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Cost Segregation - Tax Deductions(Business Taxes) by Patrick O Connor

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Taxes are your enemy, but tax deductions are your friends. Taxes are the great bane of most businesses. Alas, business deductions act as a salve to cool the burning and itching of your bank account.

Business taxes can be summarized simply as calculating your total revenue, reducing this amount by as many tax deductions as you can and then paying tax on the remaining amount.

Owners of investment real estate can take advantage of a depreciation technique called cost segregation that could save them hundreds of thousands of dollars in federal income tax this year. It does so by increasing their depreciation and reducing their income tax rate from 35 percent to as little as 15 percent. It can also help defer payment of much of the tax until a building is sold.

Typically, the increased depreciation in early years of ownership can offset much of the income derived from the property. When depreciation advantages expire, the property can be sold, and taxes are paid at the capital gains rate of 15 percent. In such cases, this defers income taxes by five, 10 or even 15-plus years.

The primary goal of cost segregation is to identify building components that can be reclassified from real property to personal property. This results in a substantially shorter depreciable tax life and accelerated depreciation methods. Ordinarily, the cost of real, or section 1250, property is recovered over lengthy periods (27.5 and 39 years for residential and nonresidential property, respectively), using the straight-line method of depreciation. Personal, or section 1245, property is recovered over considerably shorter periods (5, 7 or 15 years), and employs accelerated methods of depreciation, such as 200% or 150% declining balance.

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O'Connor & Associates is a major provider of real estate services including a Cost Segregation in Houston, feasibility studies, tax reviews, apartment inspections,
a Cost Segregation, federal tax reduction and due diligence.

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