

ARE YOU MAXIMIZING YOUR TAX DEDUCTIONS BY TAKING ADVANTAGE OF COST SEGREGATION STUDIES?

In today's challenging economic environment, medical professionals are looking for every opportunity to maximize return by cutting costs. One of the best ways to maximize after-tax returns from illiquid investments, such as medical buildings and leasehold fit-outs, is by taking advantage of Cost Segregation Studies ("CSS").

A CSS is a combination of engineering and a tax analysis of the costs related to building acquisitions, construction, or leasehold fit-outs. This analysis allocates costs into the appropriate asset classes to maximize tax depreciation. A properly performed CSS will identify property costs that have shorter tax lives (five, seven, and 15 years) than the building or leasehold fit-out life (39 years). The result is an accelerated write-off of costs previously included as part of the building or leasehold fit-out.

CSS have generated millions of dollars in current Federal and state income tax savings. In our experience, CSS for a medical property provides tax benefits of between five percent and 10 percent of the property basis. A recent CSS for a seven-location medical group generated current-year tax deductions of more than \$2 million. Similar results are typical for medical offices, surgery centers, and MRI centers.

While this concept may seem straightforward and simple, it takes a trained team of professionals to properly prepare a CSS in accordance with published IRS guidance. To conduct a CSS, tax and engineering professionals carefully analyze your

construction or acquisition costs to identify amounts that can be allocated to specific asset categories with shorter depreciation lives than the building. It is critical that professionals with the requisite knowledge of the tax laws and IRS guidelines conduct your CSS.

WHO IS A CSS CANDIDATE?

If the answer to these questions is YES, you are a CSS candidate:

- Can I benefit from accelerating tax depreciation deductions?
- Does the building or leasehold fit-out cost more than \$750,000?
- Will the property be held for at least two years from acquisition?

The following properties qualify for a CSS:

- Purchases of previously existing property
- Construction of new property
- Expansion or renovation of existing property
- Leasehold improvement fit-out

While there are no specific tax laws for medical properties, there are several laws that will benefit medical-related properties. First, there is a 15-year tax life for certain leasehold fit-out costs (as compared to 39 years). A 50 percent bonus depreciation

for certain property additions is also available. Lastly, there is a five-year tax life for medical-related properties (as compared to seven years). As the first two laws are scheduled to expire on December 31, 2009, time is running out to take advantage of these benefits.

If your property was acquired in a prior year, based on the current rules promulgated by the Internal Revenue Service under Rev. Proc. 2008-52, a CSS can be performed with the cumulative effect of catching-up all the prior year's missed depreciation in the current year, without the need to amend any prior year tax returns. There is no limit to the number of years you can go back, even to closed tax years. In addition to the catch-up of prior years under depreciated amounts, the segregated assets continue to be depreciated over their remaining shorter tax life, providing additional benefits to future years as well.

The savings derived from a CSS flows right to the bottom line in tax savings and cash flow. Consult your tax advisor for more information. ■

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