Increased Cash Flow for Building Owners

Using Tax Reform & The Tangible Property Regulations to Your Client's Benefit

CPACA

Cost Segregation Ser

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Cost Segregation Services,

Presenter

- A natural leader Warren brings ethics and integrity into every aspect of his life and work. Warren spent 20 years in ministry and started and managed his own healthcare company before becoming Executive Vice President of CSSI. Warren presents throughout the U.S. to CPAs and building owners on the Tangible Property Regulations, Tax Reform, and Cost Segregation. Warren has an undergraduate degree from Franciscan University in Steubenville, OH and an MBA from LSU. His wife, Ali, and three daughters reside in Louisiana.

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Who is CSSI?

- CSSI is the nation's premier engineering based consulting firm focusing on the tax law surrounding commercial buildings.

- With 20,000 studies completed, we have never triggered an audit nor had a study overturned.   Our projects range from basis of $200K to $750 Mill.

- To become compliant and eliminate Circular 230 risk and 1.016-3 risk, CPA's need an engineering firm with construction and tax experience.

- We are happy to be the calculation resource for your clients.

- We are the calculation resource to help you become compliant.

    - We offer consulting and calculation studies for the repair regulations, safe harbor determinations, capital/expense determinations and reversals, partial asset dispositions, cost segregation studies, including 3115 completion and consulting support for your accounting team.

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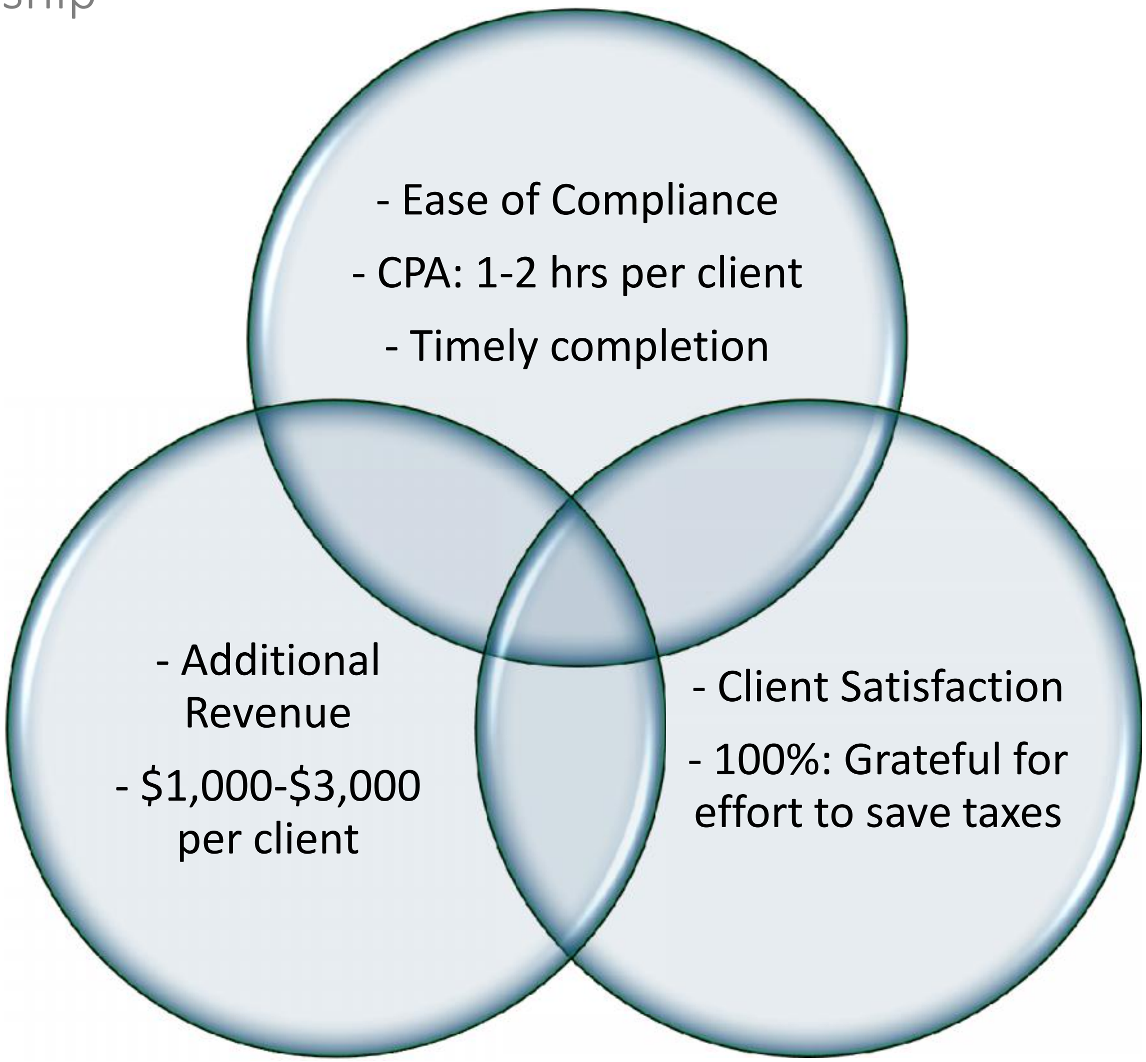
Course Objectives:

- Provide an overview of the Tangible Property Regulations (TPRs) to assure Compliance with the new codes.
- Describe why the TPR’s were issued and why they cannot be ignored.
- Describe the Tax Cuts and Jobs Act Provisions that Most Affect Building Owners
- Describe the economics of Cost Segregation combined with Repair Regulations calculations with examples of case study examples.
- Describe the process of understanding and applying the Improvement Standards for capitalization vs. expense decisions.
- Describe how to capture accelerated depreciation from Cost Segregation, Section 179, and Bonus Depreciation.
- Describe the Bonus Depreciation from Qualified Property (Improvement, Leasehold, Retail, Restaurant) made possible with a cost segregated depreciation model.
- Describe how to utilize Annual Elections – De Minimis, Routine Maintenance, Small Taxpayer Safe Harbors and Partial Asset Disposition.

Expected Results of Our Process

A Beneficial Partnership



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THE TRIFECTA

Tax Cuts and Jobs Act (2017)
The Repair Regulations (2014)
& Cost Segregation

Create a perfect storm to maximize deductions ar
ensure tax compliance.

Convert tax deductions into a reduced tax payment
=
Maximized Cash Flow

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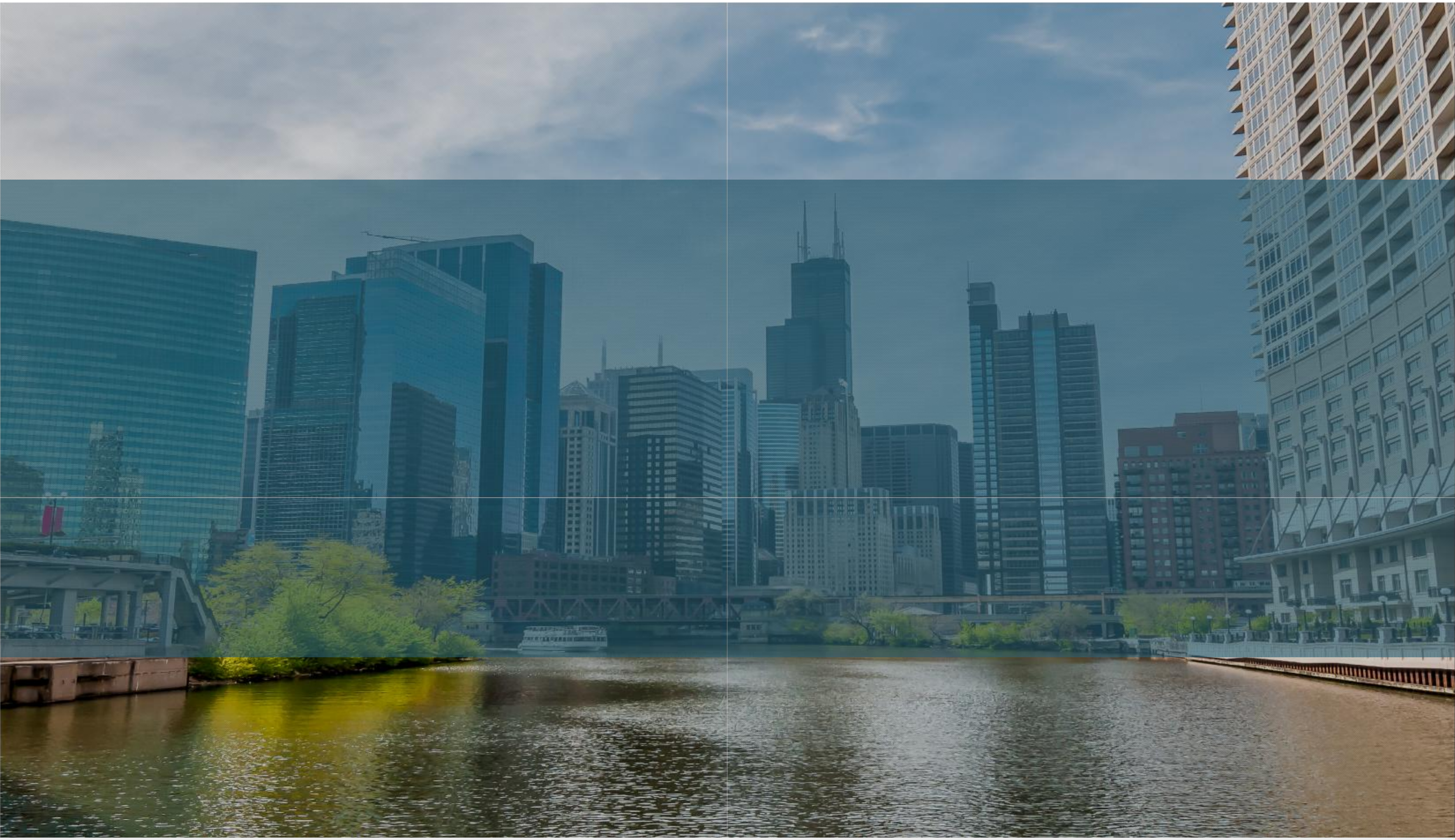

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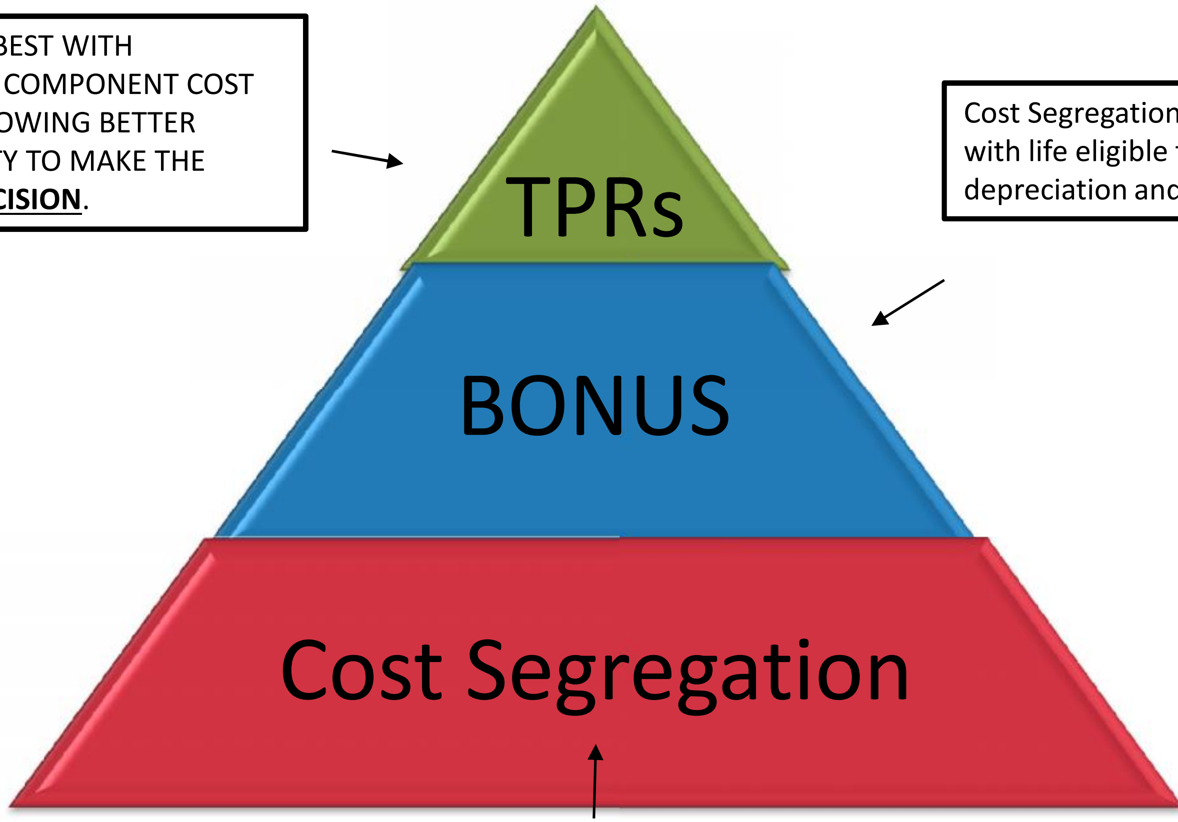
The Foundation for Bonus Depreciation from Tax Reform = The TPRs & Cost Segregation

TPR WORKS BEST WITH CALCULATED COMPONENT COST DETAIL – ALLOWING BETTER OPPORTUNITY TO MAKE THE **EXPENSE DECISION**.



Cost Segregation identifies assets with life eligible for bonus depreciation and acceleration

SOLID FOUNDATION COMPRISED OF ENGINEERING BASED COST SEGREGATION STUDY. PROVIDES DETAIL COMPONENTS, UNITS OF PROPERTY; BUILDING SYSTEMS; MAJOR STRUCTURAL COMPONENTS

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The 2014 Repair Regulations

What are the Tangible Property Regulations?

- US Tax Code provides guidance on treatments of amounts paid to acquire, produce or improve tangible personal property – Buildings, equipment, improvements, etc...
- One significant part is applied to Improvements or Repairs to existing property as items that you must:
  - CAPITALIZE: and carry on a depreciation schedule.

    Or
  - EXPENSE: allowed to write off in the year of the expenditure.
- The Repair Regulations define the elements outlined and create a consistent method for all tax payers.

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WHAT A&A NEEDS TO KNOW TO BE IN COMPLIANCE

- <u>The TPRs are highly likely to reduce the taxable income for the current period in which the TPRs are adopted (method changes) or for periods where the annual elections are made.</u>

- Implementing the TPRs also affects recognition and measurement of deferred taxes related to tangible property and the balance sheet classification of deferred taxes.

- The TPRs also affect (a) the timing (as opposed to the amount) of deductions and (b) could affect the amount of the deduction of a tax expenditure (<u>if the TPRs are not properly complied with a taxpayer (TP) could lose some tax deductions permanently.</u>

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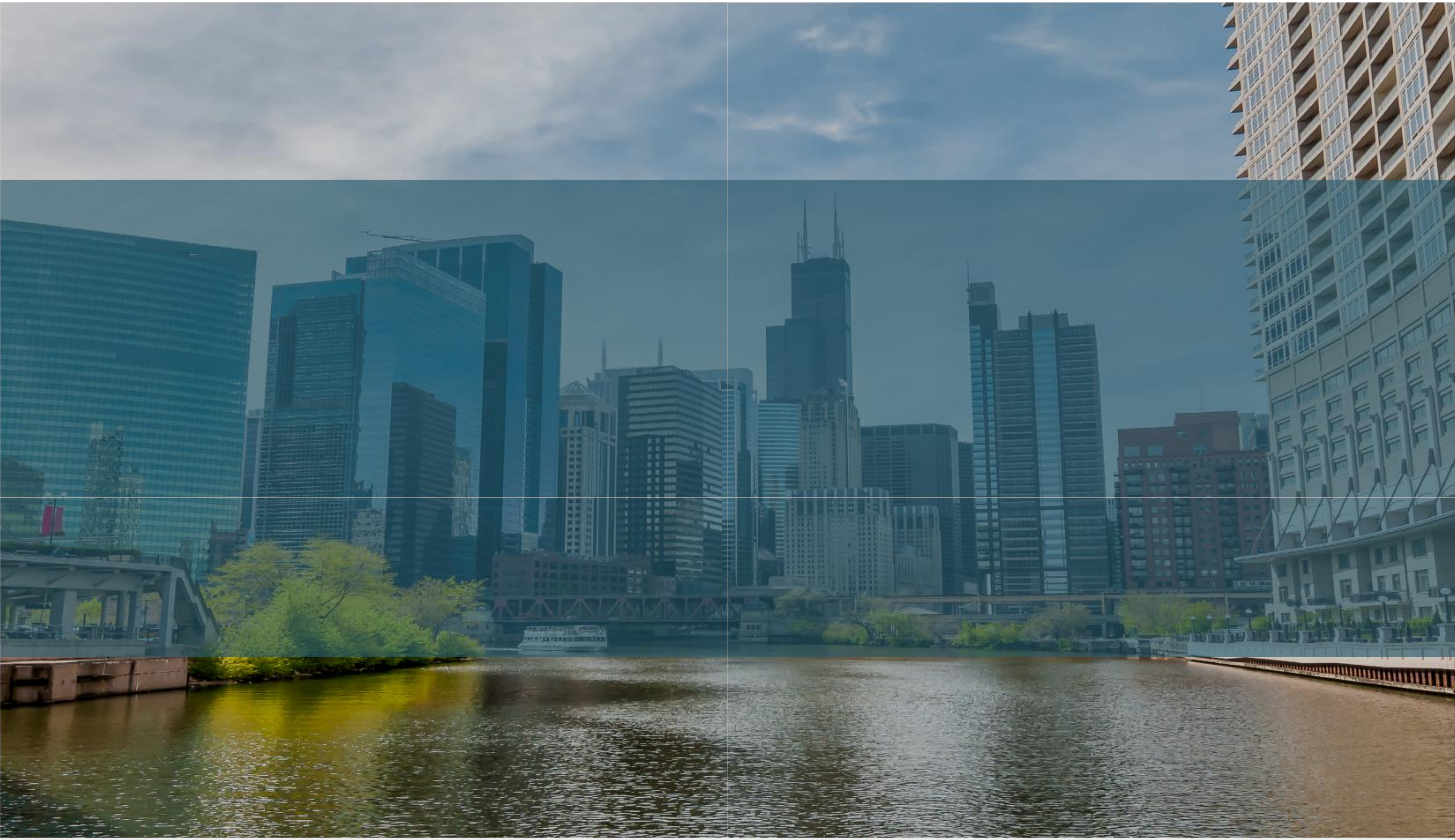

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Maximize Cash Flow

Workflow to maximize cash flow
through expenses or depreciation deductions

STEP 1

Safe Harbors

Does the expenditure fall under the DMSH, RMSH or STSH? If yes, write it down. Define the building systems? *Move to next step.*

STEP 2

Decide: Improvement or Repair?

Does the expenditure meet the definition of one of the 16 RABI rules making it an improvement? *If not, it can be called a repair and can be written down. If yes, move to next step.*

STEP 3

Major Improvement

Is the expenditure greater than 35% of the replacement cost of the building system? Does it serve a major and critical function? *If not, write it down. If yes to both, capitalize it and move to next step.*

STEP 4

Determine

Will a cost-segregation study or a partial-asset disposition-and-removal calculation save taxes? If so, contact a reputable cost seg firm or calculate the basis using PPI.

STEP 5

Maximize Depreciation Expense

After a cost seg is performed, maximize the depreciation expense by applying 100% bonus depreciation on all assets with a class life less than 20 years or Section 179 to personal property and QIP

STEP 6

Decide

What is the best way to invest or help your client spend his tax savings?

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The 2014 Repair Regulations: Safe Harbors

Annual Safe Harbors Summary

- The final TPRs adopted an overall, revised, and simplified de minimis safe harbor (DMS under Reg. §1.263(a)-1(f) to $2,500 for a non AFS and $5,000 for an AFS.
- Extended the safe harbor for routine maintenance (RMSH) under Reg. §1.263(a)-3(i) to buildings. Routine and recurring amounts paid to keep a building in its ordinary and efficient working condition may be treated as repairs. The taxpayer must reasonably expect to perform the activity more than once during 10-year period beginning with th placed in service date. Consider the recurring nature of the activity, taxpayer's experience, manufacturer recommendations, and industry practice. Use of safe harbor constitutes a method of accounting
- The final TPRs added a safe harbor for small taxpayers (SHST) under §1.263(a)-3. a taxpayer may elect not to capitalize improvements or repairs to an eligible building property if the total amount paid during the taxable year for repairs, maintenance, improvements, and similar activities performed on the eligible building property does not exceed the lesser of 2% of the unadjusted basis of the eligible building property; or $10,000.

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De Minimis Example

- Example: Maximize Expense for Your Clients

  – Non Residential Commercial Building owner replaces all new windows – Qualify?
  – 12 large windows at $2000 = $24,000 – Qualify?
  – 39 year asset and Real Property
  – Doesn't qualify for Bonus
  – Potentially does qualify for 179 (examine details)
  – Request itemized invoice

- Elect De Minimis and Expense!

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Routine Maintenance Safe Harbor

AMAZING OPPORTUNITY

- Deductible if you reasonably expect (at time UOP is placed in service) to perform more than once during the 10 year period from when the building system was placed in service
- Routine Maintenance Safe Harbor does not apply to betterments, adaptations, or some restorations.
- Consider the recurring nature of activity, industry practice, replacement history, manufacturer's recommendations, and TP's business needs
- *"The final regulations clarify that amounts incurred for activities falling outside the routine maintenance safe harbor are not necessarily expenditures required to be capitalized under §1.263(a)3. Amounts incurred for activities that do not meet the routine maintenance safe harbor are subject to analysis under the general rules for improvements". Revenue Procedure 2013-43*

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Small Tax Payer Safe Harbor

STSH – ANNUAL ELECTION

- If your building has an unadjusted cost basis of $1M or less, & less than $10M avg. annual income, a special rule CAN be utilized:
- Can elect "not to apply" improvement rules to eligible buildings if the annual amount spent is less than $10,000 or 2% of unadjusted basis on a building-by- building basis.
- May be written off as repairs.
- Example: $300k building = $6,000 limit.
- If limit is exceeded, it does not apply to any amounts.
- Small taxpayer safe harbor limit is reduced by routine maintenance safe harbor and De Minimis safe harbor.
- Gross receipts include interest, dividends, rents, royalties, and annuities, regardless of whether such amounts are derived in the ordinary course of the TP's trade of business

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When to Capitalize or Expense?

Must Capitalize if
An Improvement (RABI) or Major Expenditure

1. Improvement = **Restoration, Adaptation, Betterment, Improvement (RABI)**
2. Major Expenditure = More than 30%-35% of the REPLACEMENT cost of the building system, structural component or unit of property (40% of Roof Replaced = Capitalize)

A capital expenditure is generally considered to be a more permanent increment in the longevity, utility, or worth of the property.

Must Expense if = Repair

- If the expenditure does not materially increase capacity, productivity, efficiency, strength, quality or improve output of the building system, structural component, or Building (Unit of Property) it must be expensed.

A repair keeps the building structure and building system in ordinary and efficient operating condition.

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The 2014 Repair Regulations

- Must capitalize if an Improvement:
  - RABI
    - **Restoration:** if the expenditure occurred less than two years after owning the building
    - **Adaptation:** if the expenditure changed the original intent and function of the building
    - **Betterment:** the expenditure materially increases the capacity, productivity, efficiency, strength, quality or improve the output of the building system, structural component or any component that serves a major and critical function
    - **Improvement:** the expenditure modifies a major portion (greater than 33%) of the building, building structure or building component that serves a major and critical function

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Building Systems: Updated Value using Producer Price In

The study calculations for a CPA to make decisions for clients.

Building Components	Depreciable Cost	Current Replacement Cost
Ceiling Systems	$174,272.97	$271,655.41
Doors and Frames	$183,566.64	$286,142.31
Electrical	$507,935.61	$791,766.25
Elevators	$82,050.82	$127,900.21
Fire Protection & Alarm	$244,652.21	$381,362.05
HVAC	$308,255.67	$480,506.65
Interior Framing/Partitions	$460,706.52	$718,145.89
Miscellaneous Building Components	$2,914,064.09	$4,542,421.42
Painting	$85,818.04	$133,772.52
Plumbing	$507,881.40	$791,681.75
Roofing Systems	$85,246.26	$132,881.14
Security	$37,199.10	$57,985.68
Windows	$203,239.82	$316,808.72
Total Building Cost:	**$5,794,889.10**	**$9,033,030.00**

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Stay Compliant & Maximize Deductions

The Capital vs. Expense Decision

Building Structure		
Structural Components	$	559,508.38
Roofing Systems	$	66,975.93
Foundations	$	234,535.89
HVAC	$	179,747.78
Electrical	$	242,472.40
Plumbing	$	68,844.81
Masonry	$	40,657.35
Doors & Windows	$	17,063.50
Insulation	$	43,168.87
Gas Distribution	$	4,989.84
Drywall	$	13,092.14
Painting	$	23,796.64
Fire Protection & Alarm	$	15,192.82
Gutters & Downspouts	$	12,335.58

Site Work / Improvements		
Water Well	$	19,318.45
Site Drainage	$	48,990.57
Parking Lot	$	138,639.38
Exterior Signage Structure	$	17,790.84
Parking Lot Striping / Barriers	$	23,325.00
Sidewalks	$	711.12
Landscaping	$	68,635.17
Security Lighting Poles	$	6,374.77
Aggregate Base Paved Area	$	192,436.06
Exterior Fencing / Decking	$	31,986.93
Retaining Walls	$	16,024.07
Fabricated Steel - Bollards	$	2,926.12
Patio Concrete	$	10,848.65
Exterior Wood Trellis Systems	$	2,783.73
Gazebo	$	4,605.26

- EXP/CAP TEST - Client spends $28,000 on repairing the roof.
- TPR ratio test is 30-35% (40% for roof).
- 28,000/66,975 = 42%.
- TPRs say CAPITALIZE.

- Spend $70,000 on electrical rewire.
- Ratio test is 30-35%
- 70,000/242,472 = 29%.
- TPRs say EXPENSE.

Building Components		
Cabinets / Millwork	$	20,085.41
Moldings	$	8,286.30
Wood Paneling	$	2,062.22
Flooring - Vinyl Tile	$	519.68
Flooring - Carpet	$	9,084.00
Window Treatments	$	187.90
Air Curtain	$	1,709.08
Building Signage	$	122.56
Specialty Electrical - Kitchen Equip.	$	15,216.78
Communication / Data	$	32,356.35
Specialty Plumbing - Cooler Equip. / Kitchen Sinks	$	10,181.63
Security / Exterior Lighting	$	9,827.88
FRP Wall Panels	$	1,003.24
Rear Entry Canopy	$	20,084.92
Interior Overhead Doors - Security	$	21,931.82
Slatwall / Pegboard Paneling	$	9,657.00
Surveillance System	$	4,375.25
Interior Wood Trellis Systems	$	6,046.21
Liner Panels	$	109,271.70
Paging System	$	1,688.23
Windmill	$	17,244.53
Exhaust Hood	$	11,258.61
Fire Extinguishers	$	1,833.25
Cooler	$	10,635.63
Movable Storage Units	$	30,431.69

Look Back at Capital to Expense Reversals

2016 DEPRECIATION AND AMORTIZATION REPORT

705 Gulf Shores Road

R- 1

Asset No.	Description	Date Acquired	Method	Life	Conv	Line No.	Unadjusted Cost Or Basis	Bus % Excl	Section 179 Expense	* Reduction In Basis	Basis For Depreciation	Beginning Accumulated Depreciation	Current Sec 179 Expense	Current Year Deduction	Ending Accumulated Depreciation
	LAND - SUMMARY														
1	LAND	12/08/06	L				368,200.				368,200.			0.	
	* RENTAL TOTAL - LAND - SUMMARY						368,200.				368,200.	0.		0.	0.
	BUILDING - SUMMARY														
2	BUILDING	12/08/06	SL	39.00	MM	17	1,232,339.				1,232,339.	285,701.		31,598.	317,299.
	* RENTAL TOTAL - BUILDING - SUMMARY						1,232,339.				1,232,339.	285,701.		31,598.	317,299.
	HVAC - SUMMARY														
3	HVAC - BASEMENT	01/31/07	SL	39.00	MM	17	8,109.				8,109.	1,863.		208.	2,071.
4	HVAC - FIRST FLOOR	12/03/07	SL	39.00	MM	17	13,909.				13,909.	2,871.		357.	3,228.
6	HVAC - 2ND FLOOR	07/08/15	SL	39.00	MM	17	12,820.				12,820.	151.		329.	480.
	* RENTAL TOTAL - HVAC - SUMMARY						34,838.				34,838.	4,885.		894.	5,779.
	LOAN COSTS - SUMMARY														
5	LOAN FEES	04/26/12	461	120M		43	6,500.				6,500.	2,383.		650.	3,033.

Ballpark = $29,059 remaining in Depreciation

$28,500 x 37% tax rate = <u>$10,752 Tax Benefit</u>

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The 2014 Repair Regulations: Example

Using today's regulations and applying them to the past

- Multi-story apartment complex
  - Purchased in 1993
  - Cost $1.1 million
  - Improvements over the years:
    - $4M, $160K, $2.7M, $70K, $26K, $900K
- **Tax savings of $554,000**

- Office building converted to hotel
  - 11 stories
  - Purchased in 2000
  - Cost $1.6 million
  - Improvements over the years:
    - $10M, $1.2M, $41K, $30K
- **Tax Savings of $1.1Mill**

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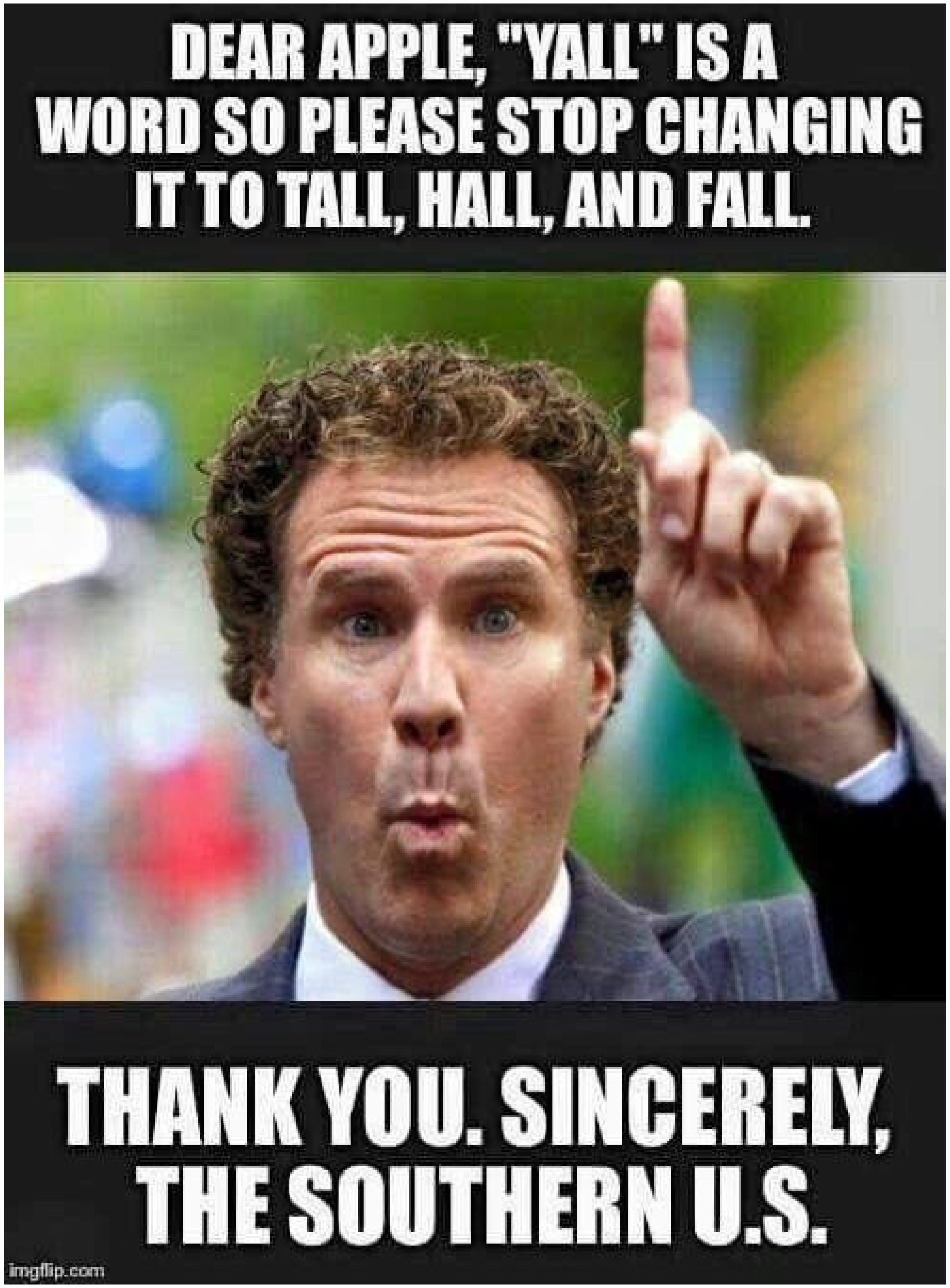

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How to Describe a Big Mac

Straight-Line Method

- Hamburger $3.99

Cost Segregation Method

- 2 All Beef Patties $1.75
- Special Sauce $0.15
- Lettuce $0.26
- Cheese $0.89
- Pickles $0.10
- Onions on a $0.09
- Sesame Seed Bun $0.75

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What is Cost Segregation?

Cost Segregation = Cash Flow

- The process of analyzing and identifying commercial building components that are eligible for accelerated depreciation
- Result is lower income taxes
- An input calculation to the U.S. Tax Code – Building Systems Valuation
- Allows building owners to use cash today instead if leaving it with the government for 39 years – TIME VALUE OF MONEY
- Engineering-based is defined as “The Certain Method”
- Personal Property is segregated from Real Property

BENCHMARK: $30K-$80k per $1Million in Cost over 5 Years

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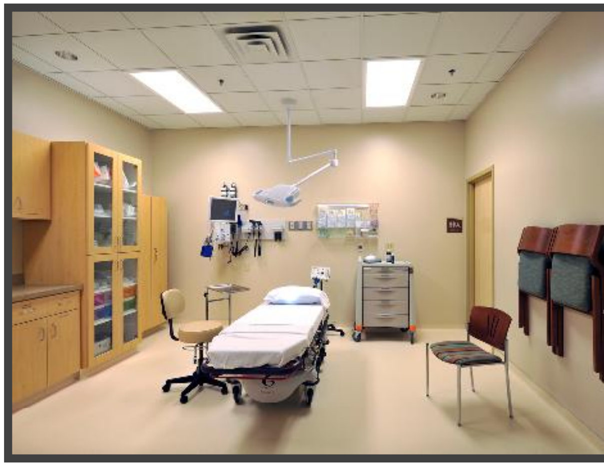
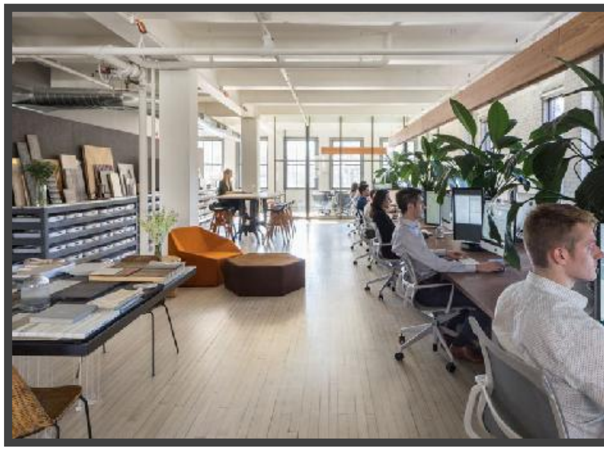
What is Cost Segregation?

Items that can be Accelerated

- 5- and 7-Year Property
  - Interior doors, moveable wall partitions
  - Decorative building elements, wall coverings
  - Special electrical, plumbing and mechanical
  - Carpet, flooring, decorative molding
  - Built in cabinets and counter tops
  - Security, decorative and special lighting
  - Window treatments and coverings
  - Communications, cable
  - Kitchen fixtures, refrigeration equipment

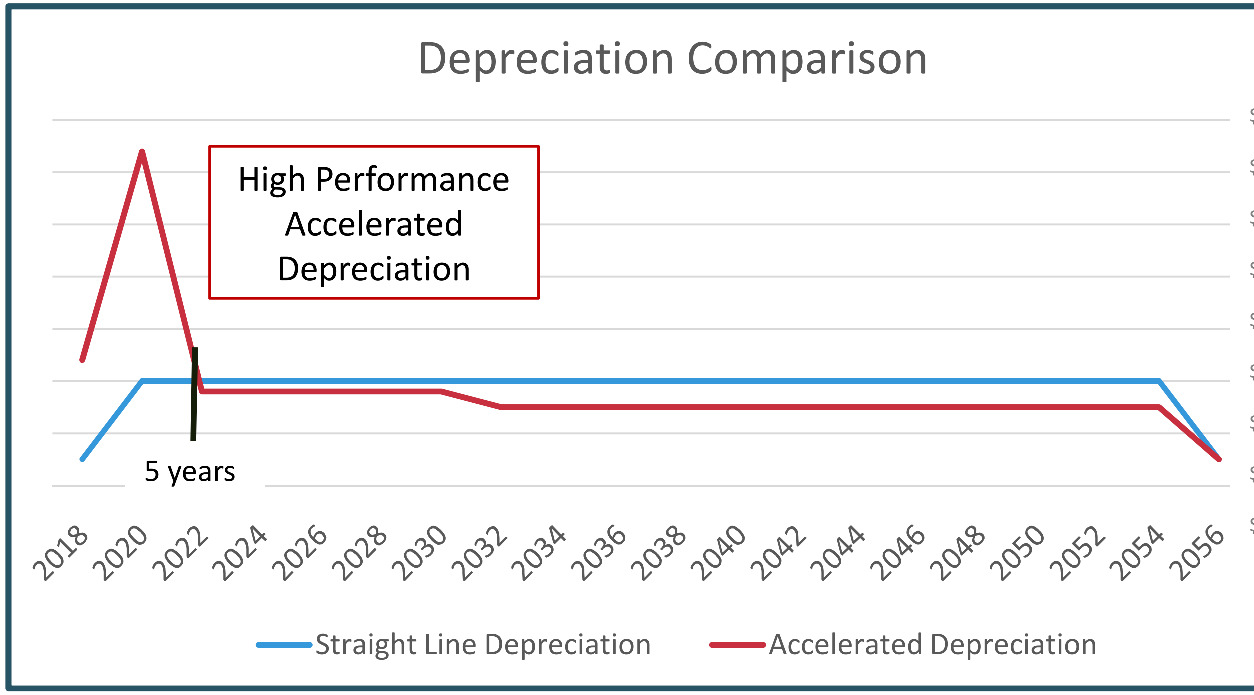




What is Cost Segregation?

Items that can be Accelerated

- 15-Year Property
  - Landscaping/Hardscaping
  - Paving
  - Fencing
  - Site utilities
  - Parking lot
  - Signage
  - Sidewalks
  - Irrigation



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Partial Asset Disposition Election

Ability to write off assets that are no longer in use

- Renovations/Remodels/Replacements
- Abandoned in Place
- Common Items – Roofs, HVAC, Electrical
- Retirement of a structural component of, or improvement to a building
- LED Retrofit Projects
  - Partial Asset Dispositions must be taken in the same year as the renovation
  - Tax Savings at Sale of Property = Decreases Taxable Personal Property

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The 2014 Repair Regulations

Partial Asset Disposition Example with Cost Segregation

Auto Dealership Renovation Tax Savings			
	Original Building	**Demolition**	**Renovation**
Cash Flow	$134,718	$53,297	$126,243
Total Tax Savings		**$314,240**	

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2017 Tax Cuts and Jobs Act: Bonus Depreciation

More Deductions for Building Owners

- 100% Bonus Depreciation for properties purchased or built after September 27, 2017
- New purchase, new construction, addition, or renovation
- Must have depreciable life less than 20 years
  - Personal property & land improvements
  - Importance of Cost Segregation Studies
    - Identify 5-, 7-, & 15-year assets

BENCHMARK: $30,000 to $80,000 per $1,000,000 in building cost in the first year

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Bonus Example

- Owner installs special HVAC for a digital server room and printing machinery in 2018. The landlord owns the special HVAC and pays for it. While an HVAC is generally considered 1250 property (a structural component of the building), in this situation the HVAC is 1245 property under the cost segregation rules since it is used to cool server equipment and printing machinery. The HVAC is a separate asset and a separate unit of property. The owner must take bonus depreciation unless the owner elects out.
- Since the HVAC is section 1245 property it also qualifies for deduction under section 179.

2017 Tax Act: Example of Difference

Bonus Depreciation Tax Savings

$8M Self Storage Facility	
Purchased in November 2017	
Deductions:	
Straight-line	$26,000
Accelerated	$154,000
Bonus	$700,000

$26,000 vs $700,000

= $259,000 in Tax Savings

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Cost Segregation: Continues to Provide Catch Up

Clients who purchased property prior to 2017 Tax Act

Actual Savings Generated by Cost-Segregation Studies			
Facility Type	**Total Property Cost**	**First-Year Cash Flow From Tax Savings**	**Five-Year Cash Flow or 100% Bonus/First Year**
Funeral home	$562,550	$19,699	$37,239
Medical facility	$663,000	$6,962	$36,124
Leasehold improvements	$1,400,000	$53,751	$131,569
Office park	$1,712,000	$98,222	$125,471
Self-storage	$2,730,000	$41,418	$219,450
Assisted living	$7,400,000	$323,673	$605,133
Hotel	$8,389,000	$692,183	$973,836

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TCJA Net Operating Loss (NOL) Changes

- Net Operating Loss (NOL)
  - NOL deduction limited to 80 percent of taxable income
  - Carryback eliminated
    - Exception: Two year carryback for farming NOLs.
  - Carry forward indefinitely
  - NOLs from years beginning before 1/1/2018 would appear free of the 80% limitation

  - Section 179 cannot create a loss and cannot be applied with a Loss
  - Bonus can create a loss and be applied with a loss

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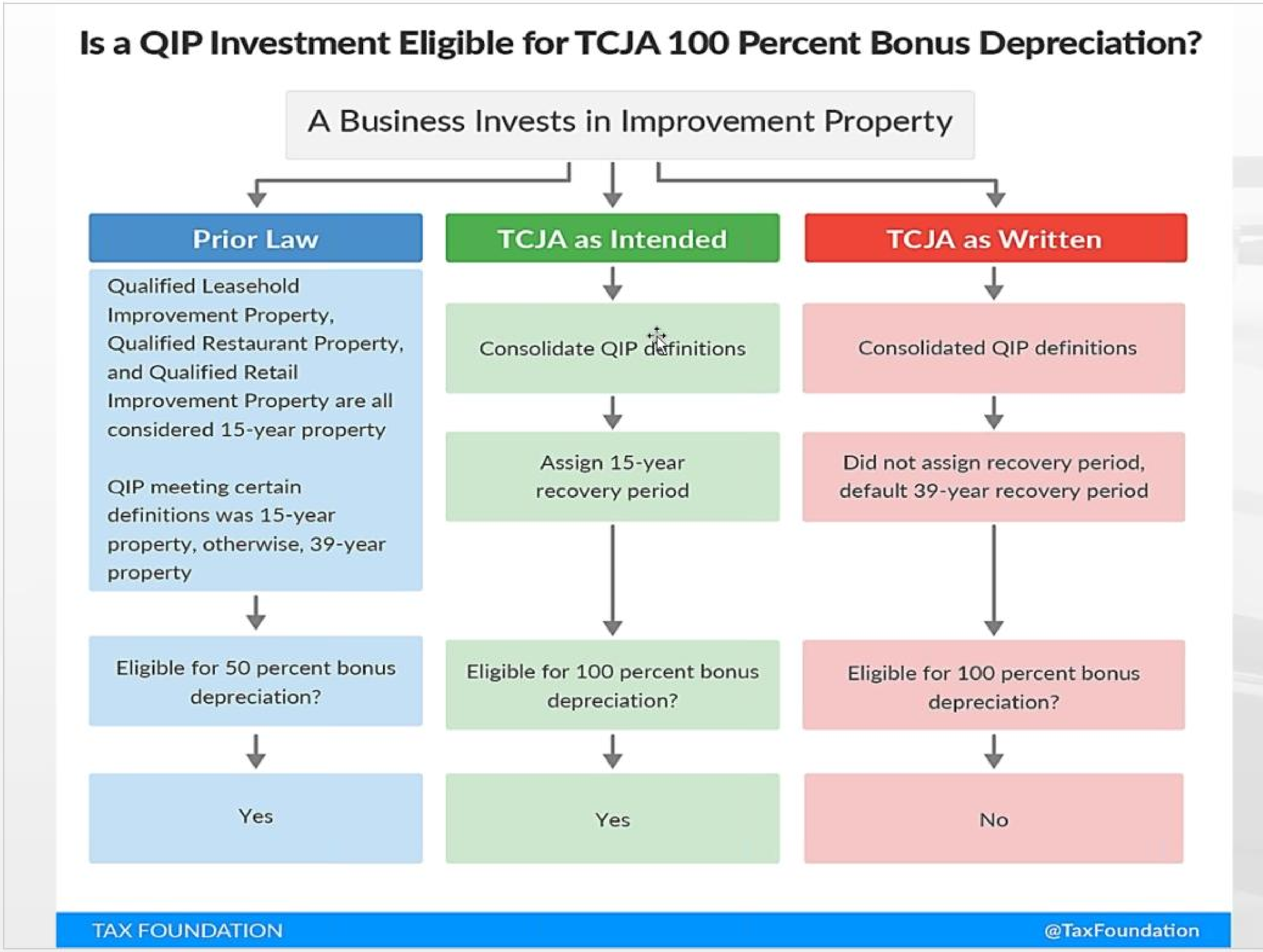
Qualified Improvement Property - QIP Does not Qualify for Bonus

- 39-year Recovery Period

- TCJA attempted to streamline the depreciation of leasehold improvements, after January 1, 2018.
- The only category will be qualified improvement property (QIP).
- The law (Section 168) was amended to eliminate any reference to:
  - Qualified leasehold improvement
  - Restaurant improvement &
  - Retail improvements.

  - QIP does qualify for Section 179


Is a QIP Investment Eligible for TCJA 100 Percent Bonus Depreciation?
A Business Invests in Improvement Property
Prior Law
TCJA as Intended
TCJA as Written
Qualified Leasehold Improvement Property, Qualified Restaurant Property, and Qualified Retail Improvement Property are all considered 15-year property
QIP meeting certain definitions was 15-year property, otherwise, 39-year property
Consolidate QIP definitions
Consolidated QIP definitions
Assign 15-year recovery period
Did not assign recovery period, default 39-year recovery period
Eligible for 50 percent bonus depreciation?
Eligible for 100 percent bonus depreciation?
Eligible for 100 percent bonus depreciation?
Yes
Yes
No
TAX FOUNDATION
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Qualified Improvement Property

- Definition

1. Qualified improvement property is an improvement to the internal portion of any nonresidential real property at least one day after the property was placed in service.
2. except improvements for the enlargement of a building, any elevator or escalator, or the internal structural framework of the building.
3. The qualified improvement property does not need to be placed in service more than three years after the property was placed in service by any person.
4. Qualified improvement property does not need to be placed in service pursuant to the terms of a lease

QIP Examples

- Buy an office building in 2018
- Immediately replace Lighting fixtures, wiring, furnace.
- Improvements do not qualify for QIP

- Buy an office building in 2018
- Placed in service and Satisfies definition of QIP
- Make improvements to interior of bldg. in 2019
- New *non*-loadbearing walls, pipes, wiring, and New furnace
- Qualifies as QIP.

Rev. Proc. 2017-33

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QIP Examples

- Buy an office building in 2018
  - Immediately replace Lighting fixtures, wiring, furnace.
  - Improvements do not qualify for QIP

- Buy an office building in 2018
  - Placed in service and Satisfies definition of QIP
  - Make improvements to interior of bldg. in **2019**
  - New ***non***-loadbearing walls, pipes, wiring, and New furnace
  - Qualifies as QIP.

Rev. Proc. 2017-33

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Section 179

Many CPAs apply this to equipment. Also Applies to Buildings!!

- Personal Property of 5, 7 year life
- QIP 39 year life
- Expensing increased to $1M
- Qualifying property eligible will include Roof, HVAC, Fire protection, Alarm, Security systems if made to nonresidential real property after that property has been placed in service.

- Includes tangible Personal Property used in connection with furnishing lodging, such as furniture and appliances in hotels, apartments, and student housing.

- Section 179 phases out in a dollar for dollar way after the amount of the deduction reaches 2.5Mill. For example. Once you reach 3.5 Million the 179D deduction will be zero.

- <u>RECOMMENDATION: Maximize bonus because it has no limits then apply 179.</u>

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2017 Tax Cuts and Jobs Act: Section 179

More Deductions for Building Owners

- Section 179 expense limitations for 2018 will double from $500,000 to $1 million while the phase-out limitation will be increased from $2 million to $2. million.
- Qualifying property eligible for Section 179 will include roofs, HVAC, fire protection & alarm systems, and security systems if these improvements are made to non-residential real property and begun after the building was place in service for its intended use.
- Section 179 is also expanded to include the availability of the expensing election to depreciable tangible personal property used in connection with furnishing lodging – e.g., beds and other furniture for use in hotels and apartment buildings.
- QIP does still qualify for section 179 as it stands.

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Section 179 (§179)

- Section 179 expense limitations for 2018 will increase from $500,000 to $1 million while the phase-out limitation will be increased from $2 million to $2.5 million.

  - Election limited to $1 million cost/year.
  - $1 million reduced ***to extent*** §179 prop. $2.5 million.
    - Partnerships
    - S corps, *and*
    - Partners and shareholders

Treas. Reg. 1.179-2(b)(3) and (4)

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Section 179 (§179) Example

- Client ABC places $3,200,000 of property into service. (§179 Limit is $1,000,000 and begins to phase out
- at $2,500,000.)

$3,200,000 - §179 Expense
($2,500,000) - Phase out begins
$700,000 is the §179 reduction

$1,000,000 Max §179 Limit
($700,000) =

-
- $300,000 Maximum §179 Expense

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179 & Bonus

§179

- Targeted By Assets – Rifle
- Specific items
- Cannot create a Loss
- Cannot take with a loss
- Has Purchasing Limitations
- All or part of qualified assets
- Recapture as 1245 property (ordinary Income)

Bonus

- Targeted by Asset Class – Sho
- Generally all or nothing
- Can Create loss
- Can Take with a Loss
- No Purchasing Limitations
- Must Elect out by Class §168(
- Recapture as 1245 property (ordinary Income)

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Example

- Retail Store
- Replace Roof HVAC unit = $70,000

- Can this be Expensed under the Repair Regulations?
- (30-35% of the building System)

- Total Replacement Cost for HVAC Building System = $175,000
- Elect §179 — *Non*-Residential Building

- Would this qualify if it were an apartment Building?

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Section 179 & Bonus Changes

- Can revoke §179 elections on amended returns
- Can revoke part or all of original §179 deduction
  - Adjust regular depreciation — amended return
- **Can elect to do a "cost seg." study in future years (if chose to apply straight-line) and capture bonus in later tax year** with Bonus associated with the year and applicable rules it went into service.
  - **3115 form required but no amended return.**

Cost Segregation Se

2017 Tax Cuts and Jobs Act: 1031 Exchanges

- 1031 Exchanges Limited = Defer
  - Allowed for real property but are no longer allowed for tangible personal property acquired after Dec. 31, 2017.
  - Taxpayers who have applied cost segregation to a building in the past will not be able to exchange Section 1245 property in a 1031 Exchange.
  - A cost-segregation study on the new building's basis should minimize the effects of recapture from the exchanged building.

- There are very technical rules and definitions, so see your tax adviser.

Cost Segregation Se

How to address Recapture!

1. Purchase new building and have a cost seg done
   - TVM allows for an arbitrage of interest gained
2. 1031 exchange a building and cost seg the remaining basis
3. Opportunity Zone Investment
4. Assign a smaller gain amount to personal property at sale.
   - After 5-15 years the personal property is diminished in value, and It is worth less than the purchase price.
   - A smaller gain can be assigned to these assets and a higher gain assigned to appreciated assets

- Results in less recapture.

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Recapture Reduced

	Year Acquired	CS Study Basis	Tax Life	FMV
Cabinets/Millwork	2004	$ 2,298.44	5	$ 305.6
Interior Metal Partitions	2004	$ 157,740.10	5	$ 104,897.1
HVAC	2004	$ 29,782.76	5	$ 3,961.1
Communication/ Electrical	2004	$ 17,115.62	5	$ 11,381.8
Security / Exterior Lighting	2004	$ 1,937.02	5	$ 644.0
Security Cameras & Accessories	2004	$ 27,560.00	5	$ 3,665.4
Main Entrance Canopy	2004	$ 31,987.90	5	$ 4,254.3
	5 Yr Total	**$ 277,478.94**		**$ 134,125.8**
Water Well	2004	$ 12,809.11	7	$ 1,703.6
Site Preparation	2004	$ 39,881.85	15	$ 26,521.4
Site Drainage	2004	$ 79,447.11	15	$ 52,832.3
Paving/Driveways/Misc Foundations	2004	$ 105,541.39	15	$ 70,185.0
	7/10 yr Total	**$ 232,982.45**		**$ 154,933.3**
	Total	**$ 510,461.40**		**$ 289,059.2**
	Reduced Tax Burden			**$ 221,402.1**

We Have Already Done This For Our Clients!

The CPA method vs. engineering-based method

Example Economic Comparison		
	Potential CPA Method	**Engineering-based Cost Segregation**
39-year Straight Line Method	$104,304	$104,304
Alternative Method		
5-year Depreciation Expense	$91,136	$205,056
15-year Depreciation Expense	$11,064	$29,504
39-year Depreciation Expense	$92,831	$77,185
Total Depreciation Expense	$195,031	$311,745
Cash Flow Results		
Increased Accumulated Depreciation Expense	$90,727	$207,441
Estimated Tax Rate	36.0%	36.0%
Estimated Tax Savings Benefit	$32,662	$74,679
Increased Cash Savings	**$42,017**	

Many CPAs will take the low hang fruit—items whose values are ea identified—and move those into shorter life category. Our team specializes in this tax law so we lo everything. You may be leaving s money on the table for your clien Let us provide a no cost analysis a let us be your back office to bring your clients on behalf of the char in tax reform.

An independent firm is recomme (and often required) to take all of accelerated depreciation that cur tax law allows.

Cost Segregation Se

I Don’t Want to Trigger an Audit.

Cost Segregation is a Safe and Recommended Method of Depreciation.

CSSI has been around for 17 years and has completed more than 20,000 studies. Our studies have never triggered an audit. We have defended our calculations in about a dozen cases that were audited for other reasons. We have always seen a favorable result in these situations. We always stand behind our numbers and will defend them a no additional cost to our clients.

“The cost segregation technique is no more aggressive than using any permissible depreciation method under the IRC.”

- Journal of Accountancy

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“Cost Segregation is a proven tax strategy.”

- Dave Ramsey – National Talk Show Host and NY Times Best Selling Author

Maximize Cash Flow

Workflow to maximize cash flow
through expenses or depreciation deductions

STEP 1 — **Safe Harbors**
Does the expenditure fall under the DMSH, RMSH or STSH? If yes, write it down. Define the building systems? *Move to next step.*

STEP 2 — **Decide: Improvement or Repair?**
Does the expenditure meet the definition of one of the 16 RABI rules making it an improvement? *If not, it can be called a repair and can be written down. If yes, move to next step.*

STEP 3 — **Major Improvement**
Is the expenditure greater than 35% of the replacement cost of the building system? Does it serve a major and critical function? *If not, write it down. If yes to both, capitalize it and move to next step.*

STEP 4 — **Determine**
Will a cost-segregation study or a partial-asset disposition-and-removal calculation save taxes? If so, contact a reputable cost seg firm or calculate the basis using PPI.

STEP 5 — **Maximize Depreciation Expense**
After a cost seg is performed, maximize the depreciation expense by applying 100% bonus depreciation on all assets with a class life less than 20 years or Section 179 to personal property and QIP

STEP 6 — **Decide**
What is the best way to invest or help your client spend his tax savings?

Cost Segregation Se

How to Get Started

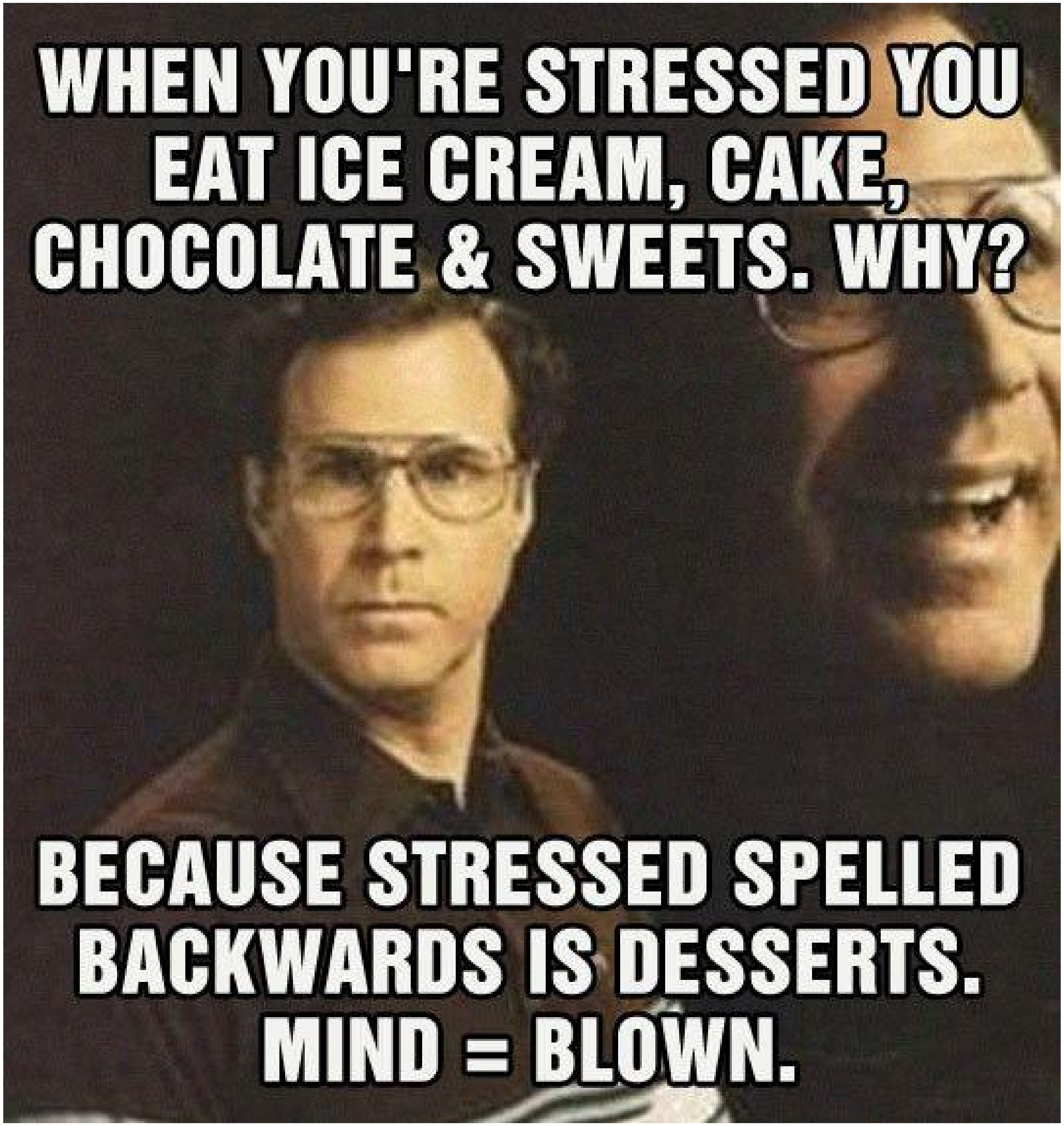
Contact us for a no cost, predictive analysis

- For the most accurate analysis, provide your tax depreciation schedule or:
  - Type of Building
  - Cost Basis (without land cost)
  - Year and month acquired
  - Improvements (year, month and cost)

- CSSI will generate an analysis at no cost.
- If you like what you see, we can talk further. This is a business and cash flow decisio

Cost Segregation Se

Thank you for attending!


WHEN YOU'RE STRESSED YOU EAT ICE CREAM, CAKE, CHOCOLATE & SWEETS. WHY?
BECAUSE STRESSED SPELLED BACKWARDS IS DESSERTS. MIND = BLOWN.

2017 Tax Cuts and Jobs Act

- Changes in Tax Rates

- Net operating loss (NOL)
  - NOL deduction limited to 80% of taxable income
  - Carryback eliminated
    - Exception: 2-year carryback for farming NOLs
  - Carry forward indefinitely
  - NOLs from years beginning before Jan. 1, 2018 would appear free of the 80% limitation

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Qualified Business Income (QBI)

- Pass-through entities (LLC, partnership, S corporation), proprietorships, REITS, PTPs and co-ops
- Doesn’t include reasonable compensation (S corp.) or guaranteed payments (LLC or partnership)
- Excludes capital gains, dividends, interest (other than from trade receivables) and other investment income

2017 Tax Cuts and Jobs Act

Qualified Business Income (QBI)

- Applies to all trades or businesses (including real estate rental) except th following "specified service trades of business:"
  - Health, law, accounting, financial services, athletics, brokerage (excep insurance and real estate), actuarial services, performance arts, inves management, consulting and services from reputation and skill
- If the QBI is negative, the excess is carried over to the following year.

This is pretty complicated, so see your tax adviser.

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Section 199A: Deduction for qualified business income

- Equals 20% of taxpayers QBI with respect to each qualified trade or business, plus 20% of REIT dividends, PTP income and co-op dividends
- Phases out for taxable income between $315,000-$415,000 (MFJ) and $157,500-$207,500 (others)
- If taxpayer is subject to phase out:
  - Deduction equals the lesser of QBI times 20%, or the greater of:
    - W-2 wages times 50%, or
    - W-2 wages times 25%, plus 2.5% of unadjusted basis of depreciable assets (qualified property)

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Section 199A: Deduction for qualified business income

- Qualified property is entity's cost of depreciable property for first 10 years owned or the depreciable period if longer than 10 years
- The Section 199A deduction is computed at the individual taxpayer level on a combined basis.

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Business interest deduction:

- Net interest deduction limited to 30% of business' adjusted taxable income EBITDA for next four years.
- Disallowed interest generally may be carried forward indefinitely.

See your tax advisor.

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Exemptions:

- Car dealers with inventory floor-plan loans
- Taxpayers with average annual gross receipts for the three taxable-year period ending with the prior taxable year not exceeding $25M
- Electing real property trade or business
  - Can elect out of the interest deduction limitation
  - Election is irrevocable
  - Required to depreciate property over a longer life: ADS
  - Types: Construction, rental, operation, management, development, brokerage, conversion, acquisition
- Electing farming business

Cost Segregation Services Inc

2017 Tax Cuts and Jobs Act

Non-deductible entertainment expenses

- Entertainment, amusement or recreation activities
- Membership dues to any club organized for business, pleasure, recreation or other special purpose
- Facility used in connection with above activities
- Personal amenities provided to employees not directly related to taxpayer's trade/business
- On-premises athletic facility
- University foundation charitable contributions non-deductible if for right to purchase tickets (business and personal)

2017 Tax Cuts and Jobs Act

Business meals

- 50% deductible
  - Expenses for food and beverages for employees furnished on business premises (breakroom)
  - Expenses for meals during employee travel
  - Business lunches, such as lunch meetings with clients
- 100% deductible
  - Christmas parties and employee social activities
  - Clarifications to employee achievement awards, moving expense reimbursements, transportation fringe benefits

Consult with your tax adviser.

CSS
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