



Cost segregation overview

Accounting methods and credit services

Today's unprecedented economic complexities are prompting many companies to rethink the way they do business. Faced with complex market issues, such as sustaining performance and maintaining liquidity, many business leaders are faced with critical decisions on a daily basis.

For many companies, adapting to this dynamic new world includes taking a closer look at how they manage their tax issues. But with increasing pressures to manage costs, making the right tax decisions has its own set of challenges. In order to meet these new challenges, many organizations are seeking a different type of tax advice—the type of advice you can expect from the Tax professionals at KPMG LLP (KPMG).

To help manage costs, companies may be able to accelerate tax depreciation deductions on qualifying construction projects.

What is cost segregation?

Cost segregation is the analysis of building costs to help accelerate tax depreciation expense by identifying costs and activities attributable to assets with shorter tax recovery periods. Additionally, if construction is not complete, and if KPMG professionals have access to vendors involved in the project, additional identification of personal property may result through interaction with the design and construction professionals.

KPMG's Fixed Assets Services professionals can draw on the skills of architectural, engineering, and valuation professionals to segregate building costs into the appropriate tax recovery periods. We help companies apply Internal Revenue Service (IRS) regulations, guidance, and case law to determine the federal tax treatment of building costs.

Our experienced professionals review and help substantiate the costs identified for shorter recovery periods in preparation for possible IRS audit and can provide a customized deliverable for compliance with relevant International Financial Reporting Standards asset componentization reporting.

What are the current potential benefits?

Cost segregation identifies personal property (generally 5- or 7-year recovery), land improvements (generally 15-year recovery), and other short-lived properties that have been erroneously classified as building property (39- or 27.5-year recovery), which can result in a cost savings.

Why consider cost segregation right now?

The ability to fully expense qualified new and used property under the new tax law significantly increases the potential benefits of cost segregation. Under the new law, generally, the bonus depreciation percentage is increased to 100 percent for property (including used property) acquired and placed in service after September 27, 2017 and before 2023. Further, accelerating deductions into the 2017 tax year presents a one-time transition opportunity to generate a permanent benefit due to the difference in the federal corporate tax rate of 35 percent in 2017 and 21 percent in 2018.

We spend the time to understand and evaluate the facts, and provide new and practical ways to address potential issues. We can tailor the engagement to meet your needs.

Next steps

KPMG's professionals begin by reviewing relevant construction budgets, bid packages, owner cost summaries and invoices, and other scope-of-work documents to include lease agreements or state and local incentives, as applicable. We then complete a high-level feasibility analysis based on your information to estimate the potential tax benefits of a cost segregation study.

Our approach to a cost segregation engagement includes, but is not limited to:

- Building a client delivery team with the appropriate professionals based on the engagement parameters and type of construction project
- Meeting with construction vendors, project managers, and architects to discuss the purpose of the engagement
- Conducting site visits
- Reviewing construction drawings and performing engineering takeoff estimates
- Identifying costs that should be properly classified as shorter recovery period property.

Why KPMG?

The Fixed Asset Services group works as a national team that aligns the skills and core competencies of professionals across the country. KPMG's Fixed Asset Services group is part of the Accounting Methods & Credit Services practice. Our team members include licensed architects, professional engineers, and Certified Public Accountants. We have extensive experience defending cost segregation studies under IRS audit. Our experience with multiple fixed asset accounting software platforms enables us to assist with the implementation of cost segregation results.



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