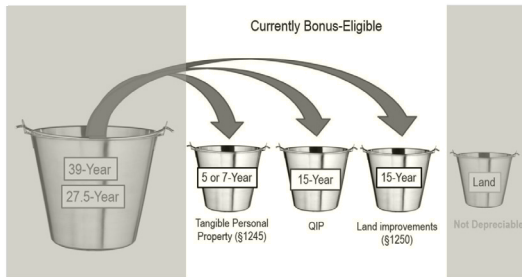
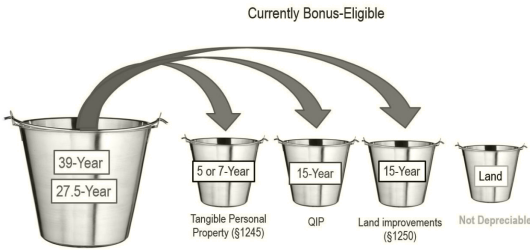


COST SEGREGATION

MAXIMIZE YOUR REAL ESTATE TAX SAVINGS NOW



There's so much to consider when embarking on a new construction project. One factor that should always be taken into account is the opportunity for tax savings. There are many favorable tax strategies that can boost a project's bottom line, and often the key to employing them most successfully is simply good planning. Cost segregation is one of these powerful strategies, and it is primarily used to accelerate depreciation deductions, though it has myriad applications. The benefits of cost segregation on acquisitions, new construction and renovation projects result in significant tax deferrals and improved cash flow.

Cost segregation is an IRS-recognized tax benefit strategy in which specific components of a building or improvement project are identified and reallocated into modified cost recovery system (MACRS) class lives for federal tax purposes. Treating the assets as personal property or land improvements allows depreciation of these assets to be accelerated. Personal property depreciates over 5 or 7-years and land improvements depreciate over 15-years. This is significantly quicker than conventional 39-year depreciation period. The taxpayer is not creating new deductions, but is shifting the deductions towards the earlier years of ownership. This front-loading of depreciation offsets income and lowers the tax burden. This accelerated depreciation can create \$30,000-\$200,000 in federal tax benefits for every \$1,000,000 invested into a property.

YEAR	BONUS RATE
1/20/2025-Onward	100% (40% election)
1/1/2025-1/19/2025	40%
2024	60%
2023	80%
2018-2022	100%

Accelerating depreciation is just the beginning -- there is an additional incentive called "bonus depreciation." New and used assets with class lives of 20-years or less are eligible for this bonus which significantly boosts tax savings.

Under the new tax law, qualified assets placed in service on/after 1/20/2025 will be eligible for 100% bonus. This means that 100% of the asset's purchase price may be written off -- quite a "bonus."

Qualified assets placed-in-service before 1/20/2025 will be eligible for bonus depreciation, but the rate will vary.

What is Eligible for Cost Segregation? What Kind of Assets Can Be Assigned Shorter Class Lives?

Eligible structures include:

- Buildings and facilities placed-in-service after 12/31/1986
- Renovations and additions completed after 12/31/1986

Ideally, it's best to perform a cost segregation study immediately after a property is placed-in-service, to maximize savings from day 1. However, if that was not possible, the IRS allows for recapture of the benefits from previous years using a "look-back" cost segregation study. By reclassifying assets to their correct lives, entities can "catch-up" on all the depreciation they would have gotten had the study been performed on day 1!



Many building components can be moved into shorter class lives, thus undergoing accelerated depreciation and becoming eligible for bonus depreciation. A list of some commonly segregated assets is in the sidebar.

How Can I Make the Most of Cost Segregation?

Three words – plan, plan, plan. Thinking ahead is the key to leveraging all possible opportunities. Be sure to let your accountant know that you’re planning to buy, build, or renovate. They will be able to help you maximize all relevant tax strategies. There are steps you can take to improve the outcomes even before construction begins. For example, if you’re building from the ground up, try to select materials that are eligible for rapid depreciation when possible. For example, ceramic floor tile depreciates slowly over 39-years. However, resilient tile flooring has a short 5-year class life.

Another planning point relates to EPC Act 179D, a one-time deduction benefit that permits the accelerated depreciation of newly constructed or renovated energy-efficient property that meets a certain standard. If you are constructing or renovating property, consider incorporating energy-efficient improvements in lighting, HVAC, or building envelope -- you might be eligible for a depreciation deduction of up to \$5.00/improved square foot. The 179D Deduction is available for qualifying projects that begin construction before 6/30/2026.

If you’ll be disposing of a lot of assets, you’ll want to plan for that too. If an asset no longer exists, the remaining depreciable basis of that asset may be written off in the year the asset was removed. This is called Partial Asset Disposition. You need to plan ahead and perform a cost segregation study to provide the data supporting this write-off.

How Do I Get Started?

Walz Group provides free Estimates of Benefits for potential cost segregation studies. We can take a look at your property and give you a realistic idea of what benefits you can expect. Often investors find this information useful in the pro forma phase as well. A quality cost segregation study is the key to maximizing your tax savings, as it provides the precise and comprehensive data required to support a suite of tax strategies. Recent legislation has continued to broaden the utility and scope of the traditional cost segregation study, and there has truly never been a better time to explore this opportunity.

Let’s talk about what Walz Group, and cost segregation, can do for you on your next construction project.

5 OR 7 - YEAR ASSETS

- Dedicated outlets
- Breakroom counters, cabinets, sinks
- Specialty lighting and plumbing
- Security camera systems and keypads
- Fire extinguishers
- Paddle Fans

15-YEAR LAND IMPROVEMENTS

- Paved parking lot
 - Sidewalks
 - Drain pipes, sanitary lines
 - Landscaping
 - Retaining walls
 - Stormwater retention systems
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