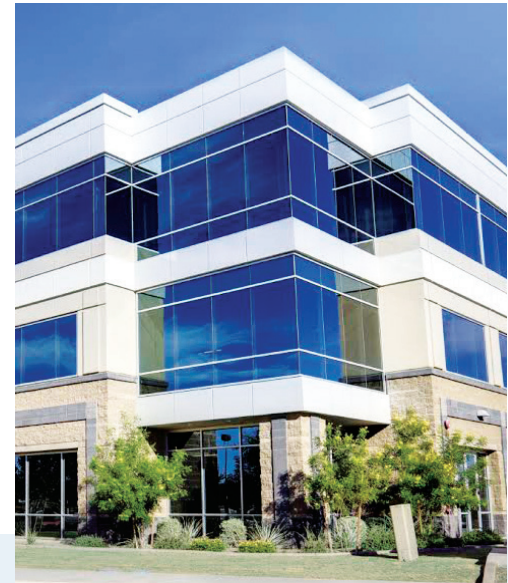


Cost Segregation is a sophisticated tax planning strategy applicable to building owners or renters to identify tax savings and increase cash flow through accelerated depreciation deductions and deferring federal and state income taxes.

Cost Segregation, or allocating the costs of a building’s components into appropriate classes of personal and real property, is used to shorten their depreciation recovery period. The analysis can be conducted on current and prior building costs and applies when a building is constructed, purchased, expanded or remodeled. Real property is typically depreciated over 39 or 27.5 years compared to reclassified property which may be depreciated over 3, 5, 7 and 15 years.



The Opportunity

Cost segregation will increase the property owner’s cash flow through the following opportunities:

- **Increase in Depreciation Deductions.** A Cost Segregation will allow a portion of the property costs classified as real property to be reclassified to personal property with lower depreciable lives that will increase the owner’s depreciation deduction.
- **Increase in Green Energy Tax Incentives.** Conducting a detailed analysis can capture benefits associated with energy-efficient building technologies as defined by Sec. 48 Business Energy Investment Tax Credit, Sec. 179D Energy-Efficient Commercial Building Deduction and Sec. 45L Energy Efficient Home Credit applicable to apartment buildings and homes.
- **Reduction in Property and Sales Taxes.** The cost analysis will allow us to consider the effect of the property reclassification for property and sales tax purposes and give us an opportunity to identify any rebates, deductions or exemptions that may exist as part of the tax recomputation.
- **Increase in state-level Business Incentives.** Many states offer business incentives (credits, exemptions, deductions, etc) on certain types of assets generally classified as tangible personal property and offer other incentives related to energy efficient and pollution control technologies. The increase in personal property can provide an owner with additional savings at the state level.

Case Study

A study we completed on a manufacturing facility with a total cost of \$12,833,000 resulted in \$5,595,188 (or 43%) of cost reclassified to property classes of less than 39 Year Property. The reclassification provided our client an additional \$612,000 in Year 1 depreciation (or \$245,000 in cash benefit) and \$2,943,000 of additional depreciation (or \$1,177,000 in cash benefit) in Years 1 through 5.

Year	Additional Depreciation	Cash Savings
1	\$612,000	\$245,000
2 to 5	\$2,331,000	\$932,000
TOTAL	\$2,943,000	\$1,177,000

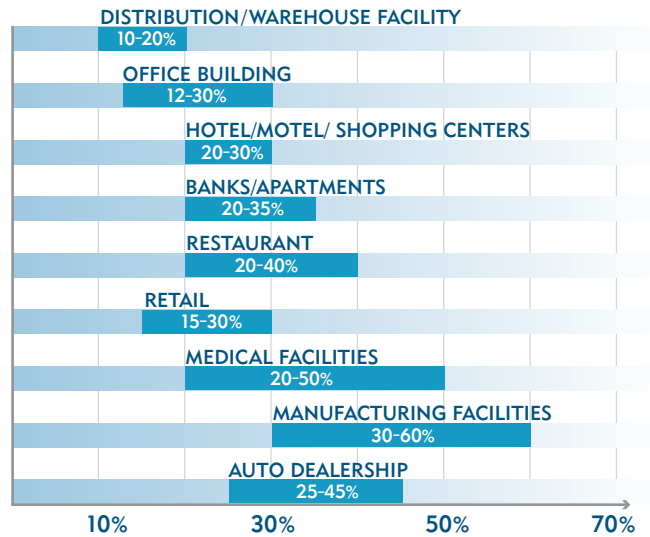
Property Cost Reclassification

The chart to the right shows the typical amount of costs reclassified from either 39 or 27.5 year Real Property to a property with shorter depreciable life by property type:

$$\frac{\text{Reclassified Property Cost}}{\text{Total 39/27.5 Property Cost}} = \text{Reclassification \%}$$

Please note that all business properties can qualify including (but not limited to) Assisted Living Facilities, Day Care Facilities, Dental Offices, Food Production Facilities, Grocery Stores, Pharmacy, Rental Homes, RV Parks, Veterinary Clinics, and Water Parks.

Property Types



CTI Cost Segregation Procedures

The CTI procedure for creating a Cost Segregation document includes the following basic steps:

1. Communicate with the owner, key personnel, or technical advisors to collect available cost and property documentation such as purchase agreements, bank statements, contractor agreements, construction plans, invoices, etc.
2. Perform a physical site inspection of the property to review and document the condition of the existing assets.
3. Create a list of basic component assets and apply appropriate actual or estimated costs per the gathered data.
4. Allocate soft costs and indirect costs to the basic component assets and reconcile to the Total Cost Basis.
5. Identify the Segregated Assets or Units of Property from the basic component asset list with appropriate depreciable class lives as Personal Property or Real Property, including a reference to accepted codes and legal citations.
6. Create a Cost Segregation Study and Report document with a New Depreciation Schedule for independent application to the Owner's tax documents.
7. Coordinate project details with the owner's CPA or tax advisor and assist as necessary to complete the appropriate tax filings necessary to secure the benefit. We work closely with the owner's advisor since a Cost Segregation can affect other areas of an owner's tax position.

The CTI Advantage

Corporate Tax Incentives' Cost Segregation Team is comprised of experienced engineering, construction, and tax professionals with a focus on Cost Segregation and Lifetime Asset Consulting Services for the owner or investor in real estate. Our services involve our proprietary approach of maximizing benefits through in-place contract or lease valuations addressed prior to the completion of the cost segregation study and properly adjusting the depreciation schedules for renovations / improvements and dispositions/liquidations.

- **Specialized Team of Professionals:** A veteran team of Cost Segregation engineers, construction estimators, CPAs, and experienced tax professionals.
- **Progressive Approach:** Lifetime services to keep you in compliance from In-Service to Disposition, including management of repair regulations and recapture gains at property disposition.
- **Proven Documents:** Tested over time against the demands of the IRS and national independent audit firms.
- **Proprietary Software Technology:** Using advanced proprietary technology, our integrated system assists us in efficiently completing the cost segregation process and identifying the other associated benefits.