SCHNEIDER DOWNS

# COST SEGREGATION SERVICES

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Big Thinking. Personal Focus.

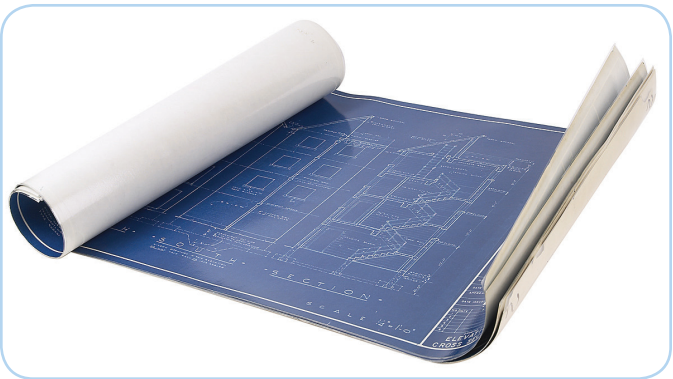
# SCHNEIDER DOWNS—COST SEGREGATION SERVICES

SCHNEIDER DOWNS' COST SEGREGATION STUDIES ACCELERATE DEPRECIATION DEDUCTIONS, LOWERING YOUR TAX LIABILITY AND MAXIMIZING YOUR CASH FLOW.

**A Solid Case for Cost Segregation - Schneider Downs' Engineering-Based Approach**

Your company's real estate holdings constitute a significant capital investment. With Schneider Downs' engineering-based cost segregation studies, we will perform an analysis of major building components to maximize your real property's financial return by generating significant cash flow savings. Our cost segregation analysis generates tax savings by identifying building costs that can be reclassified from over 39 years or 27.5 years to 5-, 7- or 15-year lives.

Schneider Downs' cost segregation team has the tax and engineering skills to carve out the overlooked shorter-life assets and file the necessary IRS paperwork to recover your tax deductions. To determine if you will benefit from a cost segregation study, we will provide you with a savings estimate based on a preliminary analysis of your project costs, as well as historical engagement results for similar properties and industries. A savings estimate will reveal any tax savings that may be gained from a cost segregation study. Our engineering and tax specialists will identify tax savings from:



- New buildings presently under construction.
- Existing buildings undergoing renovation, remodeling, restoration or expansion.
- Purchases of existing properties.
- Office/facility leasehold improvements and "fit outs."
- Post-1986 real estate construction, building acquisition or improvements where no cost segregation study was performed (even though the statute of limitations previously closed on the property construction/acquisition year).

**Valuable Tax Savings Embedded in Buildings**

With our cost segregation study, you will realize substantial tax savings based on indisputable evidence developed to withstand IRS scrutiny.

Your property is categorized into shorter-life classes based on applicable tax authorities. We provide full documentation of the cost segregation study, employing engineering and cost estimating procedures recognized in IRS rulings and judicial decisions. A complete audit trail traces unit costs from contract documents and other source data.

**You Can Save Up to $10 in Benefits for Each Dollar Invested in Your Schneider Downs Cost Segregation Study**

You get a tremendous payback for your investment in professional fees. Clients routinely receive present value cash flow savings of at least eight to ten times their investment for the study. Our cost segregation study truly maximizes the value of your real estate assets.

**Enjoy the Windfall from Constructed Property or Previously Acquired Property**

A cost segregation study represents a valuable opportunity. You may deduct depreciation amounts that you were legally entitled to but did not claim entirely in the tax year in which you complete the study. This cash flow windfall is available to you even though the statute of limitations previously closed on the property construction or acquisition year. Our team of professionals will identify the

overlooked shorter-life assets and file the necessary IRS documents to recover your tax deductions.

**Reduced Depreciable Lives for Leasehold and Restaurant Improvements**

The American Jobs Creation Act of 2004 reduced the recovery period of qualifying leasehold improvements to nonresidential real estate and qualifying restaurant property to 15 years (formerly 39 years) for property placed in service after October 22, 2004, and before January 1, 2006. Legislation passed in 2006, 2008 and 2012 extended the qualified leasehold improvement property to property placed in service through 2013. These new and revised provisions will enhance your depreciation deductions from such improvements.

"Qualifying leasehold improvement property" is any improvement to an interior portion of a nonresidential building made by a lessor, lessee or a sublessee under or pursuant to a lease. The improved portion of the property must be occupied by the lessee or sublessee, and must be placed in service more than three years after the date the building was first placed in service. "Qualifying restaurant property" is an improvement to a building where such improvement is placed in service, and more than 50% of the building's square footage is devoted to preparation of and seating for on-premises consumption of prepared meals.

**Tax Depreciation Incentives**

The American Taxpayer Relief Act of 2012 (ATRA) extended 50% bonus depreciation and the increased Section 179 expensing for qualifying property placed into service through 2013. Bonus

## OUR COST SEGREGATION PROCESS

Our process will not intrude on your day-to-day operations. Our step-by-step process is as follows:

1. Physically inspect the property.
2. Examine architectural/engineering drawings and specifications for potential asset reclassification.
3. Analyze cost data, including the contractor's application of payments, change orders, owner-incurred costs and indirect disbursements.
4. Prepare an itemized list of property units qualifying for shorter-life classification based on relevant income tax authorities.
5. Apportion direct labor, material components and indirect costs based on engineering drawings and specifications.
6. Reconcile total costs per the engineering analysis to capitalized project costs.
7. Deliver report with findings and analysis that will support your company's tax position.

depreciation generally permits a taxpayer to expense 50% of the cost of new assets in the first year for qualifying Modified Accelerated Cost Recovery System (MACRS) property. "Qualified property" is tangible property with a recovery period of 20 years or less, water utility property, computer software that has not be substantially modified and qualified leasehold improvements. A taxpayer can expense up to $500,000 of the cost of section 179 property. "Section 179 property" means tangible property, certain computer software, and acquired by purchase for use in the active conduct of a trade or business. This provision also limits the amount of the deduction based upon an overall investment limitation during a tax year.

**Additional Offerings**

To comply with the new tangible asset regulations, we offer the following:

Asset Management - This study can assist taxpayers with additional detail to identify the remaining cost basis of assets that may be replaced or retired.

Unit of Property (UoP) - A required process that allows a taxpayer to determine if an investment in a property is required to be capitalized or expensed. The UoP details the cost of a buildings into nine main components. This list tracks the cost changes over time within each of these nine areas.

**We have helped companies in these industries generate cash flow and tax deferral:**

- Automobile Dealerships
- Bank Branches
- Commercial Rental Property
- Corporate Office Buildings
- Distribution Centers
- Food Processing Plants
- Gas Stations/Convenience Stores
- Hospitals
- Hotels and Motels
- Manufacturing Facilities
- Medical Centers
- Multi-Family Residential Property
- Restaurant Facilities
- Sale-Leaseback Transactions
- Shopping Malls
- Strip Center Shops
- Student Housing

## We Save Businesses Money

### DISTRIBUTION CENTER IN PENNSYLVANIA

The facility had a cost basis of $34.4 million. Our cost segregation study accelerated depreciation of $7.6 million, with a corresponding tax deferral of $2.9 million.

### AUTOMOBILE DEALERSHIP IN PENNSYLVANIA

We completed a study on an automobile dealership with a cost of $1.95 million. The study will accelerate over $210,000 in additional tax depreciation, resulting in tax deferral from this accelerated depreciation of $80,000.

### MANUFACTURING FACILITY IN PENNSYLVANIA

A manufacturing facility took full advantage of the study and calculated $2.4 million of additional depreciation in the first year. This improved cash flow by $922,000.

### GAS STATION/CONVENIENCE STORE IN WEST VIRGINIA


We conducted a cost segregation study on a recently constructed $2.5 million gas station/ convenience store. Our study reclassified all of the costs out of 39-year property, resulting in a tax deferral of $392,000 for the life of the property.

### RETAIL STRIP PLAZA IN MARYLAND

We performed a study for a $6.3 million retail strip plaza, resulting in the ability to shift 71% of the costs to non-39-year property. The study will produce a tax deferral of $510,000.

### RETAIL FACILITY IN PENNSYLVANIA

This retail facility study reclassified $1,244,000 of cost as qualified leasehold improvements. These qualified improvements allow the taxpayer to depreciate these assets over 15 years instead of 39 years.

### CORPORATE HEADQUARTERS IN NORTH CAROLINA

This center was acquired and improvements were made for a total cost of $5.3 million. The depreciation increase of $2 million over the first five years will defer taxes in excess of $743,000.

### HOTEL IN OHIO


This hotel had a cost of more than $14 million and took full advantage of the cost segregation strategy. The benefit achieved compared to the cost of the study was more than 130 to 1.

## For More Information

To learn more about the benefits of a cost segregation study, please contact Gennaro J. DiBello at 412-697-5306 or gdibello@schneiderdowns.com.

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