JO Knows Real Estate Cost Segregation Studies

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Do you or your company own rental real estate? If you answered yes, then a cost segregation study could reduce your taxes and increase your cash flow. Let us help.

Generally, a rental building is depreciated evenly over either 27.5 (residential) or 39 (commercial) years. A cost segregation study breaks the cost of the building into component parts, many of which are depreciable over shorter time periods (5 -15 years) and, may be eligible for immediate bonus depreciation or Section 179 expensing. While total depreciation over the life of the building is the same, this accelerates deductions into early years, reducing current taxes and increasing available cash. With the latest tax bill making 100% bonus depreciation permanent, it makes a cost segregation study that much more valuable.

Does a cost segregation study make sense for me?

In general, a cost segregation study will benefit individuals or companies with rental real estate whose total building cost is $1 million or more and who are planning to hold the building for a significant period of time.

When your property investment is less than $1 million, the costs to have the study done may exceed any tax benefit so its important to speak to someone about whether your particular property might be able to benefit from a cost segregation even with the cost being under $1 million. Additionally, if you are only planning to hold the building a few years, the accelerated depreciation will both increase the gain on sale and the amount of the gain subject to ordinary income tax rates via depreciation recapture rather than capital gain rates. A cost segregation study may be especially beneficial for taxpayers who qualify under IRS regulations as real estate professionals. Generally, rental losses are considered passive and can only offset other passive income. Unused losses are carried forward until sufficient passive income is generated or the real estate is sold. Real estate professionals may be eligible to use rental losses to offset all taxable income.

When can I do it?

Cost segregation is applicable for newly acquired property as well as property that was placed into service within the last 15 years. Usually the cost exceeds the benefit for property that has been held longer than 15 years. The change is made on the current year tax return through a change in accounting method so a study does not need to be completed in the first year of acquisition. Another benefit of the change in accounting method reporting is that prior year returns do not need to be amended.

How can JO help?

The JO Real Estate Group can review your specific tax situation to determine the potential benefits of a cost segregation study. To learn more about Johnson O'Connor's Real Estate services, visit our **website**.

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