. You also have the opportunity to perform these analyses on facilities placed in service in prior years without the need to amend past tax returns.

The engineers from BDO Seidman, LLP are willing to provide you with a proposal for performing this analysis after reviewing some very basic information concerning your facility. Their proposal will identify the estimated tax savings to be realized the first year, the net present value of the tax savings over the remaining tax life of the facility and the professional fees associated with performing the analysis. Our fees are not contingency based, but rather based on the hours required to do their work. Additionally, BDO Seidman, LLP provides a benefit-to-cost ratio in the proposal which will provide a multiple of our fee in tax savings the very first year. The proposal is provided to you at no cost so there is no real risk in determining the magnitude of the tax savings that would be realized as a result of their analysis. With a significant return on your investment provided the very first year it appears to us to be an easy decision to request the proposal.

The positions taken by BDO Seidman, LLP's engineers with regard to property classifications are well documented and supported in the report provided as part of the study. Our studies have consistently withstood IRS scrutiny with an aggressive but defensible approach to asset classification.

Significant savings is available through the proper classification of building assets as 5-, 7-, or 15-year property as opposed to leaving the property classified as part of the building (39-year life with straight-line depreciation required).

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The following table shows the *benefit to be gained from the proper classification of only \$100,000 in assets as 5-, 7-, or 15-year property.*

<i>Benefits - \$100,000 Cost</i>	5-Year Property	7-Year Property	15-Year Property
Increase in First Year Depreciation	\$18,800	\$13,100	\$ 3,800
First Year's Tax Savings (Assumes 34% federal tax rate)	6,400	4,500	1,300
Net Present Value of Tax Savings (Using 7% interest rate over 39 years)	15,300	14,200	9,300

As you would expect based on the above, the savings can be very substantial depending on the size and specific nature of the projects.

It is important to point out these additional items:

- This methodology applies to both newly constructed buildings as well as to the acquisition of existing buildings.
- Bonus depreciation on qualifying properties within new construction and tenant improvements may be available to you if your construction contract was signed after September 11, 2001 and the property is in service before January 1, 2005.
- With the issuance of Revenue Procedure 96-31 (as modified by Revenue Procedures 97-27, 97-37, 98-60, 99-49, 2002-9, 2002-19, 2004-11, and 2007-16), a taxpayer can review and change the depreciation classifications of assets placed into service in prior years without the need to amend past tax returns. This is very important to taxpayers who have not taken full advantage of the accelerated depreciation available to them from their other real estate holdings. In order to take advantage of this opportunity, the taxpayer must file a Form 3115, *Application for Change in Accounting Method*, which identifies the depreciation adjustment. The entire depreciation adjustment can now be taken in the current tax year. Weber O'Brien will assist you in the proper filing of the Form 3115 and provide the necessary tax support to defend the position taken regarding the correction of previously misclassified assets.

BDO Seidman, LLP's engineering group has distinguished itself on a national basis by helping our clients realize significant tax benefits, and believe we will be able to provide similar benefits to your company. We would encourage you to contact us if you are interested in obtaining a proposal regarding any of your current real estate holdings or planned new construction/acquisitions. An information sheet has been attached for your review which identifies the information we need to develop a proposal for your facilities. We look forward to talking with you concerning this value-added service and the opportunity to work with you to maximize the federal tax depreciation available regarding your real estate holdings.