



The 2014 IRS Repair Regulations - Cash Flow and Compliance



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Expected Results of Our Process! A Beneficial Partnership



Why?

Awareness.



The 2014 Repair Regulations

Affects the accounting for the assets of every commercial property owner in America.

- How does this affect you?
- What do you need to do?

This is a tax **compliance** issue, i.e. it's a legal issue.

This is an **economic opportunity**, i.e. it's your money.

It's your choice.

Are You Aware of the 2014 Repair Regulations?



It's Impact!

1. How are you accounting for expenditures?
 - The expense decision.
2. How do you account for the removal of an asset?
 - The partial disposition decision.
3. What did you do historically that was capitalized and now can be considered expensed?
 - The reversal from capital to expense decision.

How to determine the impact on you?



Steps to the Solution:

1. Analyze economic Impact of 2014 Repair Regulations
 - Are you compliant?
 - Are you aware of your tax savings?
2. Predict impact of the regulations for your property portfolio
3. CSSI provides the calculations of the repair regulations for your tax record.
 - Provides for compliance.
 - Provides economic benefits – Cash Flow.
 - Coordinated with your tax professional.

The 2014 Repair Regulations

1. The Expense Decision



Why did the IRS Issue the 2014 Tangible Property Regulations?

- US Courts have outlined how to treat Improvements or Repairs on commercial buildings as items you must:
 - **CAPITALIZE:** and carry on a depreciation schedule.
 - Or
 - **EXPENSE:** allowed to expense in the year of the expenditure.
- The Repair Regulations define the elements outlined in those court cases.

The 2014 Repair Regulations

1. The Expense Decision



Latest Developments

De minimis Safe Harbor Limit Raised to \$2,500

- Capitalization Policy Required before 1/1/16

New 3115 Form Required after 12/15/15

- New Location – Covington, KY

Restaurant and Retail Safe Harbor RP 2015-56

- Requires Audited Returns, GAA
- 25% capitalized and the rest is repair and maintenance - can be retroactive

When to Capitalize or Expense?

1. The Expense Decision



Must Capitalize if An Improvement (RABI) or Major Expenditure

1. Improvement = **Restoration, Adaptation, Betterment, Improvement (RABI)**
2. Major Expenditure = More than 30%-35% of the REPLACEMENT cost of the building system, structural component or unit of property

A capital expenditure is generally considered to be a more permanent increment in the longevity, utility, or worth of the property.

Must Expense if = Repair

- If the expenditure does not materially increase capacity, productivity, efficiency, strength, quality or improve output of the building system, structural component, or Building(Unit of Property) it must be expensed.

A repair keeps the building structure and building system in ordinary and efficient operating condition.

Removal of an Asset

2. The Partial Disposition Decision!



Ability to write off assets that are no longer in use with Partial Disposition Election

- Renovations
- Remodels
- Replacements
- Abandoned in Place
- Common Items – Roofs, HVAC, Electrical
- Retirement of a structural component of (or improvement to) a building.
- **LED Retrofit Projects – Energy Savings, Tax Savings, 179D Energy Efficiency Studies**



Note: Partial Dispositions must be taken in the same year as the ren



Historical Capitalized Items

3. Capital Reversal to Expense Decision!



The regulations, require you to go back to your depreciation schedule — and your repair costs — for all prior years and ask one key question:

“Under the new regulations, would these expenditures have to be capitalized or could they be expensed?”

Look back at items you may have capitalized since you owned the building and expense them in the current tax year.

This creates economic opportunities. Cash Flow!

Let CSSI calculate and implement this for you

in partnership with

Eric Wallace, CPA –

Foremost Expert on the TPRs in the US.



Capital to Expense Reversal Examples \$\$



The CSSI Study

- Multiple Story Apartment Complex
- Purchased in 1993
- Cost \$1.1 million
- Improvements over years
 - \$4 million, \$160k, \$2.7million, \$70k, \$26K, \$900k

Created -481(a) adjustments of \$1,387,016.00
@ 40% Tax rate



Resulted in Tax Savings of \$554,000

Capital to Expense Reversal Examples \$\$



The CSSI Study

- Office Building Converted to Hotel
- 11 story
- Purchased in 2000
- Cost \$1.6 million
- Multiple Improvements over years
 - \$10 million, \$1.2 million, \$41K, \$30K



Created -481(a) adjustments of \$3,138,017
@ 34% Tax rate

Resulted in Tax Savings of \$1.1 million

CSSI Study Results

Compliance: Building Systems Definition



Building Structure

Structural Components	\$ 559,508.38
Roofing Systems	\$ 66,975.93
Foundations	\$ 234,535.89
HVAC	\$ 179,747.78
Electrical	\$ 242,472.40
Plumbing	\$ 68,844.81
Masonry	\$ 40,657.35
Doors & Windows	\$ 17,063.50
Insulation	\$ 43,168.87
Gas Distribution	\$ 4,989.84
Drywall	\$ 13,092.14
Painting	\$ 23,796.64
Fire Protection & Alarm	\$ 15,192.82
Gutters & Downspouts	\$ 12,335.58

Site Work / Improvements

Water Well	\$ 19,318.45
Site Drainage	\$ 48,990.57
Parking Lot	\$ 138,639.38
Exterior Signage Structure	\$ 17,790.84
Parking Lot Striping / Barriers	\$ 23,325.00
Sidewalks	\$ 711.12
Landscaping	\$ 68,635.17
Security Lighting Poles	\$ 6,374.77
Aggregate Base Paved Area	\$ 192,436.06
Exterior Fencing / Decking	\$ 31,986.93
Retaining Walls	\$ 16,024.07
Fabricated Steel - Bollards	\$ 2,926.12
Patio Concrete	\$ 10,848.65
Exterior Wood Trellis Systems	\$ 2,783.73
Gazebo	\$ 4,605.26

Building Components

Cabinets / Millwork	\$ 20,085.41
Moldings	\$ 8,286.30
Wood Paneling	\$ 2,062.22
Flooring - Vinyl Tile	\$ 519.68
Flooring - Carpet	\$ 9,084.00
Window Treatments	\$ 187.90
Air Curtain	\$ 1,709.08
Building Signage	\$ 122.56
Specialty Electrical - Kitchen Equip.	\$ 15,216.78
Communication / Data	\$ 32,356.35
Specialty Plumbing - Cooler Equip. / Kitchen Sinks	\$ 10,181.63
Security / Exterior Lighting	\$ 9,827.88
FRP Wall Panels	\$ 1,003.24
Rear Entry Canopy	\$ 20,084.92
Interior Overhead Doors - Security	\$ 21,931.82
Slatwall / Pegboard Paneling	\$ 9,657.00
Surveillance System	\$ 4,375.25
Interior Wood Trellis Systems	\$ 6,046.21
Liner Panels	\$ 109,271.70
Paging System	\$ 1,688.23
Windmill	\$ 17,244.53
Exhaust Hood	\$ 11,258.61
Fire Extinguishers	\$ 1,833.25
Cooler	\$ 10,635.63
Movable Storage Units	\$ 30,431.69

EXP/CAP TEST - Client spends \$50,000 on HVAC System.

TPR ratio test is 30-35%.

$50,000 / 179,747 = 28\%$.

Test says to expense. Train staff to do this for these items at time of expenditure.

How? Cost Segregation: A Compliance Solution



What is Cost Segregation?

- An input calculation to the Repair Regulations
- The process of analyzing and identifying commercial building components that are eligible for accelerated depreciation providing a significant tax benefit for the taxpayer.
- The IRS refers to this as the “certain method”.

Financial Results of Cost Segregation and Partial Disposition



Cost Segregation

Climate Control	\$3,150,750
Self-Storage	
Tax Savings Benefit:	\$ 164,682
ROI:	32:1

Office Condo	\$324,000
Tax Savings Benefit:	\$ 30,609
ROI:	14:1

Office Warehouse	\$5,246,900
Tax Savings Benefit:	\$312,687
ROI:	33:1

Partial Disposition

Auto Dealership Renovation Tax Savings



	Original Building	Demolition	Renovation
Cash Flow	\$134,718	\$53,279	\$126,243

Total Tax Savings \$314,240



LED Lighting – Partial Disposition Decision Energy Savings + Tax Savings



***Saving Energy is No Longer Just a Good Feeling!
It is Economically Justified!***

- Improved Energy Cost
 - Up to 80%
- Improved Lighting
- Reduced Maintenance
- Increased Property Value
- Reduce Payback time



Before (400W High Pressure Sodium)



After (150W LED)

- Tax Savings
 - Up to 20 – 30% reduction of cost of project
 - Write down of disposed assets
 - Write down of labor removal costs

- Complete Turnkey Solutions

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Cost Segregation Services Incorporated



• Increased Cash Flow from Tax Savings

- Significant tax savings from both
 - Cost segregation study (accelerated depreciation)
 - Potential partial disposition (renovation/improvement) written off.
 - Capital to Expense Reversals
 - LED Retrofit - Tax & Energy Savings
 - 179D Energy Efficiency Studies

• Compliance with the Repair Regulations (TPRs)

- Look back at existing Cap/Ex Decisions
- Detailed cost for each structural component and building systems component that allows a client to make future expense/capitalization decisions as per the TPRs.

• Tax Return Details

- Provide study to accounting professional for inclusion in financials with precise numbers.
- We will provide detailed explanation and defense to the IRS if needed at no extra cost.

It is Easy to Start! Get Compliant and Save Money!



- Provide us with your depreciation schedule and we will give you a no-cost predictive analysis of your repair regulation savings including:
 - Economic benefits
 - Cost of the study
- Turnkey coordination to satisfy regulations
- We will coordinate all activity with you and your CPA!

CSSI Today – Your Calculation Experts



- Cost Segregation Study
- Tangible Repair Regulations
 - Consulting for Spending Analysis for Capital or Expense Decision
 - Partial Disposition Study
 - Building Systems Definition Study
 - Capital Reversal To Expense Study
- LED
 - The economic solution for sustainable energy savings
 - Related write downs and partial dispositions
- Section 179D Energy Credit Analysis
- R&D Tax Credit Analysis
- VIPCO
 - Forensic Business Spending Analysis
 - Payroll Tax Reduction from Preventative Care Program

Let's Get Started



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