

# Common Cost Segregation Misconceptions

## 1. **Cost Segregation studies are very expensive.**

### False. Here's the truth:

- Fifteen years ago when Cost Segregation first hit the marketplace, studies were performed only on very large multi-million dollar buildings for companies with deep pockets. There was no effective method in place to analyze a building without multiple site visits and many specialists lending their expertise on-site to the project which drove the cost of the studies through the roof. As technology has advanced, the engineering-based cost segregation study, which the IRS recognizes as the most thorough, has become very affordable. The ROI for building owners is very compelling. Cost Segregation allows commercial property owners to free up investment capital to grow their businesses using their own money.

## 2. **Cost Segregation studies cannot be done on buildings less than \$1,000,000.**

### False. Here's the truth:

- Cost effective studies are being done daily on buildings with a cost basis of \$300,000 and on renovation projects as low as \$200,000.

## 3. **Cost Segregation studies do not identify much that can be segregated.**

### False. Here's the truth:

- Many do not realize that 25% - 50% of a building's cost can be redefined as a short life asset. Combine this large percentage with the low cost fee, and a significant return on investment can be realized. Even when a CPA accelerates some depreciation, an engineering-based study will uncover significant amounts of hidden opportunity.

## 4. **Cost Segregation studies can only be done in the first year of ownership.**

### False. Here's the truth:

- Cost Segregation can be applied in any tax year for qualifying buildings without amending prior year returns. Change of Accounting Method (**IRS Form 3115**) is automatically approved with an engineering-based Cost Segregation study. The benefit to a "look-back study" is pulling all of the accelerated depreciation forward into the current year as if this method had been applied since the first year of ownership. Qualifications are:

- Building must have been acquired or renovated after 12/31/1986.
- Owner must be a taxable entity.

*With over 15,000 studies performed, we are the **PREMIER** company providing cost segregation studies & Tangible Property Regulation studies for **U.S. PROPERTIES.***

## *Your Calculation Experts*

For years, CSSI® has been delivering quality, affordable, **IRS defined engineering-based cost segregation studies** to a wide range of individuals and businesses. Our team of experts can help you easily apply the results to your current financials with your CPA or financial professional to assure successful results. In addition, our national coverage and expertise allows us to work with customers and properties across the United States.



**5. Cost Segregation studies can only be done on newly constructed buildings where you have all the receipts.**

**False. Here's the truth:**

- Cost Segregation technical analysts will cost analyze a building, its structure, its systems, and its costs. A study completed by an individual having construction technology and experience is considered by the IRS to be the most reliable and thorough type of study. Where receipts are helpful, the practice of delivering lump sum pricing in construction projects will require construction technology expertise to identify all the component items buried in these bids that qualify for short-term depreciation.

**6. It is better to take depreciation expense over 39 years.**

**False. Here's the truth:**

- It is all about the time value of money. A dollar today is worth more than a dollar tomorrow. An engineering-based Cost Segregation study helps building owners maximize this basic accounting principal.

**7. Cost Segregation studies are risky and may trigger an audit.**

**False. Here's the truth:**

- Engineering-based Cost Segregation studies have been upheld as appropriate, valid since 1997, and no riskier than any other legitimate deduction. Since the 2014 Tangible Property Regulations have triggered a landslide of questions, Cost Segregation is the certain method to finding the answers.

**8. You have to amend prior year's returns.**

**False. Here's the truth:**

- For buildings placed in service in prior years, owners should complete IRS Form 3115 and make a 481(a) adjustment for the current tax year. This allows owners to bring forward the total of all allowable deductions which were not taken without amending prior year returns. Excess deductions can be carried forward until used.

**9. Cost Segregation cannot be taken advantage of because of passive income rules.**

**False. Here's the truth:**

- IRC Section 469 provides three specific exceptions to the grouping activities restriction that covers a very high percentage of commercial property owners. These three ways are the most common ways that a taxpayer may be allowed to use the cost results without limitations of the amount of passive income.

**Passive Loss Group  
Exceptions for Cost  
Segregation Studies**

**There are two kinds of passive activities (IRC § 469 (c)):**

- Rent income from real estate
- Businesses in which the taxpayer does not directly participate

The general rule in IRC § 469 provides that passive losses can only offset passive income.

**There are, however, exceptions:**

- **Real Estate Professional** - Under IRC § 469(c)(7) & Reg. 1.469-9, if the taxpayer spends the majority of his time in real property businesses, meeting the 1/2 personal services and 750-hour tests, rental real estate losses are no longer per se passive.
- **Increasing rents** - The owner of rental real estate has the ability to increase rents, within a reasonable market rate, to allow the taxpayer to utilize depreciation expense derived from the application of a cost segregation study.
- Under Rev. Proc. 1.469-4, **if a taxpayer occupies the rental property**, the taxpayer may have the ability to combine the two activities. This would allow the taxpayer to utilize the loss in the rental real estate activity to offset the gains in the operating activity.

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