

Tax Advantages of the CARES Act

Cash Flow Available (Non-SBA Related)

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



Hello From
CSSI!



Warren L. Dazzio

Executive VP

225.241.9823

dazziow@costsegservice.com

<https://bit.ly/CSSIWDAZZIO>

For an Analysis of Your Property

How does this Affect You and Your Business?

Businesses are Looking for Cash Flow to Address this Critical Time

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

Affects every commercial property owner in the US

Cares Act for Businesses

Carryback of NOLs

- Allows for a five year carryback of net operating losses arising in 2018, 2019, & 2020.
- 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.
- 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		
	\$			

CARES Act

Qualified Improvement Property

- Corrects Congressional oversight in TCJA and now defines Qualified Improvement Property as 15-year property.
- Any Qualified Improvement Property acquired and placed in-service after 9/27/2017 is eligible for 100% Bonus Depreciation.
- Impact: You can now retroactively apply bonus depreciation to Qualified Improvement Property.
- 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

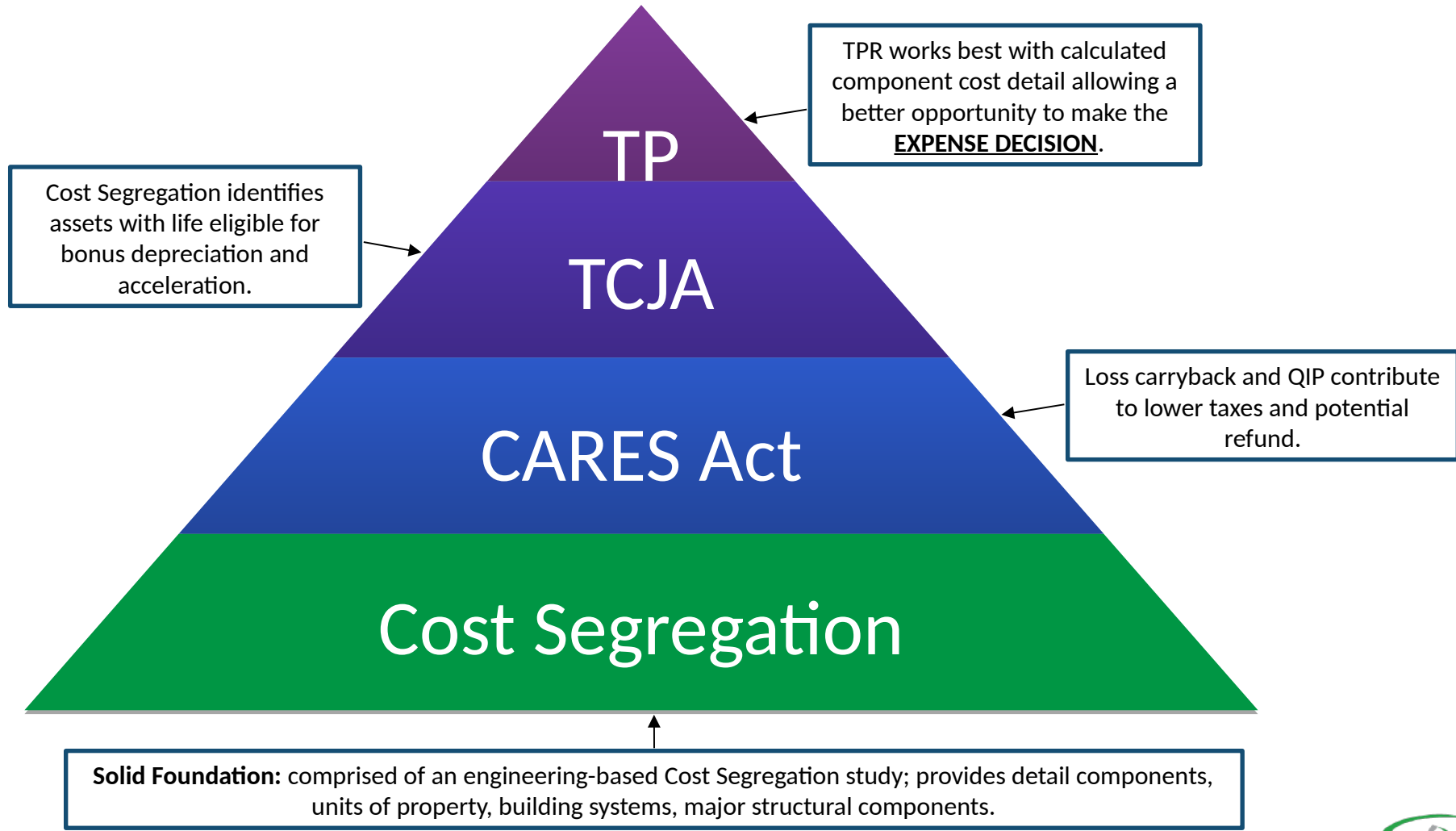
- Temporary Suspension of Net Business Loss Limitation
- Individuals and owners of a trade or business that generate a “net business loss” to offset income from other sources. The amount was capped at \$250k/\$500k
- Removes Cap of \$250,000 (single)/ \$500,000 (Married Filing jointly)
- Applicable for taxable years beginning in 2018, 2019, or 2020.
- 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?
 - Owner of recently purchased or built building
 - Owner who has owned a building for several years
 - Owner/tenant who has paid for past improvements or repairs
 - Estate planning & trusts
 - Triple Net (NNN) Lease tenants and owners

- Largest beneficiaries will be landlords & multi-property owners
 - Apartments, condos, hotels
 - Self storage, warehouses
 - Nursing homes, assisted living
 - Hospitals, medical, dental
 - Offices, banks, auto dealers
 - Franchises, restaurants
 - Retail Strip Centers, malls, supermarkets
 - Any building type

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



What is Cost Segregation?

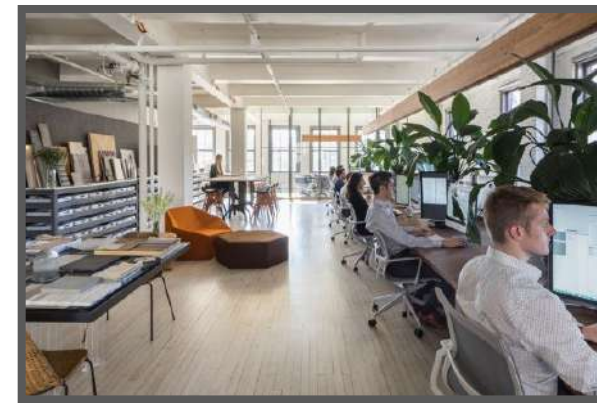
Cost Segregation = Cash Flow

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

What is Cost Segregation?

Items that can be Accelerated

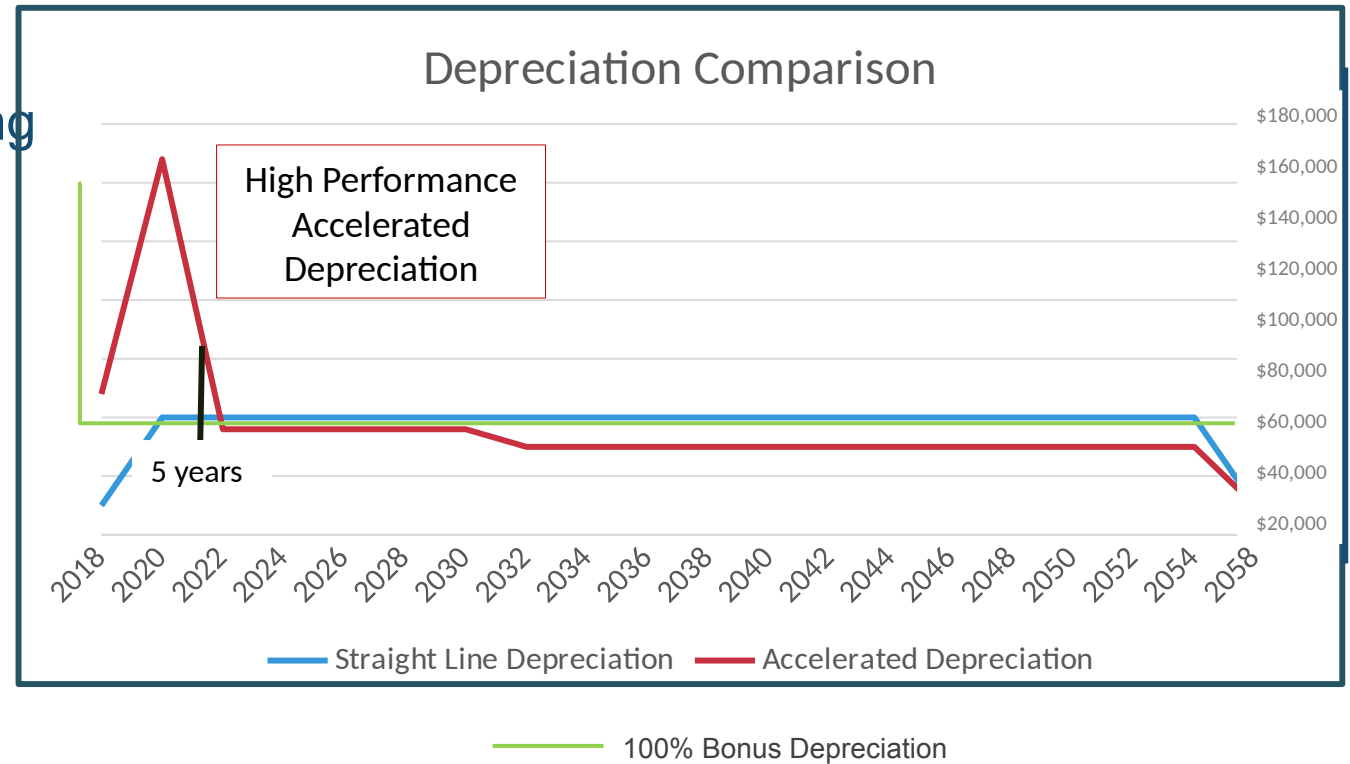
- 5- and 7-Year Property
 - Interior doors, moveable wall partitions
 - Decorative building elements, wall coverings
 - Special electrical, plumbing and mechanical
 - Carpet, flooring, decorative molding
 - Built in cabinets and counter tops
 - Security, decorative and special lighting
 - Window treatments and coverings
 - Communications, cable
 - Kitchen fixtures, refrigeration equipment



What is Cost Segregation?

Items that can be Accelerated

- 15-Year Property
 - Landscaping/Hardscaping
 - Paving
 - Fencing
 - Parking lot
 - Signage
 - Sidewalks
 - Irrigation



CARES Act Case Study

- \$4M Strip Center Bought in 2015
- Apply Cost Seg and Bonus Dep.
- \$575K in Tax Deductions in 2019
- Use Deduction to offset \$150,000 Gain in 2019

- Creates \$425K NOL for 2019
- Use Loss Carry Back Rules of Cares Act
- **Potential Result: \$115,677.50 refund for 2019 tax year**



Cost Segregation: Case Studies

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**



Dental Office

- 2008 Purchase: \$1 Mill shell
- Improvements: \$450,000
- **Tax savings of \$73,969**

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**



Follow this link!
Provide Your Property Details for Analysis!

<https://bit.ly/CSSIWDAZZIO>

Partial Asset Disposition Election

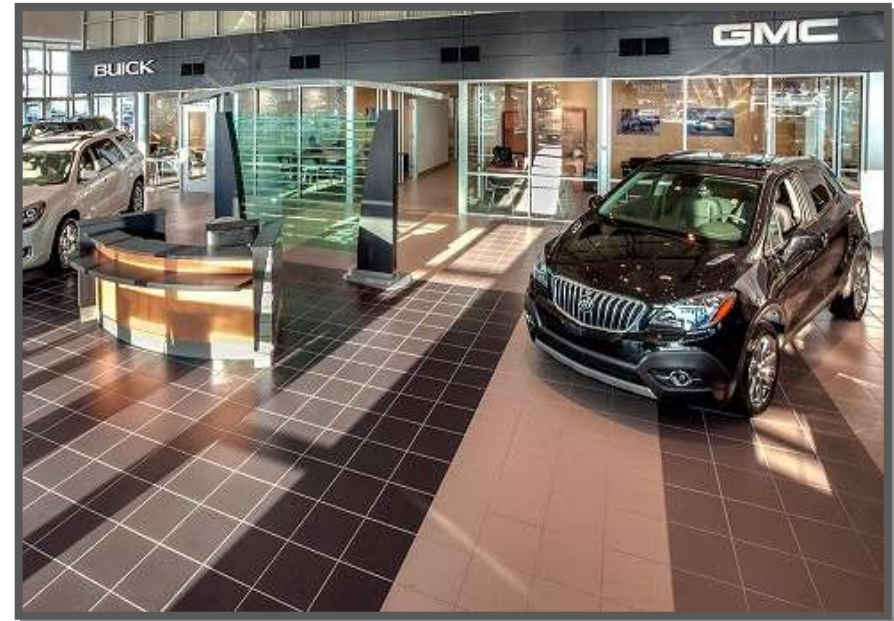
Ability to write off assets that are no longer in use

- Renovations, remodels, and replacements
- Abandoned in place
- Common items – roofs, HVAC, electrical
- Retirement of a structural component of or improvement to a building
- LED Retrofit Projects
 - Partial Asset Dispositions must be taken in the same year as the renovation
 - Tax savings at sale of property = decreases taxable personal property
- 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

- 100% Bonus Depreciation for properties purchased or built after September 27, 2017
- 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.
- New purchase, new construction, addition, or renovation
- The assets must have a **depreciable life of less than 20 year**
- Cost Segregation Studies identify 5-, 7-, & 15-year assets within buildings
- **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

- Engage to complete a Cost Segregation Study
- Amend 2019 Tax Return
- Amendment must be filed before you file 2020 taxes
- Likely result: increased depreciation
- Refund from overpaying your taxes
- **ACTION:** Doing this now will generate cash flow to address the current crisis.
- **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

- Referred to as an automatic extension
 - This allows certain forms to be used in an amendment (not normally allowed).
- Engage a Cost Segregation Study
- File a 3115 Change of Accounting Form to apply the Cost Segregation Study results to the 2019 tax return
- Must be filed in six months
 - This coincides with the September/October extension deadlines
- Result: increased depreciation
- 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

- Sept. 2008 - Successful restaurant owner had grand opening on 2nd location.
- Similar to today, when it was ready to open, the economy took a turn for the worst.
- No one was eating out, and restaurants were struggling.
- Client owed \$70,000 in taxes from successful prior year.
- CSSI completed the study and we freed up the \$70K the client needed.
- 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.
- **Opportunity to free up cash flow to stay in business during this difficult time.**

My CPA Has Already Done This

The Tax Professional Method vs. Engineering-Based Method

Example Economic Comparison		
	Potential Accounting Method	Engineering-based Cost Segregation
39-year Straight Line Method	\$104,304	\$104,304
Alternative Method		
5-year Depreciation Expense	\$91,136	\$205,056
15-year Depreciation Expense	\$11,064	\$29,504
39-year Depreciation Expense	\$92,831	\$77,185
Total Depreciation Expense	\$195,031	\$311,745
Cash Flow Results		
Increased Accumulated Depreciation Expense	\$90,727	\$207,441
Estimated Tax Rate	36.0%	36.0%
Estimated Tax Savings Benefit	\$32,662	\$74,679
Increased Cash Savings	\$42,017	

Many Tax Professionals will take the low hanging fruit—items whose values are easily identified—and move those into a shorter life category. Our team specializes in this tax law so we look at everything. You may be leaving some money on the table. Let us provide a no cost analysis to bring these savings to you.

An independent firm is recommended (and often required) to take all of the accelerated depreciation that current tax law allows. We will partner with your Tax Professional to bring this to you.

I Don't Want to Trigger an Audit

Cost Segregation is a Safe and Recommended Method of Depreciation.

CSSI has been around for 17 years and has completed more than 20,000 studies. Our studies have never triggered an audit. We have represented our calculations in about a dozen cases that were audited for other reasons. We have always seen a favorable result in these situations. We always stand behind our numbers and will represent our clients at no additional cost.

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.

“The cost segregation technique is no more aggressive than using any permissible depreciation method under the IRC.”

- Journal of Accountancy

“Cost Segregation is a proven tax strategy.”

- Dave Ramsey – National Talk Show Host and NY Times Best Selling Author



Recapture & 1031 Exchanges

- Recapture
 - Diminished Value
 - Perform Cost Seg Study on New Building to offset Capital Gains of Sold Building

1031 Exchange

- Cost Segregation Identifies and Segregates Personal Property from Real Property
- Only Real Property can be Exchanged in a 1031 Exchange
- Recapture on Personal Property at Ordinary Income Tax Rate
- Recapture from the first building can be offset by Performing a Cost Seg on the Basis in the New Building.
- Key: Make sure there is a Basis in the new property.

How to Get Started

Let us Provide a No-Cost Predictive Analysis!

1. 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
2. CSSI will generate an analysis at no-cost with fixed fee and potential savings.
3. We will work with you and your CPA to complete the work.

Who is CSSI?

We are the calculation experts of the industry.

- We are the nation's premier engineering-based consulting firm specializing in the tax laws surrounding commercial buildings.
- Performing engineering-based studies for over 18 years
- 20,000+ studies performed in all 50 states
- Our CEO, Jim Shreve, has been involved in Cost Segregation since the original court case in 1997.
- Completed studies in 6-8 weeks
 - Cost Segregation and Disposition
 - Capital to Expense Reversals
 - LED Lighting & HVAC Retrofits and Tax Benefits Analysis
 - R&D Tax Credit Analysis
 - 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 Tax Professionals

- 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?

Thank You for Joining Us Today!

Warren Dazzio

Executive Vice President

225.241.9823

dazziow@costsegserv.com

<https://bit.ly/CSSIWDAZZIO>

The answers
are in our
analysis of
your property.

We do this
for you at no
cost.