

# An Introduction to Cost Segregation Analysis



## An Overview by Reeder CPA Group

### What is Cost Segregation Analysis?

Cost segregation analysis is a strategic tax savings tool that allows property owners to accelerate depreciation deductions, defer taxes, and improve cash flow. By identifying and reclassifying personal property assets to shorten the depreciation time for taxation purposes, investors can potentially significantly increase their current cash flow.

### Why Cost Segregation is Important

Cost Segregation Analysis stands as a critical strategy for property investors aiming to elevate their portfolio's financial efficiency. Here's how it impacts your investment success:

- 1. Direct Profitability Impact:** By accelerating depreciation on specific property components, cost segregation significantly reduces your immediate tax liability. This reduction allows more capital to remain in your hands, which can be used for further investments or to bolster your portfolio's liquidity.
- 2. Growth Potential:** The savings generated from a cost segregation study provide an opportunity to reinvest in your portfolio, purchase new properties, or upgrade existing assets. This reinvestment can lead to portfolio expansion and increased market presence.
- 3. Competitive Edge:** Utilizing cost segregation gives investors a strategic advantage by optimizing tax savings in a way that many may overlook. This edge is crucial in highly competitive real estate markets, making your investments more lucrative compared to those utilizing standard depreciation schedules.
- 4. Tax Planning Synergy:** Cost segregation aligns seamlessly with broader tax planning strategies, allowing investors to leverage the tax code proactively. This alignment ensures that your investment moves contribute positively to your overall financial plan, reducing tax burdens and enhancing cash flow.
- 5. Flexibility and Financial Planning:** The additional cash flow from tax savings offers greater flexibility in financial planning. Investors can allocate funds across their portfolio according to immediate needs and long-term goals, ensuring a balanced and robust investment strategy.

## The General Process of Cost Segregation Analysis

### Initial Assessment

- ▶ **Consultation:** Our team can determine if your property is a good candidate for cost segregation.
- ▶ **Feasibility Analysis:** A preliminary review of your property to estimate potential tax savings.

### Detailed Study

- ▶ **Classification:** Identification and classification of assets into property categories with different depreciation timelines.
- ▶ **Report Preparation:** A detailed cost segregation report outlining the findings, methodologies used, and the recommended reclassifications.

### Implementation

- ▶ **Adjustment Filing:** Use the study's findings to file amended tax returns or incorporate into the current year's tax filing.
- ▶ **Ongoing Support:** Continuous support to ensure the segregation remains optimized against tax law changes and property modifications.

## Special Considerations in Cost Segregation

### For Newly Acquired or Constructed Properties:

- ▶ **Timing:** Engaging in cost segregation studies at the right time maximizes tax benefits. Ideally, the analysis should be conducted in the year the property is purchased, constructed, or significantly renovated to accelerate depreciation deductions early in the asset's lifecycle.
- ▶ **Construction Costs:** Detailed records of construction costs, including indirect expenses such as architectural and engineering fees, can uncover additional opportunities for classification into shorter depreciation categories.

### For Existing Properties:

- ▶ **Retroactive Savings:** Properties acquired or built in previous years without a cost segregation study can still benefit. A "look-back" study allows property owners to catch up on missed depreciation deductions without amending prior tax returns, using Form 3115 (Application for Change in Accounting Method).
- ▶ **Renovation and Leasehold Improvements:** When properties undergo renovations or tenants make leasehold improvements, a cost segregation study can identify components that qualify for accelerated depreciation, enhancing tax savings.

## Contact Reeder CPA Group

### Chicago

807 Waukegan Rd, Ste 121  
Deerfield, IL 60015

### Maine

50 Sewall St, Ste 101  
Portland, ME 04102

### Phone

Office: (847) 241-5800

### Web

[www.reedercpagroup.com](http://www.reedercpagroup.com)  
[info@reedercpagroup.com](mailto:info@reedercpagroup.com)