

WELCOME ATTENDEES OF THE FINANCIAL MANAGEMENT CONFERENCE

Discover Hidden Deductions With Cost Segregation Analysis

TUESDAY, OCTOBER 11, 2011



COST SEG ASSOCIATES

**4600 WEST 77TH STREET • MINNEAPOLIS, MN 55435
PHONE (800) 245-5613 • FAX (952) 831-6302
WWW.CSATEAM.COM**

Welcome

- ▶ Who are you?
- ▶ Where are you from?
- ▶ Would you be interested in reducing your income taxes?

Cost Seg Associates “CSA”



To help the independent grocer save money



By uncovering hidden depreciation deductions



Minimize your personal income taxes and generate cash flow from your depreciation schedule

Basic Premises

- ▶ We don't do taxes
- ▶ We aren't here to sell something
- ▶ This may or may not work for you

Today's Agenda

EDUCATE

What is Engineered Cost Segregation "ECS?"



EXAMINE

Is it something you should consider?



EXPERTISE

What expertise is needed?

EDUCATE

EDUCATE



EXAMINE



EXPERTISE

- A. What is it?
- B. Terminology
- C. The Benefit
- D. Decision Process
- E. Cash Flow
- F. Is it legal?

A. What is Engineered Cost Segregation “ECS?”



Identification of hidden deductions



Depreciation deductions over shorter time period



More deductions over shorter time period results in a lower tax bill more quickly

B. Terminology: Real v. Tangible Property

REAL

- Structural, not movable
- Permanent building components required for basic operation
- Recovery period: 39-years
- Examples: Tile flooring
Interior, permanent walls
Exterior walls
Basic lighting

TANGIBLE

- Movable
- Movable equipment and structural costs that operate that equipment, external building costs
- Recovery period: 5- and 15-years
- Examples: Vinyl floor covering
Interior movable walls
Drive-thru window
Decorative lighting
Freezers
Wiring, electrical panel, installation costs related to lighting, freezers, etc.
Parking lot stripes

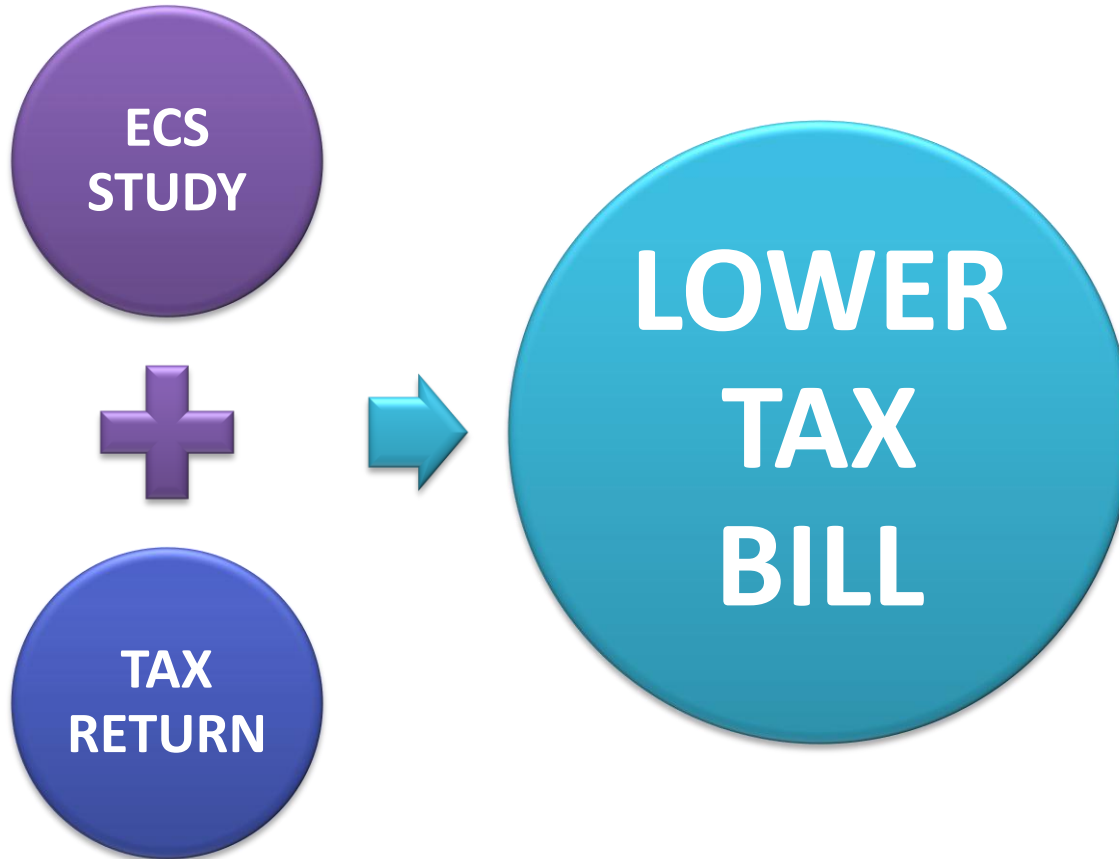
C. The Benefit

- ▶ Average Savings
- ▶ Case Studies

Our independent
grocers save
\$150,000 on
average per store

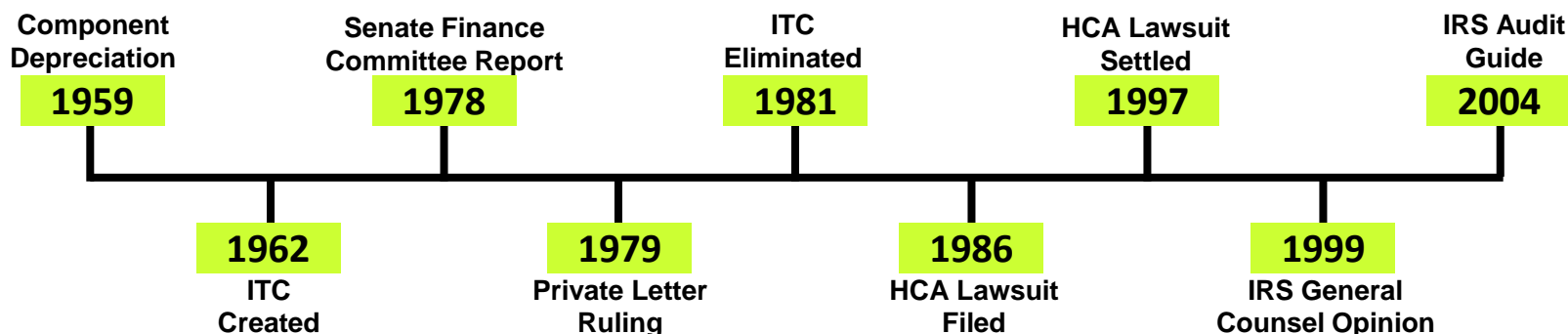
Store Size (Sq. Ft.)	Savings
0 to 14,999	\$72,000
15,000 to 39,999	\$148,000
40,000+	\$187,500

D. Where is the Cash Flow?




E. Is it Legal?

- An engineered cost segregation study is a tax strategy accepted under the U.S. tax laws and accounting rules



- The IRS requires cost segregation studies to be completed by firms that can demonstrate engineering, construction, tax law and accounting expertise



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Cost Segregation Audit Techniques Guide - Table of Contents

Revision Date March 2008

This Audit Techniques Guide is presented in several chapters. These chapters can be accessed and then printed by following the links in the Table of Contents below.

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F. Decision Process

Decision Maker

YOU

Your Tax
Situation
Expert

CPA

CSA

Construction,
Engineering,
Accounting
Experts

EXAMINE



- A. Pre-qualify (yourself)
- B. Determine benefit
- C. Decide how to use benefit

A. Pre-Qualify (Yourself)

- You are paying taxes
- You own your own building*
- Your building has been built, purchased or renovated in the last 15 years**
- Your costs of above totaled \$300,000 or more

Possible Disqualifiers

- Passive loss limitations
- You are not paying taxes

B. Determine the Benefit

- ▶ **One page checklist**
- ▶ **Basic building cost information**
- ▶ **Get estimate of benefit and cost of study**

C. How Will You Use the Benefit

- ▶ **Pre-qualification**
- ▶ **Estimated calculation of your benefit**
- ▶ **Complimentary consultation with you and your CPA**

EXPERTISE



- A. The ECS Industry
- B. Experience
- C. Process and Technology
- D. Consultation with Estimate
- E. References

A. The ECS Industry

- **The cost segregation industry includes:**
 - ▶ **The large national and regional CPA firms**
 - ▶ **Firms that offer a variety of real estate services including cost segregation studies**
 - ▶ **Stand-alone firms like CSA who exclusively provide cost segregation services**

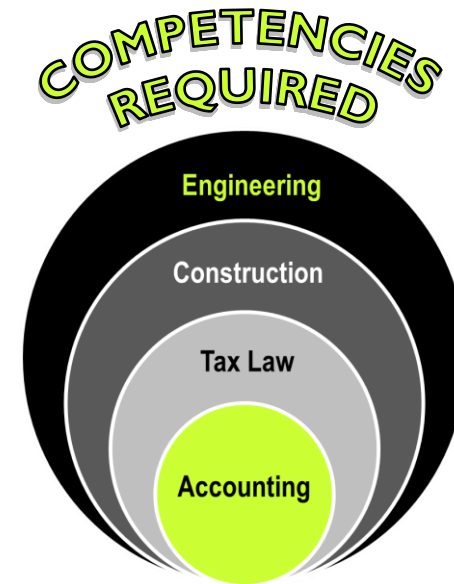
- **There are many types of studies done by firms in the industry**

- **There is a wide range of quality in processes, attention to detail and common sense**



B. Experience

- ▶ Expertise required by the IRS
- ▶ It's the only business they're in
- ▶ Proven track record and audit record
- ▶ Audit representation and at no cost



C. Process and Technology

- ▶ Can they explain their process?
- ▶ Do they have the necessary technology and resources?



Special Purpose Electrical: 26055, 26245, 26285, 50105, & 50205

The grocery store includes specialty equipment dependent upon the electrical distribution system. The elements of this system which are used directly with specific items of equipment have been defined as items of equipment for depreciation purposes. Revenue Ruling 69-558, 1969-2, C.B. 4 states:

“... electrical wiring and special outlets (and plumbing lines) ... leading directly to, within, and interconnecting with items of machinery or equipment are not parts of the electrical (and plumbing systems), but are parts of the particular items of machinery or equipment to which they directly lead, are within, or interconnect ...”

In some instances, the electrical systems can serve both equipment and general building requirements. A functional allocation of the cost of the electrical system has been made, supported by *Scott Paper Co.*, 74 TC 137, which states:

“Conceptually, the primary electric improvements are as closely related to the increased production of the facility as are the new paper machines. The only blemish on the primary electric improvements is their slight function as providers of electrical service to building ... Fortunately, a logical and objective measure of electrical load exists, allowing an allocation between the structural (building related) and process functions which are served by the electrical components ...”

Similar positions were taken in Revenue Ruling 66-299, 1966-2, C.B. 14; *Morrison Inc. v. Commissioner*, 57 AFTR 2d 86-1342. All concluded that equipment related electrical requirements are part of the equipment to which they relate and not structural components of the building.

In *Hospital Corporation of America and Subsidiaries v. Commissioner*, 109 TC 21 (1997), the Tax Court reaffirmed its earlier decisions stating that it found no material differences between the facts in the *Hospital Corp.* case and those facts present in its earlier decisions. The *Hospital Corp.* case states:

“... electrical outlets, receptacles, and junction boxes ... used to power equipment that is not employee owned or that does not relate to the operation and maintenance of petitioners' buildings constitute personal property”

Although electrical system is included as part of the definition of structural components in Reg. 1.48-1(e) (2), the courts have generally recognized that the examples provided in that definition were not all inclusive, nor intended to list items which are structural components under all circumstances. Rather, the courts indicated that the defining factor in the definition is the last part, “other components relating to the operation and maintenance of the building.”

D. Consultation with Estimate

- ▶ **Pre-qualification**
- ▶ **Estimated calculation of your benefit**
- ▶ **Complimentary consultation with you and your CPA**

E. References

- ▶ **Peers**
- ▶ **Wholesalers**
- ▶ **Associations**
- ▶ **NGA**
- ▶ **FMS**
- ▶ **BGBCS**

Summary



What is Engineered Cost Segregation “ECS?”

Is it something you should consider?

What expertise is needed?

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Thank you for participating in our workshop.

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