



Cost Segregation

Finding Cash In Your Building

Recent IRS rulings and procedures coupled with a landmark court case have made it possible to realize substantial tax savings associated with the depreciation of real property. If you own developed real estate, you may be in a position to realize significant tax savings in the near term and an increase in cash flow through a cost segregation study.

How?

A cost segregation study is the process of reclassifying qualifying building components out of a 39-year recovery period and into 5, 7 or 15-year recovery periods. Things like special electrical equipment, landscaping, site lighting or underground utilities may qualify. Faster depreciation means higher tax deductions in the early years and a lower tax bill. And it's all legal.

How Much Can You Save?

On average, for every \$100,000 of 39-year property reclassified to 7-year property, the net present value of the cash flow is \$20,000. And the more specialized the use of your building, the greater the savings. Wouldn't you prefer that money in your pocket, not hidden in your building?

What Type of Properties are Good Cost Segregation Candidates?

Real estate investments best suited to undergo a cost segregation study include all post-1986 real estate construction, building acquisitions or improvements, new buildings under construction, the purchase of existing property, existing buildings undergoing renovation or expansion, and office leasehold improvements and "fit outs." Other factors to be considered when deciding whether to undergo a cost segregation study include the profitability of the entity or its owners, passive activity loss rules, early disposition and other tax-related situations.

Cost Segregation Facts

- 20-50% of building costs can be segregated
- Indirect soft costs can be allocated to various depreciable lives
- Over 200 IRS court cases, rulings and procedures allow cost segregation studies

What are the Advantages of Conducting a Cost Segregation Study?

- Reduce corporate or individual income taxes
- Help provide corporations and investors with increased cash flow
- Provide investors with additional cash to reinvest in new projects
- May allow for future write-offs when structural components are replaced
- Taxes are deferred, not eliminated



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How Does a Cost Segregation Study Work?

A cost segregation study identifies and prices non-structural elements and exterior site improvements, making it possible for property owners to maximize their depreciation deductions by reclassifying as much as possible of the related costs from building costs to personal property and exterior site improvements. In addition, indirect construction costs, such as construction period interest, general conditions, and architecture and engineering fees are allocated on a pro rata basis to the assets identified as nonstructural. By maximizing the depreciation deductions, building owners can increase their cash flow by paying less income tax during the early years of the depreciable life of a building. The owner is also eligible to catch up in the current year on accelerated depreciation taken on assets that qualify for shorter recovery periods in prior years.



How Long Does It Take to Complete a Cost Segregation Study?

From the time we receive all of the appropriate documentation, a cost segregation study normally takes about three months.

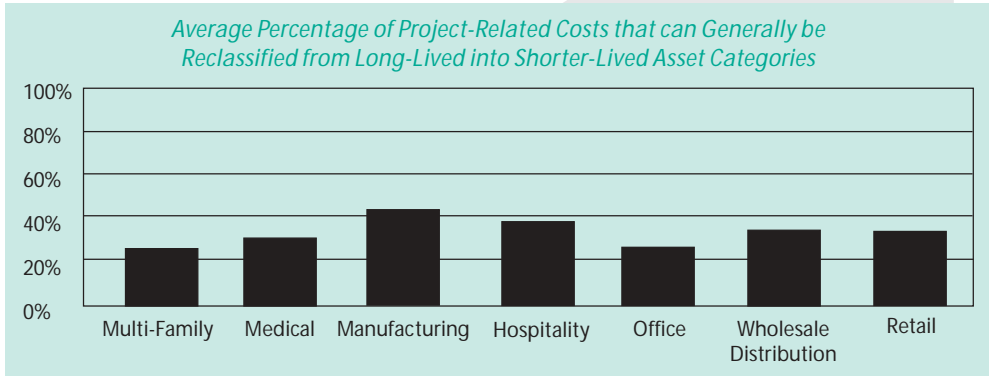
Requirements

A successful cost segregation study requires:

1. A detailed analysis of the direct and indirect construction, improvement and renovation costs
2. An examination of drawings, blueprints and specifications (if available)
3. A physical inspection to observe and identify property utilization

4. An expert's understanding of specific building, mechanical and electric systems, as well as the processes characteristic of certain types of assets
5. A detailed knowledge of the tax code as it applies to the cost segregation process
6. The analytical abilities and organizational skills to conduct the necessary economic and financial analyses.

These are all of Alpern Rosenthal's core strengths. Our cost segregation studies are thorough and well documented with a paper trail that accounts for all construction cost re-classification.



Why Alpern Rosenthal?

Alpern Rosenthal, one of Western Pennsylvania's largest certified public accounting and business advisory firms, is

one of only a handful of CPA firms doing cost segregation studies in the state. The firm has specialists who can assist you in realizing significant cash flow savings from:

- New buildings and facilities currently under construction
- Existing buildings undergoing renovation, remodeling, restoration or expansion
- Buildings placed in service as far back as 1987
- Leasehold improvements to offices and facilities
- Acquisitions or investments in real estate properties.

Our analysis will also identify overlooked costs that may be segregated for accelerated depreciation.

At Alpern Rosenthal, we are an innovative firm dedicated to shaping long-term relationships that have advanced our clients' businesses.

For more information on cost segregation services, contact your Alpern Rosenthal representative at 412.281.2501.

To receive a complimentary feasibility analysis and an estimate of the savings, please visit www.alpern.com/costseg.html.