

COST SEGREGATION:

HOW MANUFACTURING COMPANIES CAN BENEFIT

If your manufacturing & distribution company is planning to build, purchase or renovate a building, or has done so in the past several years, a cost segregation study is a powerful tool that may help boost your cash flow and save your company significant money.

Cost segregation studies separate real property into various depreciable categories, allowing taxpayers to depreciate property over much shorter periods of time as opposed to the standard 39-year (or 27.5-year residential) timeframe. By taking these deductions sooner, property owners lower their current-year tax liability and free up more capital.

Read on to see how one manufacturing company was able to boost their profits through cost segregation.



HOW ONE MANUFACTURER BOOSTED PROFITS WITH COST SEGREGATION

ABC Manufacturing Company performed a cost segregation depreciation analysis for a building they purchased in 2014 and made major renovations to in 2015. The purchase and renovation costs for the property total \$10,834,947. Here are the details of the property:

BACKGROUND ON PROPERTY

ABC's building has two stories, is 108,412 square feet and sits on 1.5 acres of land. The majority of the space is used for the company's manufacturing operation, which includes manufacturing, handling, packaging and storage equipment. The facility includes multiple administrative offices, storage space, and several loading docks for shipping and receiving. The exterior of the building includes a parking area and driveway, concrete sidewalks, fencing, and building lighting. Other exterior improvements include a parking canopy, concrete bollards, entry steps, and a fire hydrant.

COST SEGREGATION RESULTS

PURCHASE/RENOVATION
COST (LESS LAND VALUE)
\$10,834,947

COST REMAINING AT
39 YR REAL PROPERTY
\$6,603,842

COST REALLOCATED TO
15 YR PERSONAL
PROPERTY
\$970,257

COST REALLOCATED TO
7 YR PERSONAL
PROPERTY
\$2,682,126

COST REALLOCATED TO
5 YR PERSONAL
PROPERTY
\$258,126

COST REALLOCATED TO
EXPENSE
\$320,557

REALLOCATION
PERCENT **39%**

This asset allocation will provide the following depreciation benefit and return on investment (assuming an aggregate federal and state tax rate of 41% and a discount rate of 8%):

| | |
|--|--------------------|
| Increased depreciation (years 1–5): | \$1,436,756 |
| Increased cash flow (years 1–5): | \$589,070 |
| Net present value benefit of tax deferral: | \$498,764 |
| Cost segregation study fee: | \$15,000 |
| After tax fee (since cost seg fee is tax deductible): | \$8,850 |
| Return on investment: | 56 to 1 |

For a manufacturer like ABC, the cost segregation study was extremely beneficial. Approximately 39% of the project's real property was reallocated to personal property, which has a shorter depreciable life or could be expensed. This acceleration in depreciation expense will result in increased cash flow in years 1-5 of \$589,070. Additionally, the company will realize a \$498,764 net present value benefit through the front-loading of depreciation expense (remember that the time value of money tells us that money available at the present time is worth more than the same amount in the future due to its potential earning capacity). Given the NPV benefit of \$498,764 and after tax cost segregation study fee of \$8,850 the company realized an ROI of 56 to 1 by conducting the study.

NO-COST, NO-PRESSURE: COST SEGREGATION FEASIBILITY ANALYSIS

Virtually every taxpayer who owns, constructs, renovates or acquires a commercial (or residential) real estate facility stands to benefit from a cost segregation study. Is it time to see if you can recover your capital investment sooner?

At CSH, we offer a no-fee, no-pressure cost segregation feasibility analysis, so that you can consider whether a study will benefit your company. The process is very easy. We just need to know the property acquisition cost (less land value), the placed-in-service date, building square footage, and use of property (manufacturing, office, retail, etc.) in order to prepare a cost segregation benefit estimate.

If you have any questions about cost segregation studies or whether a study might be appropriate given your company's unique situation, contact Brendan Walsh at bjwalsh@cshco.com.

BRENDAN J. WALSH **JB, MBA, CCSP** COST SEGREGATION PRACTICE LEADER

PRACTICE SUMMARY:

Brendan's experience is in tax consulting for businesses and their owners. His work focuses on strategic tax planning to minimize tax exposure, specializing in fixed asset strategies, depreciation, cost segregation, and tangible property regulations in the construction and real estate industries. With over 10 years of experience, Brendan has worked with companies ranging from start-ups to billion-dollar, publicly traded entities.

Brendan brings a skill set that combines both technical knowledge of tax concepts and legal acumen to decipher and interpret complex tax laws.

DESIGNATIONS & LICENSURE:

Certified Cost Segregation Professional; ASCSP Certified Member #C0026-13
Licensed Attorney – Ohio; Ohio Attorney Registration #0080223



PROFESSIONAL AFFILIATIONS:

American Society of Cost Segregation Professionals
Ohio State Bar Association
Cincinnati Bar Association
Urban Land Institute

EDUCATION:

JD, University of Dayton School of Law
MBA, Xavier University
BSBA, Accounting, Xavier University

COMMUNITY ACTIVITIES:

Down Syndrome Association of Greater Cincinnati
Xavier University Mentoring Program