JO Knows the Benefits of Cost Segregation Studies and Changes to the IRS Audit Guide

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We have written about the benefits of a cost segregation study in the past. At a high level, a cost segregation study breaks down the cost of a building into its various components allowing these costs to be depreciated quicker via the qualification for bonus depreciation as well as a shorter depreciable life. Please click on the link to get further details on the benefits and when it might make sense for **you**.

While nothing has changed related to the performance of a cost segregation study or the ability to use it, the IRS has updated its audit technique guide related to **cost segregation study**. Historically, changes to the audit guides bring a more focused look at these items and tend to lead to more audits.

Cost segregations are a great way to accelerate depreciation and provide a significant benefit to those in rental real estate. Just because the guide has been updated does not mean there should be an increase worry or risk. It just reminds us of the importance of having well prepared studies that support your tax position if ever audited. Here are some things to keep in mind when hiring a firm to prepare these studies:

1. Reputation – what is the reputation of the firm you are talking to? Have they been around for a long time?
2. Process – What is their process to prepare the reports? How much detail do they go into and what do they need from you?
3. Support – What do they provide with the report? Is it a small report with no support or is it a lengthy report that provides detail of the entire project including the break out to the various building systems (which also provides a benefit for partial dispositions in the future)?
4. Audit support – This is a big issue to understand. What will this company provide for audit support if ever audited and what will that support cost you?

If you have questions as to whether you would benefit from a cost segregation study or help analyzing the above bullet points when choosing a firm to perform the study, the Real Estate team at JO is here to help. Learn more about the **Real Estate** group.

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