

Real estate cost segregation for new clients

It is my pleasure to begin working with you on tax return preparation and other tax matters. Thank you for supplying me with the returns and other documents that I requested.

In reviewing the material, one thing that jumped out at me is that you are depreciating over a 39-year period the entire cost of constructing the building that houses your business.

It is true that business buildings generally have a 39-year depreciation period. However, some items of property that are, seemingly, "part of the building" can, nevertheless, be depreciated over a period far shorter than 39 years. Generally, the speedier depreciation is available for items that service the machinery or equipment used in a building, but isn't available for items that are used for the overall operation and maintenance of a building. Thus, for example, the costs of your building's electrical system, to the extent that the costs are allocable to running your business equipment, could have been deducted over a 7-year period, instead of over 39 years.

Fortunately, it isn't too late to get the benefit of speedier depreciation, either for the electrical system costs discussed above, or for the costs of any other items that were incorrectly assumed to be part of your building for depreciation purposes. You don't have to amend your past returns (or meet any deadline for claiming tax refunds) to claim the depreciation that you could have already claimed. Instead, you can claim that depreciation by following procedures, in connection with the next return that you file, that will result in "automatic" IRS consent to a change in your accounting for depreciation. Among the results of the process will be a one-time downward adjustment in your income, equal to the amount of the unclaimed depreciation. There are, however, some things to consider before beginning the process. One consideration is that we must do the work, probably with the help of your contractors or other construction experts, of identifying and substantiating the qualifying costs. Another consideration is that, before starting that work, we must judge whether the work will result in overall tax savings greater than the costs of the work itself (e.g, my fee, any fees payable to others, the implicit cost of your time or the time of your employees).

Please contact me at your convenience if you are interested in pursuing the possibility of making favorable changes in the depreciation of your building. I look forward to talking to you about this or any other tax matter.