

# Article from the Practical Accountant Magazine

May 2005

## Benefits of Cost Segregation Studies

By Grant Keppel

Cost segregation studies (CSS), a process to identify personal property assets that often get buried or lumped together within the real property asset, may be a burgeoning area of revenue for accounting firms.

Consultants reclassify those property asset costs to the shortest possible depreciable life to maximize the depreciation deduction. As a result of commercial real estate being depreciated over 39-years, a cost segregation study may identify 15 to 50 percent of assets that may qualify and depreciate over a 5-, 7-, or 15-year life. Due to recent revenue procedures, owners of commercial real estate can go back and "catch-up" depreciation deductions that were not taken on previously filed tax returns. The procedure affords the ability to go back to tax years as far as 1987 without the need of amending tax returns for the entity or shareholders previously filed tax returns. According to Grant Keppel, cost segregation studies can be prepared for apartment complexes, auto dealerships, distribution centers, restaurants, hotels/motels, manufacturing plants, medical centers, office buildings, retail chains and shopping malls, and a variety of the other structures. Also eligible are new buildings under-construction, existing buildings undergoing renovation or expansion, and others.

Keppel says that CPAs either don't realize the benefits of Cost Segregation Studies, or believe themselves capable of tackling the enormous level of detail needed for such a study. "We have CPAs, but the other thing we have is the engineering capability," Keppel says, referring to the structural experts and contractors that help CSP price the many details of depreciation in property, right down to the blueprint level. For instance, a suburban office building may offer such "hidden" assets as underground sewer, gas, or electric lines, says Keppel, the building-property connections of which can actually depreciate faster than the building. Likewise, inside the building an owner might have a computer room with specialized cooling and heating requirements, a five-year asset, not a 39-year depreciation asset.

CSP works with some 42 CPA firms nationwide, and has alliances with such networks as Leading Edge, CPA Associates and the MSI Network. He says that billing for a CSS can range by industry, size of property, and record availability. As an example, however, he says that a \$2 million class A office building requiring a full CSS may necessitate a \$5,500 fee from CSP and the accounting firm may bill the client, depending on market, \$8,500.

"Firms could see a 30 to 100 percent markup on the generation of a study," Keppel says.