Cost Segregation Example

In general, real estate is depreciated over either 27.5 years or 39 years depending on whether the property is residential or commercial. Through the performance of a cost segregation study, a significant portion of the real estate may be reclassified for tax purposes and depreciated more quickly resulting in tax deferral, increased cash flow and Net Present Value savings.

The value of a cost segregation study can be illustrated by the following example.

Taxpayer purchases building for $4.75 million excluding the land. If taxpayer does not undertake a cost segregation study, the building will depreciate over 39 years. After five years the taxpayer will have accumulated $603,900 of depreciation.

If a cost segregation study is undertaken, then eligible assets may be reclassified to shorter depreciation periods. In this example assume as follows:

- Property reclassified to 5 year personal property = $200,000
- Property reclassified to 7 year personal property = $300,000
- Property reclassified to 15 year land improvements = $475,000

The reclassification results in additional depreciation over the first five years of **$476,515.**

Assuming a 40% rate of tax, the five year tax savings equals **$190,606.**

Assuming an 8% discount rate, the present value tax savings over the first five years is **$167,326.**

As you can see from the example above, a cost segregation study can yield significant benefits.