Who We Are

EHTC is a Business Strategy and Certified Public Accounting Firm specializing in Business Development, Computer Consulting and Litigation in addition to traditional financial services. We serve the needs of small to medium-sized businesses and individuals. Since 1977, our firm has experienced tremendous growth as a result of helping our customers become successful.

Our Mission

Echelbarger, Himebaugh, Tamm & Co. is dedicated to providing the finest tax, accounting, and management advisory services to businesses, individuals and nonprofit organizations.

We help our customers identify and attain financial goals, through an attentive, informative professional relationship. Our goal is to provide straightforward, usable advice assisting our customers to better understand themselves, their businesses and organizations.

Individuals and companies that own or have investments in real estate have an opportunity to realize significant financial benefits and substantial savings through Cost Segregation.

With tax laws and interpretations continually changing, the time to act is now.

Please call us to see how a Cost Segregation Study may offer you tax savings – today!

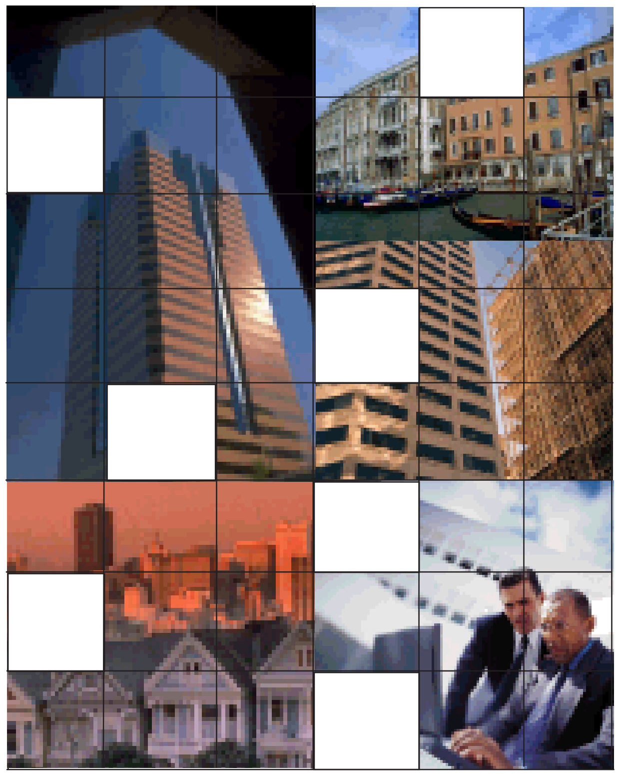
EHTC Business Strategists Certified Public Accountants
Echelbarger, Himebaugh, Tamm & Co., P.C.

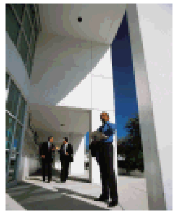
5136 Cascade Road SE
Grand Rapids, MI 49546
Phone: 616-575-3482
Fax: 616-575-3481
www.ehtc.com

EHTC Business Strategists Certified Public Accountants
Echelbarger, Himebaugh, Tamm & Co., P.C.

COST SEGREGATION STUDIES

How to Accelerate Your Depreciation Deductions





Introduction

Real estate owners and investors have rued the 1986 Tax Act due to the lengthening of depreciation lives on both commercial and residential real estate. A little known tax saving device called a Cost Segregation Study (CSS) can help accelerate tax depreciation, mitigating to some degree the lengthened depreciation lives.

What is a Cost Segregation Study?

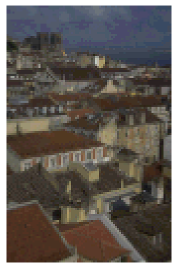
CSS consists of reviewing and identifying costs incured to acquire, construct, or expand real estate holdings. It identifies the specific assets being placed in service and often leads to a cost allocation which assigns part of the cost to 15-year real property and 7 or 5-year personal property. It is uncomplicated to identify and properly depreciate office furniture and equipment over seven years for federal tax purposes. However, a high percentage of construction related costs, sometimes as high as 40 percent, are too often grouped into the building component of the property and depreciated on a straight-line basis over 39 years.

An analysis of costs can be conducted from either detailed construction records (if such records are available) or by performing the cost allocation analysis. In both instances, a tax expert is also necessary to identify specific property that will qualify as shorter-lived assets.

How Cost Segregation Works

While personal property is usually depreciated over a 7-year life, real property is typically depreciated over 39 years (commercial property) or 27.5 years (residential property). A Cost Segregation Study can identify properties qualifying as shorter-lived assets and shift them from a 39-year life to a 15-year, 7-year, and possibly even a 5-year life.

In certain cases, construction-related soft costs may also be allocable to shorter-lived assets. The result is a faster write-off of costs previously included as real property.



What Properties Qualify for CSS?

Cost Segregation Studies can be performed for purchased facilities, newly constructed facilities, and even major tenant leasehold renovations. Studies can be performed for real estate holdings placed in service as far back as 1987, even if the year is “closed” for tax purposes. A current IRS revenue procedure permits companies that have claimed less than the allowable prior years’ depreciation to claim the omitted depreciation currently. In addition, the segregated components continue to be depreciated over shorter lives going forward.

Savings derived from these Studies flow directly to owners and investors by reducing current taxable income with no change in current cash flow.

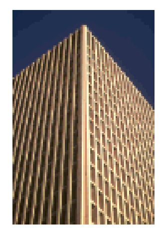
What Property Type Gain the Greatest Benefits?

Certain types of property yield higher tax saving benefits than others. Properties that generate the greatest benefits include specialty use buildings, such as medical facilities, manufacturing facilities, and high-end office buildings. Warehouses and industrial properties tend to yield lower benefits, while residential garden apartments fall somewhere in the middle.

Do I Qualify?

Answer yes to these four questions and you qualify:

1. Can you benefit from accelerating tax depreciation on your real estate holdings?
2. Have you purchased, constructed, or expanded you real estate holdings any time since 1986?
3. Is the cost of your property or expansion at least $500,000?
4. Do you expect to retain your real estate holding for at least the next three or four years?



Is There Tax Exposure?

A properly performed CSS does not create additional exposure to a tax audit. The benefits of a CSS come from the acceleration of tax deductions, not taking a tax deduction for something to which you are not entitled. If the property is held for its entire depreciable life, the IRS will receive all its tax dollars. The benefit from a CSS comes from the time value of money generated by current tax savings that may eventually be paid back, albeit, 20 or so years later.

What Factors Determine How Much I Can Save?

The savings derived from a CSS will vary based on three factors:

- The type of property (i.e. office, industrial, residential, etc.)
- The cost of the property, and
- The year it was placed in service

We have found that almost every type of real estate can benefit to some degree. By segregating the shorter-lived personal property from long-lived property, we can greatly accelerate depreciation deductions. The greater the depreciation deductions today, the greater the present tax savings. The greater the present tax savings, the greater the present cash flow, which in turn can be used to underwrite current or future acquisitions.

How Can CSS be an Estate Planning Tool?

When depreciable property changes hands through an estate, the tax basis of the property will generally step up (increase) to fair market value. This stepped-up basis starts a whole new depreciable life for the property. The property could have been 40 years old and fully depreciated prior to the death, however in the hands of the beneficiary, the property must be depreciated based on its stepped-up value.

How Much Can I Save?

CSS's have generated millions of dollars in current federal and state income tax savings to owners of real estate. Our experience in performing cost segregation studies indicates that the savings can be five percent or more of the asset cost. On a $5 million property for example, a five percent benefit would generate a present value deferred tax benefit of $250,000.