

## COST SEGREGATION STUDIES MAY HOLD THE KEY TO YEAR-END TAX SAVINGS

A CSS applies engineering and taxation principles to identify building components and construction costs that qualify for accelerated depreciation. Often, owners lump shorter-lived assets together with the “box” that houses them, depreciating them over 39 years. Imagine the immediate tax benefits that could be realized by reallocating hundreds of thousands or even millions of dollars to property classes depreciable over five, seven, or 15 years. Performing a CSS to accelerate depreciation can lead to significant tax savings and increased cash flow, and can be an effective component of any year-end tax plan.

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.

Based on the current rules, a CSS can be performed with the cumulative effect of accounting for the prior year’s depreciation in the current year, without requiring amended tax returns. There is no time

### WHO IS A CSS CANDIDATE?

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

- Can your organization benefit from accelerating tax depreciation deductions?
- Does the property have a tax basis of more than \$1,000,000?
- Will the property be held for at least two years from acquisition?

limit—a CSS may be applied to any tax year, even those that are closed. In addition to the catch-up of prior years under depreciated amounts, the segregated components will then be depreciated over shorter lives going forward.

Studies have been effectively performed for a multitude of properties, including but not limited to, apartment buildings, office buildings, manufacturing facilities, restaurants, hotels, shopping centers, and medical facilities. The tax savings for a particular project depends on factors such as the type of property, its cost, the year it was placed in service, and the owner’s tax situation. But it’s not unusual for a CSS to generate savings between \$100,000 and \$1 million or more over the life of a property.

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. ■

*David Grant, CPA, is a partner at J.H. Cohn, a member of the Firm’s Real Estate Industry Practice, and head of Cost Segregation Studies. He can be reached at [dgrant@jhcobn.com](mailto:dgrant@jhcobn.com) or 877-704-3500.*

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## California

### Los Angeles

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
11755 Wilshire Boulevard, 17th Floor  
Los Angeles, CA 90025  
310-477-3722

### San Diego

4180 Ruffin Road, Suite 235  
San Diego, CA 92123  
858-535-2000

### Warner Center

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
21700 Oxnard Street, 7th Floor  
Woodland Hills, CA 91367  
818-205-2600

## Cayman Islands

P.O. Box 1748 GT  
27 Hospital Road  
George Town, Grand Cayman  
877-704-3500 x7839

## Connecticut

### Glastonbury

180 Glastonbury Blvd.  
Glastonbury, CT 06033  
860-633-3000

## New Jersey

### Roseland

4 Becker Farm Road  
Roseland, NJ 07068  
973-228-3500

### Eatontown

27 Christopher Way  
Eatontown, NJ 07724  
732-578-0700

### Lawrenceville

997 Lenox Drive  
Lawrenceville, NJ 08648  
609-896-1221

### Metro Park

333 Thornall Street  
Edison, NJ 08837  
732-549-0700

## New York

### Manhattan

1212 Avenue of the Americas  
Suite 1200  
New York, NY 10036  
212-297-0400

Charles Brucia & Co.,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-682-2459

Frederic Kantor & Company,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-727-2300

### Long Island

100 Jericho Quadrangle  
Suite 223  
Jericho, NY 11753  
516-482-4200

### White Plains

1311 Mamaroneck Avenue  
White Plains, NY 10605  
914-684-2700



877-704-3500  
[www.jhcohn.com](http://www.jhcohn.com)

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