



# Real Estate Tax Savings Overview

## Using Tax Reform to Generate Additional Cash Flow to Address COVID-19



April 14, 2020

## Objectives

1. What CARES Act changes apply to building owners and tenants who have paid for improvements
2. How to capture these benefits if you have already filed or are planning to extend
3. What is Cost Segregation and how it lends itself to maximize cashflow available from the CARES Act
4. What is Partial Asset Disposition and how will it reduce taxes
5. What changes have taken place to interior improvements defined as Qualified Improvement Property
6. Action steps to take to capture these benefits

## How does this Affect You and Your Business?

Businesses are Looking for Cash Flow to Address this Critical Time

1. Generally
  - a. Decrease federal taxes and increase cash flow
2. Already filed your taxes for 2019?
  - a. Possibly receive a refund
3. Extended?
  - a. Reduce your tax burden and free up additional cash flow
4. Paying quarterly estimates for 2020?
  - a. Reduce the estimates with the cost segregation / Cares Act results

## Cares Act for Businesses

Carryback of NOLs

1. Allows for a five year carryback of net operating losses arising in 2018, 2019, & 2020.
2. The 5 year carryback rules require you to go back 5 years and roll forward from there if the loss is in excess of the carryback years income.
3. Example – John Smith has income for the past 5 years, and a loss in 2019 generated from a cost segregation study as follows:

	Income	Taxed Paid	Loss Carryback	Refund Due
2014	\$ 75,000.00	\$ 14,606.25	\$ (75,000.00)	\$ 14,606.25
2015	\$ 150,000.00	\$ 35,071.25	\$ (150,000.00)	\$ 35,071.25
2016	\$ 400,000.00	\$ 115,529.25	\$ (200,000.00)	\$ 66,000.00
2017	\$ 350,000.00	\$ 95,906.75		
2018	\$ 195,000.00	\$ 44,089.50		
2019	\$ (425,000.00)			
			<b>Total Refund</b>	<b>\$ 115,677.50</b>

**Potential Result: \$115,677.50 refund for 2019 tax year**

## CARES Act

Qualified Improvement Property

1. Corrects Congressional oversight in TCJA and now defines Qualified Improvement Property as 15-year property.
2. Any Qualified Improvement Property acquired and placed in-service after 9/27/2017 is eligible for 100% Bonus Depreciation.
3. Impact: You can now retroactively apply bonus depreciation to Qualified Improvement Property.
4. Result: Increases your loss to offset gains and could either reduce taxes now or create an opportunity for a refund now.

## CARES Act

### Real Estate Losses that Can Offset Investment Income

1. Temporary Suspension of Net Business Loss Limitation
2. Individuals and owners of a trade or business that generate a “net business Loss” to offset income from other sources. The amount was capped at \$250k/\$500k
3. Removes Cap of \$250,000 (single)/ \$500,000 (Married Filing jointly)
4. Applicable for taxable years beginning in 2018, 2019, or 2020.
5. Individual taxpayers that had a net business loss in excess of these deductions in 2018 can amend to capture this benefit.

## Complex Compliance Issues and Huge Economic Benefit

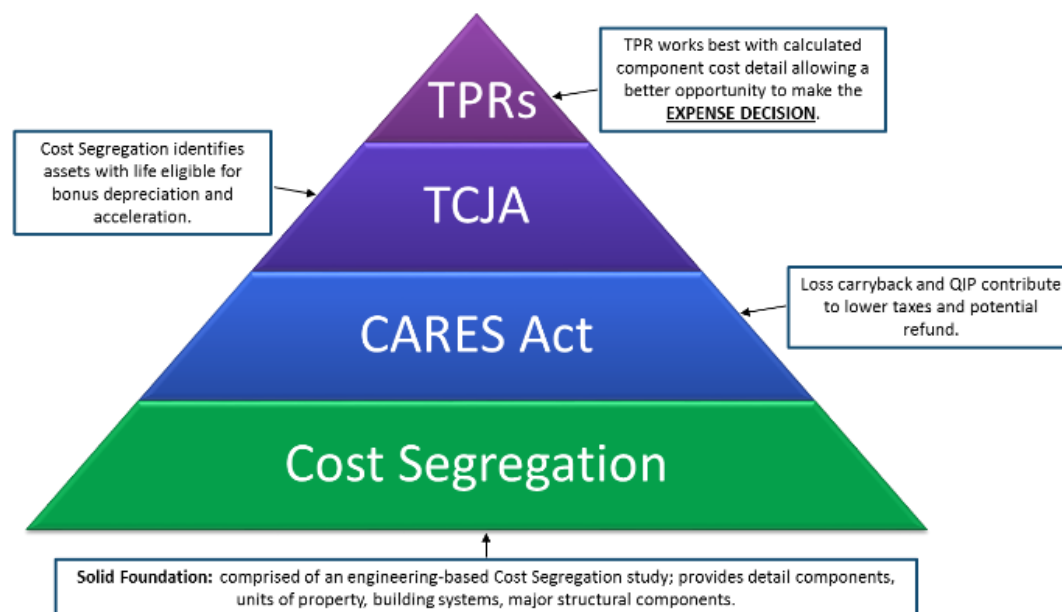
### Who can benefit from this?

1. Owner of recently purchased or built building
2. Owner who has owned a building for several years
3. Owner/tenant who has paid for past improvements or repairs
4. Estate planning & trusts
5. Triple Net (NNN) Lease tenants and owners

### Largest beneficiaries will be landlords & multi-property owners

1. Apartments, condos, hotels
2. Self-storage, warehouses
3. Nursing homes, assisted living
4. Hospitals, medical, dental
5. Offices, banks, auto dealers
6. Franchises, restaurants
7. Retail Strip Centers, malls, supermarkets
8. Any building type

## Cost Segregation is the Foundation for CARES Act, Bonus Depreciation and the TPRs



## What is Cost Segregation?

Cost Segregation = Cash Flow

1. The process of analyzing and identifying commercial building components that are eligible for accelerated depreciation
2. Result is lower income taxes
3. An input calculation to the U.S. Tax Code – Building Systems Valuation
4. Allows building owners to use cash today instead of leaving it with the government for 39 years – time value of money
5. Personal property is segregated from real property
6. **Benchmark: \$30K-\$80k per \$1Million in cost over five years**
7. Buildings or tenant improvements as small as \$200,000 in cost

## What is Cost Segregation?

Items that can be Accelerated

5- and 7-Year Property

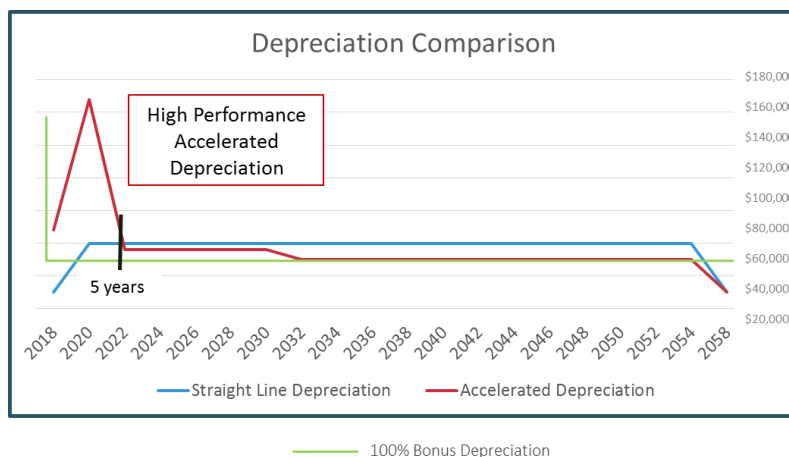
1. Decorative building elements, wall coverings
2. Special electrical, plumbing and mechanical
3. Carpet, flooring, decorative molding
4. Built in cabinets and counter tops
5. Interior doors, moveable wall partitions
6. Security, decorative and special lighting
7. Window treatments and coverings
8. Communications, cable
9. Kitchen fixtures, refrigeration equipment

## What is Cost Segregation?

Items that can be Accelerated

15-Year Property

1. Landscaping/Hardscaping
2. Paving
3. Fencing
4. Parking lot
5. Signage
6. Sidewalks
7. Irrigation



## Cost Segregation: Case Studies

- **Multiple Office Complexes**
  - 12 Locations
  - Some purchased as far back as 1999
  - Previously owned older properties
  - Created a \$5.3 Million deduction
  - **Tax savings of \$2,111,774**
- **Dental Office**
  - 2008 Purchase: \$1 Mill shell
  - Improvements: \$450,000
  - **Tax savings of \$73,969**
- **Self-Storage**
  - 2017 purchase: \$859,842
    - Non-climate control
    - **Tax savings of \$45,981**
  - 2018 construction: \$3.6M
    - Climate control
    - **Tax savings of \$569,235**

### Partial Asset Disposition Election

Ability to write off assets that are no longer in use

1. Renovations, remodels, and replacements
2. Abandoned in place
3. Common items – roofs, HVAC, electrical
4. Retirement of a structural component of or improvement to a building
5. LED Retrofit Projects
6. Partial Asset Dispositions must be taken in the same year as the renovation
7. Tax savings at sale of property = decreases taxable personal property
8. Action: Did you renovate this tax year?

### 2014 Repair Regulations – Owned at Least a Year

Partial Asset Disposition Case Study with Cost Segregation

Auto Dealership Renovation Tax Savings			
	Original Building	Demolition	Renovation
Cash Flow	\$134,718	\$53,297	\$126,243
Total Tax Savings		\$314,240	

## 2017 Tax Cuts and Jobs Act

### More Deductions for You

1. 100% Bonus Depreciation for properties purchased or built after September 27, 2017
2. CARES Act change: Any Qualified Improvement Property (now defined as 15-year) placed in-service after 9/27/2017 is eligible for 100% Bonus Depreciation.
3. New purchase, new construction, addition, or renovation
4. The assets must have a **depreciable life of less than 20 year**
5. Cost Segregation Studies identify 5-, 7-, & 15-year assets within buildings
6. **Benchmark: \$30K-\$80k per \$1Million in cost in first year**

## Cost Segregation: Continues to Provide Catch Up

### Benefit Before and After 2017 Tax Reform (TCJA)

Actual Savings Generated by Cost Segregation Studies			
Facility Type	Total Property Cost	First Year Cash Flow from Tax Savings	Five Year Cash Flow or 100% bonus/first year
Funeral Home	\$562,550	\$19,699	\$37,239
Medical Facility	\$663,000	\$6,962	\$36,124
Leasehold Improvements	\$1,400,000	\$53,751	\$131,569
Office Park	\$1,712,000	\$98,222	\$125,471
Self Storage	\$2,730,000	\$41,418	\$219,450
Assisted Living	\$7,400,000	\$323,673	\$605,133
Hotel	\$8,389,000	\$692,183	\$973,836

## I Already Filed my Taxes! Can I Still Benefit?

### Scenario 1: Purchased or Built a Building in 2019

1. Engage to complete a Cost Segregation Study
2. Amend 2019 Tax Return
3. Amendment must be filed before you file 2020 taxes
4. Likely result: increased depreciation
5. Refund from overpaying your taxes
6. ACTION: Doing this now will generate cash flow to address the current crisis.
7. NOTE: Refunds and amendments during economic downturns, such as in 2008, are offered as tax incentives and have not triggered audits in prior history. It is not expected to do so now.

## I Already Filed my Taxes! Can I Still Benefit?

### Scenario 2: Owned the building prior to 2019 and previously filed taxes on it

1. Referred to as an automatic extension
2. This allows certain forms to be used in an amendment (not normally allowed).
3. Engage a Cost Segregation Study
4. File a 3115 Change of Accounting Form to apply the Cost Segregation Study results to the 2019 tax return
5. Must be filed in six months
6. This coincides with the September/October extension deadlines
7. Result: increased depreciation
8. Refund from overpaying your taxes



### **Can I Still Capture this if I Extended?**

All these options provide cash flow now.

Most people had to pay their taxes based on an estimate and will file at extension time

Engage in a Cost Segregation Study

Applications

1. Apply to 2019 taxes to get a refund back at filing
2. If you haven't paid, pay less taxes than estimated and use the cash flow elsewhere
3. Apply to 2020 taxes to decrease quarterly estimates

### **CSSI Case Study**

CSSI Provided Help During the 2008 Economic Downturn

1. Sept. 2008 - Successful restaurant owner had grand opening on 2<sup>nd</sup> location.
2. Similar to today, when it was ready to open, the economy took a turn for the worst.
3. No one was eating out, and restaurants were struggling.
4. Client owed \$70,000 in taxes from successful prior year.
5. CSSI completed the study and we freed up the \$70K the client needed.
6. Months later the client called us and said because of CSSI they were able to stay afloat during this hard time and keep their employees. If they would have had to pay those taxes, she didn't know if they would have stayed in business.
7. **Opportunity to free up cash flow to stay in business during this difficult time.**

### **How to Get Started**

Let us Provide a No-Cost Predictive Analysis!

For the most accurate analysis, provide a depreciation schedule or a few data points:

1. Type of Building
2. Cost (without land)
3. Year and month acquired
4. Address

CSSI will generate an analysis at no-cost with fixed fee and potential savings.

We will work with you and your CPA to complete the work.

### **Who is CSSI?**

We are the calculation experts of the industry.

1. We are the nation's premier engineering-based consulting firm specializing in the tax laws surrounding commercial buildings.
2. Performing engineering-based studies for over 18 years
3. 20,000+ studies performed in all 50 states
4. Our CEO, Jim Shreve, has been involved in Cost Segregation since the original court case in 1997.
5. Completed studies in 6-8 weeks
6. Cost Segregation and Disposition
7. Capital to Expense Reversals
8. LED Lighting & HVAC Retrofits and Tax Benefits Analysis
9. R&D Tax Credit Analysis
10. We represent our study in the event of an audit at no cost to our clients

## Action Items

- **For Building Owners and Tenants**
  - Contact CSSI for a pre-analysis
  - Use the pre-analysis for a discussion with your CPA on:
    - Cost Segregation
    - Partial Asset Disposition
    - Qualified Improvement Property
    - Loss Carryback
    - Amended Returns
- **For CPAs**
  - Review clients with buildings for a cost segregation study to reduce taxes.
  - Review your clients for QIP since 2018.
  - Does it merit bonus depreciation changes?
  - Does the change merit a loss carryback and amended returns?

**Please provide us with basic information for a no cost analysis on your building.**

**Mark Gross**

**mgross@cssi-associate.com**

**630.329.9801**