



## Cost Segregation Case Study

The best way to illustrate the direct financial benefits of a Cost Segregation Study is through the following KBKG case study:

### Cost Segregation of an Apartment Building Construction

A taxpayer completes a \$5 million construction of an apartment building. \$500,000 of the construction costs are initially identified by the taxpayer as furniture and equipment related (i.e. stoves, dishwashers and other appliances). The remaining \$4.5 million of project costs are classified as building real property and depreciated over a 27.5-year class life by the taxpayer. The taxpayer appropriately decides to conduct a Cost Segregation Study in the tax year the project was completed and placed-into-service.

After the thorough analysis of the \$4.5 million building real property by a Certified Cost Segregation Specialist, certain costs are identified as tangible personal property and land improvements. The results of the analysis are as follows:

- 17% of the \$4.5 million identified as personal property (5-year depreciable class life)
- 8% of the \$4.5 million identified as land improvements (15-year depreciable class life)
- 75% of the \$4.5 million remains as structural real property (27.5-year depreciable class life)

### Tax Benefits & Present Value Savings as a Result of the Cost Segregation:

The following chart depicts the difference between total depreciation deductions of the apartment building for the first five years with and without a Cost Segregation Study.

INCREASED DEDUCTIONS WITH A COST SEGREGATION STUDY vs. WITHOUT A STUDY: First 5 Years \*

Tax Year	WITH STUDY				Total Deductions	WITHOUT STUDY	Increased Deductions	After-Tax Increased Cash Flow
	5-Year	15-Year	27.5-Year	Total Deductions		Total Deductions		
1	\$ 153,000	\$ 18,000	\$ 56,261	\$ 227,261	\$ 75,015	\$ 152,246	\$ 60,899	
2	244,800	34,200	122,715	401,715	163,620	238,095	95,238	
3	146,880	30,780	122,715	300,375	163,620	136,755	54,702	
4	88,128	27,702	122,715	238,545	163,620	74,925	29,970	
5	88,128	24,934	122,715	235,777	163,620	72,157	28,863	
	TOTAL				\$ 1,403,673	\$ 729,495	\$ 674,178	\$ 269,671

SUMMARY OF TAX BENEFITS & SAVINGS	
Increased Depreciation Deductions (Years 1-5)	\$ 674,178
After-Tax Increased Cash Flow (Year 1)	\$ 60,899
After-Tax Increased Cash Flow (Years 1-5)	\$ 269,671
Net Present Value of After-Tax Cash Flow	\$ 171,763

\* The calculations above assume a 40% combined federal and state tax rate and an 8% present value factor

The potential tax saving benefits derived from a Cost Segregation Study can be significant based on the cost basis of the project and type of property. Typically, capital improvement projects larger than \$500,000 or greater can benefit from cost segregation.

### NATIONWIDE SERVICE