


## - Cost Segregation -

Key to Unlocking Hidden Cash In Commercial Real Estate




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### Commercial Property Tax Strategy

**The U.S. Treasury Department States:**

“Cost Segregation is a Lucrative Tax Strategy that should be used in almost Every Major Purchase of Commercial Real Estate.”

— Wall Street Journal - June '03




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### Cost Segregation Is:

An IRS approved tax strategy for commercial property owners to speed up the depreciation on their buildings for income tax purposes.

It is a combination of tax law and engineering principles.




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## Why Speed Up Depreciation?



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IMMEDIATE tax savings that you can really MEASURE.

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## Why Speed Up Depreciation?

- Income tax savings range 7% - 12% of building cost (minus land)
- A \$1M commercial building = \$70k to \$120k cash in pocket savings

IMMEDIATE tax savings that you can really MEASURE.

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## Qualified Properties

- Properties purchased after 1986
- Building cost basis over \$250k
- Tenant Improvements over \$100k

Restaurants, Office Bldgs, Medical/Dental Offices, Manufacturing, Retail, Self-Storage Facilities, Apartments Bldgs, Warehouses, Theaters, Golf Courses, Amusement Parks, etc.

IMMEDIATE tax savings that you can really MEASURE.

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## How is it done?



IMMEDIATE tax savings that you can really MEASURE.

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## Engineered Cost Segregation

IRS Preferred Method

- An engineered cost seg study separates the costs of tangible **Personal Property** (millwork, carpeting, qualified electrical and plumbing) from **Real Property** (foundation, walls, roof, doors, etc.)
- **Time Value of Money:** A dollar saved **today** through reduced taxes is always worth more than a **dollar** in later years.
- By not utilizing cost segregation, commercial property owners are basically giving the government an **interest free loan** of money they could be using **today**.

IMMEDIATE tax savings that you can really MEASURE.

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## Traditional Depreciation

39 yrs Commercial or 27.5 yrs Residential Rental



39 Year Property  
\$1,000,000  
100%

IMMEDIATE tax savings that you can really MEASURE.

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## Traditional Depreciation



Depreciating the same amount every year for 39 years.

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## Desktop Approach



10%  
39 Year Property  
\$1,000,000  
90%

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## Desktop Approach

*"An Accurate cost segregation study may not be based on non-contemporaneous records, reconstructed data or taxpayer's estimates or assumptions that have no supporting record."*

Source: IRS - Cost Segregation Audit Techniques Guide



10%  
39 Year Property  
\$1,000,000  
90%

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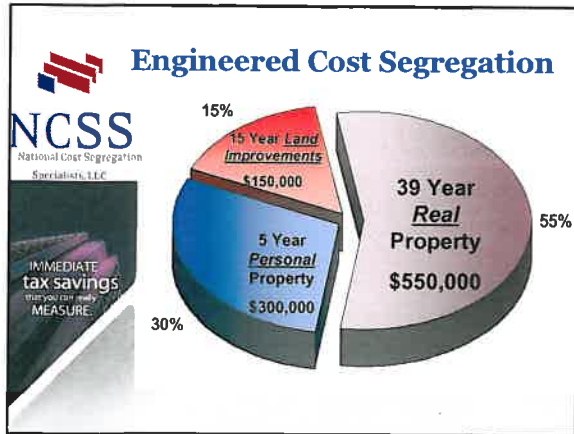
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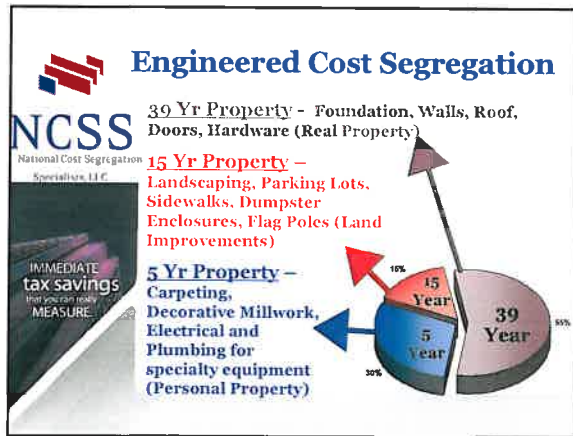
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**Cost Segregation:  
Origin & Case Law**

**NCSS**  
National Cost Segregation  
Specialists, LLC

IMMEDIATE  
tax savings  
that you can really  
MEASURE.

- **Past:** Component Depreciation & ITC
- **Landmark Case:** *Hospital Corporation of America (HCA), 1997*
- **Tax Court ruling (1997):**  
*"Certain assets in the hospital facilities could be considered personal property and depreciated over a 5-year period."*
- **IRS Action on Decision (Sept. 3, 1999):**  
*"We acquiesce in this decision...The issue as to whether the various disputed items are structural components or tangible personal property is a factual question."*

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## 2 Major Problems

Commercial property owners are unaware of this tax strategy.

There are thousands upon thousands of property owners overpaying their taxes.

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## Catch-Up Depreciation

•Scenario:

A commercial property was purchased in 2005 and had a cost segregation done for 2011. What now?

Catch-up depreciation is the difference in the depreciation they took and the depreciation they would have taken had they done a cost seg study back in 2005.

Catch up is taken in the tax year for which the study is conducted

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## Bonus Depreciation

### Additional 1<sup>st</sup> Year Depreciation for New Property

•Scenario:

An existing commercial property was purchased for \$1M in 2005. In 2011 the owner invested \$500k for improvements to the building. What now?

Cost seg can done on building and improvements, but only the improvements would qualify for Bonus Depreciation.

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## Time is Money

A dollar today is worth more than a dollar tomorrow, so naturally a tax deduction today is worth more than a tax deduction tomorrow.



**40 yrs ago, 1971, the price was...**

Gas.....\$ .36 per gallon  
 Average home.....\$ 26,600  
 Average income...\$ 8,734 year

**What will today's dollar buy in 40 years? Not much!**

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that you can really  
MEASURE

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## FAQ's

- How long does a study take?
- Will a study trigger an IRS audit?
- Is there audit protection?
- How much is a cost seg study?
- What info comes in a free projection?

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## Summary

**A Cost Seg Analysis Should Provide These Benefits:**

- Substantial return on investment
- Tax Benefits via increased tax deductions for depreciation
- Opportunity to correct misclassified assets and claim "catch up" tax deductions in the current year
- Increased cash flow for business expansion or investing
- Reduced property costs per square foot
- Property insurance savings
- Leading quality that will withstand IRS scrutiny

IMMEDIATE  
tax savings  
that you can really  
MEASURE

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# Thank You!

For a free estimate or to learn more,

Phone : 480.994.0157

Email: [CostSeg@natcss.com](mailto:CostSeg@natcss.com)

Online: [www.natcss.com](http://www.natcss.com)

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**NCSS**

National Cost Segregation Specialists, LLC

## **Trent Erickson – Founder of National Cost Segregation Specialists, LLC**



Trent has a BS in Business Administration with an emphasis in accounting. He has 10 years experience specific to cost segregation services and over 20 years experience in accounting, income taxation, business tax consulting, taxpayer representation in IRS and governmental agency disputes.

Trent grew up in a commercial construction family and has extensive construction experience. His background in construction along with his knowledge in the tax field led to the intriguing field of cost segregation. With his accounting experience and tax expertise, cost segregation was a perfect fit. By providing cost segregation services to his clients, Trent has been able to save his clients literally millions of tax dollars by accelerating depreciation periods using IRS approved standards.

His cost segregation firm provides services throughout Arizona and across the country. Since 2001, they have conducted thousands of engineer based studies and currently hold a no loss record with the IRS. Trent is passionate at what he does and enjoys strategic planning to maximize the benefits his firm can provide.

Trent and his wife have 5 children. He is actively involved in the community and Boy Scouting programs. He is a die hard Sun Devils fan and enjoys all college sports.

CASH FLOW... IT'S ADDICTIVE

2158 NORTH GILBERT ROAD, SUITE 108, MESA, ARIZONA 85203

T: 480.994.0157 F: 480.994.0159 TOLL FREE: 800.610.2774 [WWW.NATCSS.COM](http://WWW.NATCSS.COM)



**NCSS**

National Cost Segregation Specialists, LLC

## National Cost Segregation Specialists, LLC (NCSS) Differentiators

### 1. IRS Audit Support:

NCSS will provide ongoing support that may be required for any IRS inquiry at no additional charge to you. At NCSS, we don't just stand behind our work – we stand in front of our work.

### 2. No-Loss Record w/IRS audits:

NCSS has not lost any position in the MACRS period governing cost segregation services. Our clients have never had to give a single dime back to the IRS. We work closely with IRS auditors and have always stood the test for each question and/or challenge without any losses sustained by our clients.

### 3. Recognized Industry Leader & Experienced Provider:

- We have completed thousands of cost segregation studies since 2001.
- We work hand in hand with accounting firms to maximize taxpayer benefits.
- NCSS is a leading provider of cost segregation services ensuring full compliance with all IRS regulations and accounting principles.
- Each study is engineer based providing the best documented records.
- We provide high level flexibility to work with every particular tax situation. For instance, we can re-issue a report if assets or deductions need to be moved from one year to another.
- All of our work is in house.
- We have a team of full time engineers (cost estimators) plus a team of full time professionals disciplined in cost segregation, IRS regulations, revenue rulings and court cases.

### 4. Focused on Long Term Business Relationships:

We understand that you have a choice in your cost segregation provider. Cost segregation is our core competency at NCSS, providing attention to detail at every step throughout the process. We take our time and do it right, with the objective of exceeding your expectations and earning the right to be your provider of choice both now, and in the future.

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## **Cost Segregation Reference Sheet**

### **- Questions to ask to “qualify” a candidate for cost segregation**

1. Have you heard of cost segregation? (AKA accelerated depreciation)
2. Do you own commercial property that cost \$200,000 or more?
3. Do you own leasehold improvements of \$100,000 or more?
4. Have you purchased, constructed, renovated, remodeled, or restored commercial property since 1986?
5. Do you have any tax liability?

### **- Needed info to give a FREE projection of savings**

1. Type of building (i.e., restaurant, medical office, apartments, etc.)
2. Building OR leasehold improvement OR both?
3. Placed in service date
4. Approximate square footage
5. Cost basis (what they paid), excluding land

(Or if the owner has the depreciation schedule (depreciation detail), this is best. The “Depreciation Schedule” also called “Tax Asset Detail” or “Federal Depreciation Schedule” can be found in their previous year’s tax return.)

### **- Cost segregation (C.S.) talking points (no particular order)**

1. Tax savings from C.S. can yield as much as 6%-15% of the cost of the property with in the first five years of the study.
2. Would you rather pay yourself or the IRS?
3. C.S. capitalizes on the time value of money to keep money in your pocket longer.
4. C.S. is a method of separating and distinguishing personal from real property, and then accelerating the depreciation deductions on the personal property.
5. C.S. can reallocate up to 40% of a buildings assets from 39 year (commercial property, i.e., restaurants, offices) or 27.5 year (residential property, i.e., apartment buildings) to much shorter 5, 7, and 15 year property!
6. If I gave you a million dollar check and said you had the option of cashing it today, or 39 years from now, what would you choose? Most people would rather have that money now because of its value now. Cost segregation is the same idea.
7. C.S. is like getting a huge loan from the government that you pay back over time, INTEREST FREE!
8. By not doing a cost segregation study, you are basically giving the government an interest free loan of money you could be using today.
9. C.S. lowers taxable income and increases cash flow.
10. C.S. yields permanent financial and tax benefits by accelerating depreciation.

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## ADVANCED FERTILITY CARE

**Nathaniel Zoneraich, MD, FACOG**  
Reproductive Endocrinology & Infertility

National Cost Segregation Specialists, LLC  
2158 N. Gilbert Road Suite 108  
Mesa, AZ 85203  
Attn: Trent Erickson

### **Re: Significant Tax Savings on my Commercial Property**

Dear Trent,

I wanted to thank you and your team for saving us so much in taxes on our commercial property. Please include this letter as our testimonial to your work:

"To my friends and colleagues in the medical realm; I had to share my experience from getting a cost segregation study done on my facility and the huge tax benefit it was to me!

I want to thank National Cost Segregation Specialists, LLC (NCSS) for the wonderful job they did at saving me a tremendous amount of taxes on my medical building. I was amazed that a cost segregation study could get me so much additional depreciation and tax savings from owning commercial property!

My accountant referred me to NCSS when my business came under IRS audit. We had a previous cost segregation study done through another provider which began to crumble under pressure from the IRS auditor. I hired NCSS to perform a new engineer-based study to replace the old one! After speaking with NCSS, the auditor 'acquiesced on all parts of the new cost segregation study'! Their final study was well documented and easy to understand. NCSS was professional in their dealings with the auditor and I love the fact that they have a no-loss record with the IRS.

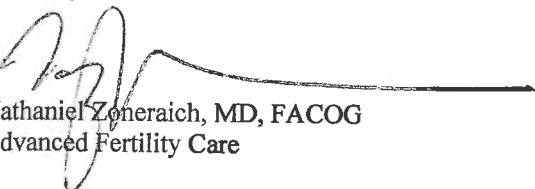
By hiring NCSS to perform a cost segregation study, they were able to get me over \$575,000 in additional depreciation above and beyond what the previous cost segregation study had already taken! That resulted in significant tax savings!

They worked seamlessly in conjunction with my accounting firm to utilize this tax strategy to give me the greatest benefits. I didn't have to worry about a thing. I would use their services again and definitely recommend their cost segregation services to every medical facility or commercial property owner wanting to save taxes and increase cash flow. I had no idea what great benefits were hidden within the walls of my building.

I encourage you to get a free estimate of your savings from them. Their staff was professional and followed through on everything they said they would. You can contact Brandon for your free estimate by email at [costseg@natcss.com](mailto:costseg@natcss.com) or phone 480.994.0157. Find them online at [www.natcss.com](http://www.natcss.com).

Thank you NCSS for exceeding my expectations!"

Sincerely,



Nathaniel Zoneraich, MD, FACOG  
Advanced Fertility Care

#### **Scottsdale**

9819 North 95th St., Ste. 105  
Scottsdale, AZ 85258  
Tel (480) 874-BABY

#### **South East Valley**

2055 East Southern Ave., Ste. E  
Tempe, AZ 85282  
Tel (480) 413-BABY



National Cost Segregation Specialists, LLC  
2158 N. Gilbert Rd.  
Suite 108  
Mesa, AZ 85203  
Attn: Trent Erickson and Brandon Buchholzer

Re: Thank You for Your Service to Lower Our Tax Liability

Trent and Brandon,

It was a pleasure working with your firm on our new Celebration Stem Cell Centre.  
Thank you for joining us during our Grande Opening and supporting our vision.

We were very excited to see our tax benefits from the completed cost segregation study. We were pleased that your final numbers exceeded your projections; I was even more pleased at the benefits it would offer us. It was amazing that your firm was able to increase our depreciation deductions so dramatically to help us minimize our tax liability, all within the tax deadlines we were facing.

I know we had lots of qualified property in our facility that your engineer identified thus increasing our benefits from the study. He was courteous, professional and very thorough during the site visit.

Your tax manager did a great job as well, researching all of our placed in service dates to our benefit. She also worked very well with our accounting firm for a turn key solution in applying the study.

It was great working with you on projects in the past and I look forward to working with you again in the future. Thank you all for a job well done!

A handwritten signature in blue ink that reads "William S. Lund". The signature is fluid and cursive, with the first name "William" and last name "Lund" clearly legible.

William S. Lund

Chairman

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