

BONUS DEPRECIATION AND COST SEGREGATION

What is cost segregation?

In a nutshell, engineers split the cost of a property by it's components:

Plumbing	Landscaping	Fencing	Cabinets
Electrical	Parking lot	Appliances	Roof
Lighting	Paint	Carpeting	Shelving, Etc.

With this process, You can now take the cost of a building and speed up the length of time you would claim as a depreciation expense in writing the building off for your taxes.

So here is an example:

Office Condo cost	\$ 304,500
Improvements made	<u>34,500</u>
Total cost	\$ 339,000

Depreciation would be taken over 39 years! A slow... **\$ 8,700** per year

<p>Cost Segregation Study revealed: 5 year property: Cabinets, molding, flooring, window treatments, fire extinguishers, cabinets, security system, gutters, interior glass, communication cabling..... \$ 54,201</p>	<p>Cost Segregation Study revealed: 10 year property: Parking lot, parking striping and banners, sidewalks, curbs, landscaping, security lighting, site drainage, equipment screens..... \$ 19,281</p>	<p>Cost Segregation Study revealed: 10-15 year property: Interior improvements wiring, plumbing, hardwood flooring, etc. ... \$ 34,518</p>
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Now we can write off this building over a shorter life span:

\$ 54,201 over 5 years	\$ 19,281 over 10 years	\$ 34,518 over 15 years
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NOW WE HAVE TWO OPTIONS

We can take a one time catch-up depreciation deduction.

AND for future years take a larger depreciation expense over the remaining years

Under the NEW tax laws, all this cost can be written off in the very first year!

ALL **\$ 108,000**

Now lets take this one step further.....

This building is now being sold for... \$ 250,000

The normal down payment on commercial property is 20% SO in this case \$ 50,000

Typical middle class taxpayer is paying 22% in taxes.

ILL taxes are at 4.95% now.

And if the purchaser is making the purchase for their own business they would also save in social security taxes of 15.35%

That's a total of 42.25%

So the bottom line—to purchase the building you only need a net cash flow of \$4,400.

With any credits one might receive for RE taxes (in IL) you may end up having a zero cash flow to make this purchase!

Down Payment	
Net tax savings on Building due to BONUS depreciation	\$ 50,000
A NET CASH OUTFLOW AFTER TAXES	<u>\$ 45,630</u>
	\$ 4,370 !!!!