



CASE STUDY

Regional CPA firm and CSP360 put \$1M in commercial property owner's pocket through cost segregation

BACKGROUND

The owner of a large, family-owned property management firm has accumulated a portfolio of more than 60 industrial, retail, office and medical buildings. He and his family also own a construction company and a maintenance firm.

While attending an event held by the Commercial Real Estate Women (CREW) Network, a partner from a Top 50 accounting firm and a representative from CSP360 met the owner's daughter, who was second-in-command over this property empire.

Upon learning of the extent of the family's property holdings, the CSP rep and accounting firm partner immediately recognized the opportunity to maximize the property owner's tax savings through cost segregation. They explained that, while they would need the property owner's past tax returns to prepare a solid estimate, the family could potentially recover several hundred thousand in overpaid taxes.

CHALLENGE

While the daughter was intrigued, the hurdle the regional firm had to overcome was the property owner's loyalty to his long-time CPA, who viewed cost segregation as a "scheme." Until they gained the trust of this old-school CPA, the large-firm partner and CSP rep were wasting their breath trying to convince the property owner or his daughter of the tax-minimization benefits of a cost segregation study.

SOLUTION

Ultimately, the key to success was demonstrating to the skeptical CPA that cost segregation is not a risky or aggressive tax scheme, but instead is an IRS-approved approach to accelerating depreciation deductions.

The accounting firm partner patiently and persistently made her case to the CPA, sharing the text of the *Hospital Corporation of America v. Commissioner* court decision that made cost segregation allowable, as well as the sections of the tax code and revenue procedures where the rules are codified.

Using prior year tax returns that the owner had provided, CSP360's qualified engineering and tax professionals meticulously combed through every tax return schedule on every property to identify and provide documentation of each opportunity for accelerated depreciation. By walking the CPA through this extensive and well-documented report, the large-firm partner demonstrated to him that this study would maximize the client's tax savings while standing up to any potential scrutiny from the IRS.

RESULTS

In the end, the CPA admitted that he had been wrong. He consented to file the amended tax returns because he realized that, not only is cost segregation a valid tax approach, but it requires significant expertise that this CPA did not possess.

As a result of cost segregation studies on his entire commercial real estate portfolio, the building owner received a staggering \$1 million refund from the IRS. The owner was so impressed that he has retained the Top 50 firm for all tax and audit work for the operating businesses as well as any new properties that he acquires, while the former CPA will continue to prepare tax returns for the existing properties.

LESSONS LEARNED

This large regional accounting firm learned a few lessons about how to leverage cost segregation to build the firm's book of business:

- Entrepreneurs and other small-business owners can be tremendously loyal to their existing CPAs. While it can be impossible to dislodge an incumbent CPA based on doing a better tax return or audit, the potential tax savings generated by a cost segregation study provide the value proposition accounting firms need to capture a commercial property owner's attention.
- Accounting firms can leverage CSP360 to provide education to both property owners and incumbent CPAs who are skeptical about the legitimacy of cost segregation.
- Combined with their extensive research into the IRS rules pertaining to cost segregation, CSP360's engineering expertise is the secret ingredient to achieving the greatest tax minimization while also being able to withstand an IRS audit.

How can your accounting firm integrate cost segregation into your new business program? Call CSP360 at (800) 591-0148 to learn how we can help.

