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*Pershing Yoakley & Associates*



# Benefits of Cost Segregation

## IMPROVED CASH FLOW

By accelerating depreciation, taxes are deferred and cash flow improved for several years immediately following the purchase or construction of a facility. Although this process does not increase the total amount that can be written off, improved cash flow may help achieve the rate of return needed to support current and future business needs or investment returns.

## BENEFICIAL TAX POSITION

Cost segregation studies can create a potential for tax benefit; therefore, the property owner must by technical definition be a taxable entity including so-called flow-through entities. Any entity or individual that owns real estate and pays tax or reports its income to taxable entities may benefit from a cost segregation study. Taxable entities include:

- C Corporation
- S Corporation
- Individual
- Partnership
- LLC
- Trust

## WHAT IS COST SEGREGATION?

**COST SEGREGATION** is a tax deferral strategy relating to new ownership of real estate that effectively frontloads depreciation deductions into the early years of ownership. A cost segregation study identifies and values nonstructural assets and exterior site improvements. Property owners can then **maximize their depreciation deductions** by reclassifying building components as personal property and exterior site improvements that qualify for shorter depreciable lives.

The Federal government assigns a 39-year depreciable life to commercial buildings and related structural components; however, it assigns much shorter periods to other items, such as a 5-year- or 7-year depreciable life to equipment and a 15-year depreciable life to land improvements.

For owners, a cost segregation study adjusts the timing of deduction and accelerates the depreciable life of assets, where appropriate, **thereby accelerating expense and decreasing taxable income during the early stages of a building's life.**

# Qualifying Property

Property types that can benefit from a cost segregation analysis include, but are not limited to:

- Medical Facilities
- Financial Institutions
- Manufacturing Facilities
- Office Buildings
- Apartment Buildings
- Dealerships
- Warehouses and Storage Facilities
- Hotels
- Restaurants
- Automotive Repair Shops
- Retail Stores

To be qualified, the property must be new construction or purchased and renovated after 1986 and must be defined as commercial investment property.

## Why Choose PYA?

Clients know PYA will be there to help with solutions - today, next month, five years down the road. All of its first clients are still with PYA, and much of the firm's growth has come from return engagements and referrals, the strongest testimony to the level of clients' trust in the company. Clients recognize and value the business acumen and passion for service exhibited by PYA professionals. This leads to longstanding relationships in which PYA serves as a valued team member for its clients.



# Cost Segregation Study

## ON-SITE EVALUATION

A thorough site visit will identify specific characteristics of the property and quantify items of personal property and land improvements. Photographs will be taken to further document the project and the items being identified for accelerated cost recovery.

## BLUEPRINT AND SPECIFICATION REVIEW

A detailed review will be conducted in the initial stages of the study in order to create a preliminary asset listing and provide a point of reference for input from the general contractor, subcontractors and engineers.

## DISCUSSIONS WITH COMPANY AND CONTRACTOR PERSONNEL

Throughout the study, questions and issues will be brought to the attention of the appropriate personnel with primary assistance from the general contractor or subcontractors. With cooperation from the people involved with the project, we can ensure efficient and timely completion.

## ASSISTANCE WITH THE IRS

Cost segregation study results and other tax records are subject to IRS review as are all tax returns. In most cases, a well-documented third party analysis will help resolve questions and issues at the agent level. Should the results of the cost segregation study be questioned, PYA personnel and their work product will be made available to assist with any IRS or State regulatory challenge or audit.

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