

Tax Code is changing and Inflation Remains High

Cash Flow Available for Self Storage Owners



*Hello
From CSSI!*



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Commentary from Louisiana's Own Senator Long



"A **tax loophole** is something that benefits the other guy. If it benefits you, it is **tax reform.**"

Former Democratic Senator Russell B Long LA

Recession and Continued Inflation

- The recession Lingers.
- Rising interest rates
- Cap Rates are not Ideal.
- It costs more to do business
- Taxes continue to go up
- More Audits on the Way?
 - Expanding funding for IRS and for audits



What are some Solutions?

- Owners will need to look for ways to minimize their Tax Burdens.
- Expanding audits increases the need to back up your numbers
 - Need a Good Firm to back up the numbers!
- What Strategies can help?



How Do These Strategies Affect You and Your

Business?

Want to make you aware of significant tax savings available to owners purchasing or renovating a building under recent tax laws.

- Generally
 - Strategies to decrease federal taxes and increase cash flow
 - Provides Cash flow to:
 - Invest
 - Buy New Properties
 - Make Improvements to Existing Properties and Increase Rent

Affects every commercial property owner in the US

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
 - Self storage, warehouses
 - Apartments, condos, hotels
 - Nursing homes, assisted living
 - Hospitals, medical, dental
 - Offices, banks, auto dealers
 - Franchises, restaurants
 - Retail Strip Centers, malls, supermarkets
 - Any building type

Perfect Storm of Tax Laws to Benefit Retrofits/Improvements

Cost Segregation identifies assets with life eligible for bonus depreciation and acceleration.

TPR works best with calculated component cost detail allowing a better opportunity to make the **EXPENSE DECISION**.

QIP now qualifies for Bonus Depreciation and can contribute to lower taxes

Solid Foundation: comprised of an engineering-based Cost Segregation study; provides detail components, units of property, building systems, major structural components.

The 2014 Repair Regulations

What are the Tangible Property Regulations?

- US Tax Code provides guidance on treatments of amounts paid to acquire, produce or improve tangible personal property – Buildings, equipment, improvements, etc...
- One significant part is applied to Improvements or Repairs to existing property as items that you must:
 - **CAPITALIZE**: and carry on a depreciation schedule.
 - Or
 - **EXPENSE**: allowed to write off in the year of the expenditure.
- The Repair Regulations define the elements outlined and create a consistent method for all tax payers.

When to Capitalize or Expense

- Must Capitalize if an Improvement (RABI) or Major Expenditure
 - Improvement = Restoration, Adaptation, Betterment, Improvement (RABI)
 - Major Expenditure = More than 30%-35% of the REPLACEMENT cost of the building system, structural component or unit of property (40% of Roof Replaced = Capitalize) Building must be in service for two years in order to apply repairs based on 30-40% of the buildings system.

A capital expenditure generally puts 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.

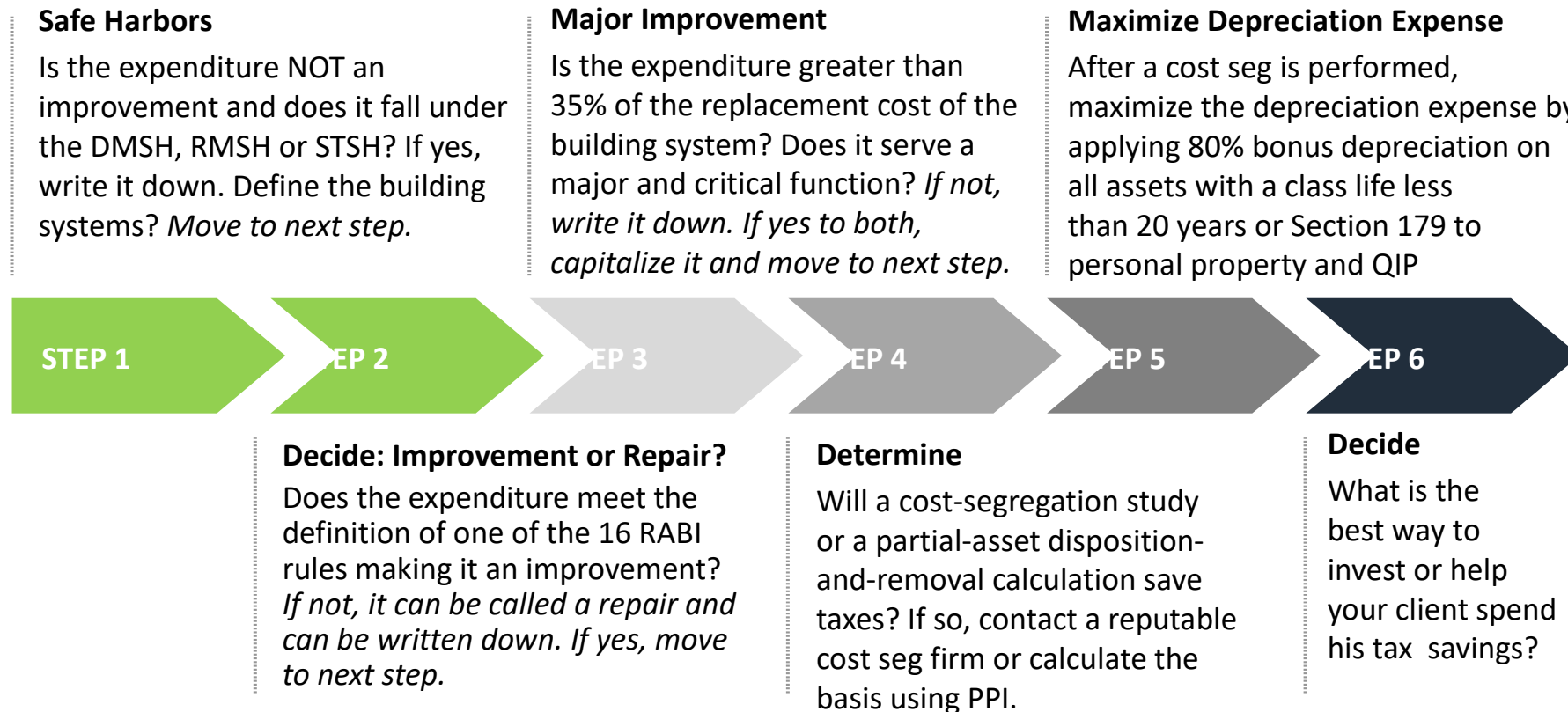
A repair keeps the building structure and building system in ordinary and efficient operating condition.

Difference = “**put**” in service or “**keep**” in operating condition.

The 2014 Repair Regulations

- Must capitalize if an Improvement:
 - **RABI**
 - **Restoration:** if the expenditure occurred less than two years after owning the building
 - **Adaptation:** if the expenditure changed the original intent and function of the building
 - **Betterment:** the expenditure materially increases the capacity, productivity, efficiency, strength, quality or improve the output of the building system, structural component or any component that serves a major and critical function
 - **Improvement:** the expenditure modifies a major portion (greater than 33%) of the building, building structure or building component that serves a major and critical function

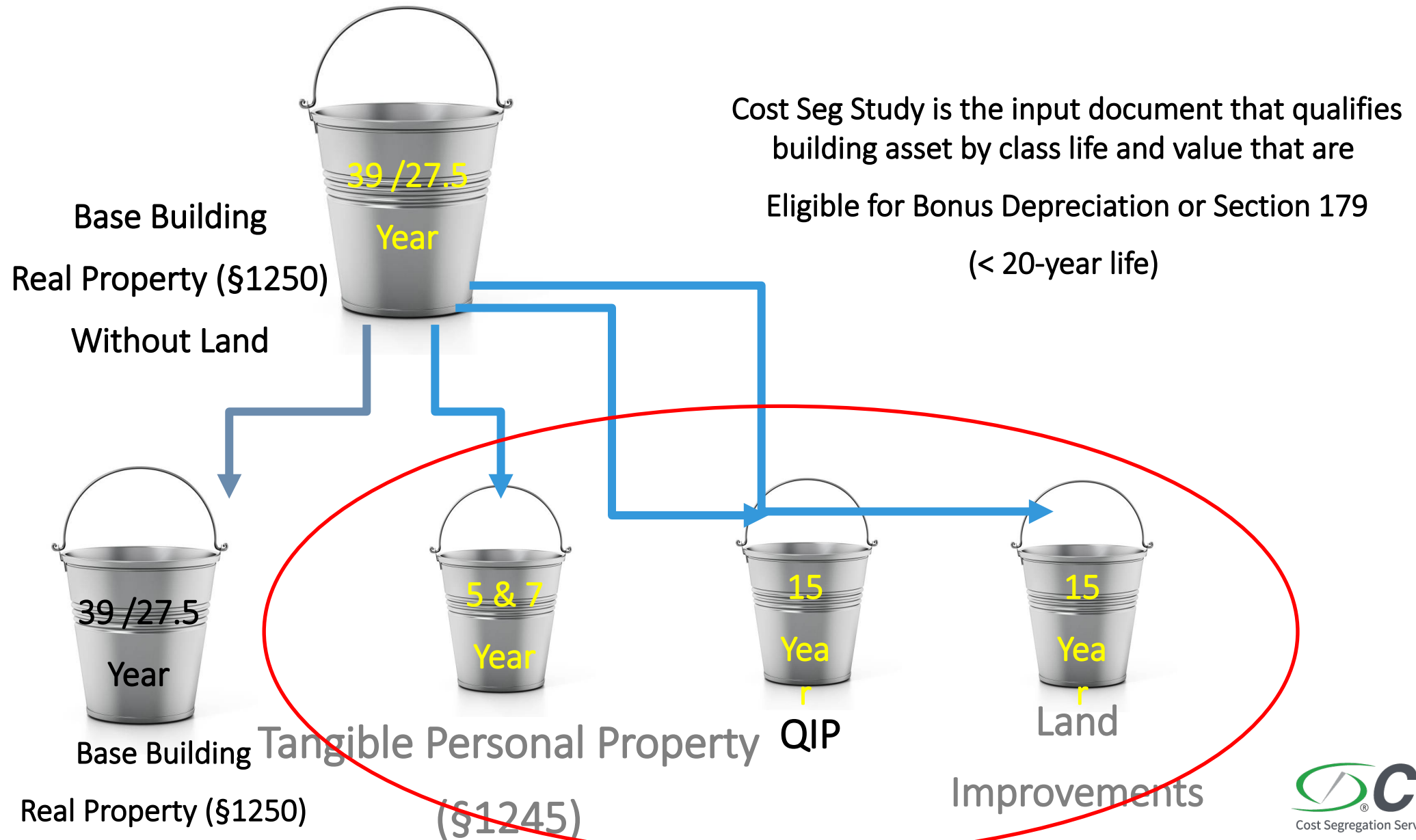
Workflow to maximize cash flow through expenses or depreciation deductions



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

Cost Segregation Bucket Analogy



Cost Segregation Bucket Analogy



Base Building

Real Property (\$1250)

- Structural
- Foundation
- Walls
- Doors/Windows
- HVAC
- Plumbing
- Electrical
- Building Systems



Tangible

Personal Property
(\$1245)

- Interior Doors
- Wall partitions
- Security /Camera
- Cabinets /Counter tops
- Specialty Plumbing
- Specialty Electrical
- Appliances



QIP

Real Property
(\$1250)

- Interior Renovations
- Sheet Rock
- Flooring
- Lighting
- Int. Plumbing / Elec
- Int. HVAC
- Paint



Land Improvements

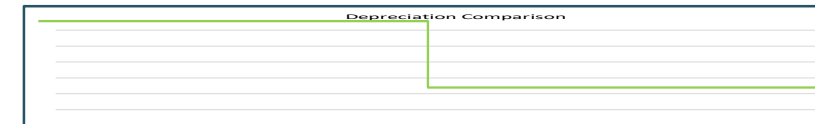
- Parking Lot/Striping
- Concrete/Asphalt
- Signs/Flagpole
- Landscaping
- Light Poles
- Fences / Gates

What is Cost Segregation?

- Items that can be Accelerated

High Performance
Accelerated Depreciation

5 years



\$180,000
\$160,000
\$140,000
\$120,000
\$100,000
\$80,000
\$60,000
\$40,000
\$20,000

100% Bonus Depreciation

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**



- Big Box Portfolio Converted to Self Storage (8 Locations)
 - Newly Purchased 2015-2017 and Renovated
 - Created a 2017 deduction of \$10.1 Million
- **Client tax savings of \$4,010,173**

Works with all types of buildings Including
Residential Rental

Cost Segregation: Case Studies



Office / Warehouse

- 2020 purchase: \$3.3M
 - 10% office
 - 90% warehouse
 - Deduction of \$334,660
- **Tax Savings of \$123,824**

Apartment

- 2020 Purchase: \$921,500
- Deduction of \$223,658
- **Tax savings of \$82,753**



20 Property Portfolio

- Purchased 1994-2019
- 2020 Study + Repair Regs
- Offices, Strip Centers, Warehouses, Car Museums, Etc..
- Created a \$1.2 Million deduction
- **Tax savings of \$467,082**

Follow this link!
Provide Your Property Details for Analysis!

cd.cssistudy.com

Partial Asset Disposition Election

- Ability to write off assets that are no longer in use
- **LED Retrofit Projects**
- Renovations, remodels, and replacements
- Abandoned in place
- Common items – doors, roof, HVAC, electrical
- Retirement of a structural component of or improvement to a building
 - 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?



Janus White Paper

- Partial Asset Disposition Case Study with Cost Segregation



Storage Facility Renovation Tax Savings

	Original Building	Demolition	Bonus on New
Cash Flow	\$545,607	\$20,812	\$18,712
Total Tax Savings		\$585,131	

Tax Tip

Any renovation project you are making should be viewed in the lens of taxes as well as facility and materials. This can be applied to most renovation projects like replacing doors or a roof. CSSI's Energy Services division applies this strategy to its LED projects.

LED Project - Optimal Tax Savings

CSSI LED Project Economic Analysis

Self Storage

CSSIES LED Optimal Tax Savings

General Scope of Proposed Work	Existing	After Retrofit	
Number of Fixtures	682	682	
Savings Summary			
Maintenance Savings		\$ 4,786.00	Energy Savings = \$35,698
LED Energy Savings		\$32,058.00	
HVAC Savings		\$3,640.00	
First Year Total Savings		\$40,484.00	
Financial Summary			
Project Cost		\$179,178.24	Project-Related Savings
Less Local Utility Rebates*		\$6,659.18	
Less Analysis Resulting from Tax Savings of Repair Regulations**		\$35,558.03	
Less 100% Bonus Depreciation/Section 179 QIP Tax Savings (if available)		\$66,295.95	
Less Cost Segregation Tax Savings**		\$112,889.78	
Net Project Cost		(\$42,224.70)	← Rebate ----- PAD ← Bonus/QIP + Cost Segregation = \$214,743.76 in Additional Tax Cash Flow
Monthly Cost of Delay		\$3,373.67	

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**

Bonus Depreciation Example

**\$8M Self-Storage Facility
(Purchased November 2017)**

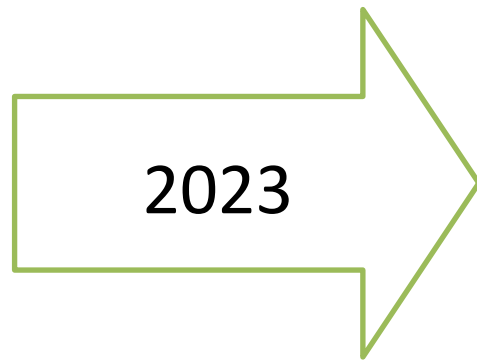
Deductions

Straight-line	\$26,000
Accelerated	\$154,000
Bonus	\$700,000



\$26,000 vs.

Bonus is Slowly Phasing Out



Date Placed in Service	Bonus Percentage
9/28/17- 12/31/17	50%/ 100%
2018-2022	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027	0

Tax Tip

- Cost Segregation is a good tool to help identify items for Bonus Depreciation to help reduce your taxable income and increase cash flow. Bonus follows the year of purchase so if you bought a building prior to 2023 you may still qualify for 100% Bonus today when a Cost Segregation Study is applied. Anything bought or built in 2023 qualifies for 80% bonus.

Filing questions

- These Processes work with
 - New Purchases
 - New Construction
 - Buildings you have owned for many years
 - Recent improvements even if you have older buildings
- Capture this:
 - On your current tax return without amending a return or
 - Use to reduce Quarterly Estimates.

Expected Results – Lower income taxes and increased cash flow

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

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“Cost Segregation is a proven tax strategy.”

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.

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 20 years
- 30,000+ 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

Thank You for Joining Us Today!

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Let us run the
numbers for
you!

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