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*Let's get there*

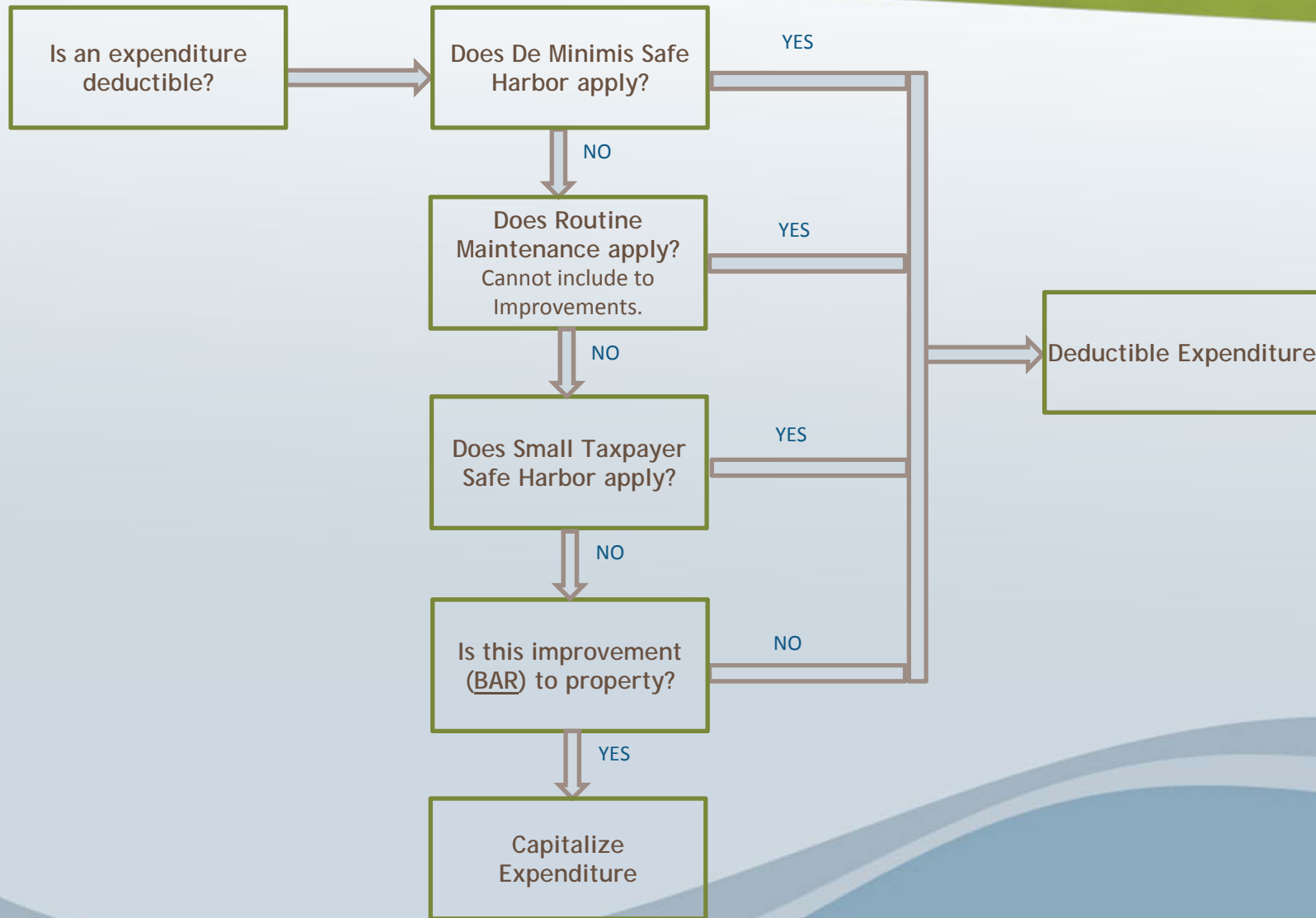
# No Surprises: What You Need to Know About the TPRs and Cost Segregation

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**@PerkinsCo**

# Tangible Property Regulations



# Tangible Property Regulations



- › Effective for all taxpayers with years beginning on or after January 1, 2014
- › All taxpayers that own or rent tangible property must comply with these regulations as of the effective date
  - Small taxpayer relief from filing change in accounting method to comply

# Tangible Property Regulations



- › Unit of Property – New
  - Tangible personal property
  - Incidental M&S deductible when purchased
  - Non-incidental M&S deductible when used or consumed
- › De Minimis Safe Harbor
  - Current deduction with written capitalization policy
  - \$5,000 with AFS; \$500 without AFS (increase coming?)
  - \$500 for non-incidental M&S
  - Annual election
- › Opportunity – Turnover expenses in written capitalization policy

# Tangible Property Regulations



- › Unit of Property - Existing
  - Real property - 9 building systems
  
- › Capital Expenditures vs. Repairs & Maintenance
  - Betterments
  - Adaptations
  - Restorations

# UOP – Building Systems



## Building Unit(s) of Property and Common Components

Building Structure (Shell)	HVAC	Plumbing	Gas Distribution	Electrical	Elevators	Escalators	Fire Protection	Security Systems
<ul style="list-style-type: none"> <li>• Roof</li> <li>• Walls</li> <li>• Floors</li> <li>• Ceilings</li> <li>• Foundation</li> </ul>	<ul style="list-style-type: none"> <li>• Motors</li> <li>• Compressors</li> <li>• Boilers</li> <li>• Furnace</li> <li>• Chillers</li> <li>• Pipes</li> <li>• Ducts</li> <li>• Radiators</li> </ul>	<ul style="list-style-type: none"> <li>• Pipes</li> <li>• Drains</li> <li>• Valves</li> <li>• Sinks</li> <li>• Bathtubs</li> <li>• Toilets</li> <li>• Water &amp; Sewer Collection Equipment</li> <li>• Water Utility Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Pipes</li> <li>• Gas Utility Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Wiring Outlets</li> <li>• Junctions</li> <li>• Lighting Fixtures &amp; Connector</li> <li>• Electrical Utility Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Elevator Boxes</li> <li>• Control Equipment</li> <li>• Cables &amp; Movement Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Rails</li> <li>• Steps</li> <li>• Supporting Equipment</li> <li>• Controls</li> </ul>	<ul style="list-style-type: none"> <li>• Sensing &amp; Detection Devices</li> <li>• Computer Controls</li> <li>• Sprinkler Heads &amp; Mains</li> <li>• Piping &amp; Plumbing</li> <li>• Alarms</li> <li>• Control Panels</li> <li>• Signage</li> </ul>	<ul style="list-style-type: none"> <li>• Window &amp; Door Locks</li> <li>• Security Cameras</li> <li>• Recorders</li> <li>• Monitors</li> <li>• Motion Detectors</li> <li>• Security Lighting</li> <li>• Alarms</li> <li>• Entry Access</li> </ul>

# Improvement Standards



- › Betterments – capitalize if:
  - Pre-existing material condition or defect is corrected
  - Material addition or expansion
  - Reasonably expected to materially increase:
    - Productivity
    - Efficiency
    - Strength
    - Quality
    - Output
  
- › Opportunity – **TI's and building refresh**

# Improvement Standards



- › Aadaptations – capitalize if:
  - New or different use from intention when originally placed in service



# Improvement Standards



- › Restorations – capitalize if:
  - Returns UOP to ordinary efficient operating condition if deteriorated to state of disrepair and no longer can function for intended use
  - Returns UOP to “like-new” condition at the end of its class life
  - Replaces major component or substantial structural part of UOP
  - Replaces UOP where loss recognized on replaced component
  
- › Opportunity – **partial asset dispositions**

# Partial Asset Dispositions



- › Claim loss upon the disposition of a structural component (or portion thereof) of a building
  
- › Methods to determine basis of partial disposition
  - Cost segregation
  - Discounted replacement cost (Restorations)
  - Pro-rata replacement cost or other reasonable method (Betterments)

# Partial Disposition Election



- › Election made in year of disposition by writing off the remaining tax basis at time of disposition
  - Use it or lose it!
  
- › Opportunity – one-time catch up for prior years' activity as part of change in accounting method for 2014
  - Partial dispositions
  - “Ghost” assets
  - Repairs

# Cost Segregation



**Before**



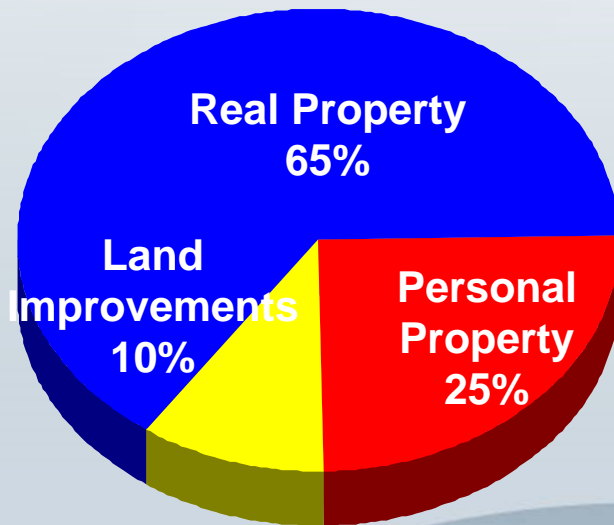
# Cost Segregation



**Before**



**After**



# Cost Segregation Benefits



**Accelerated Depreciation**



**Increased Cash Flow**

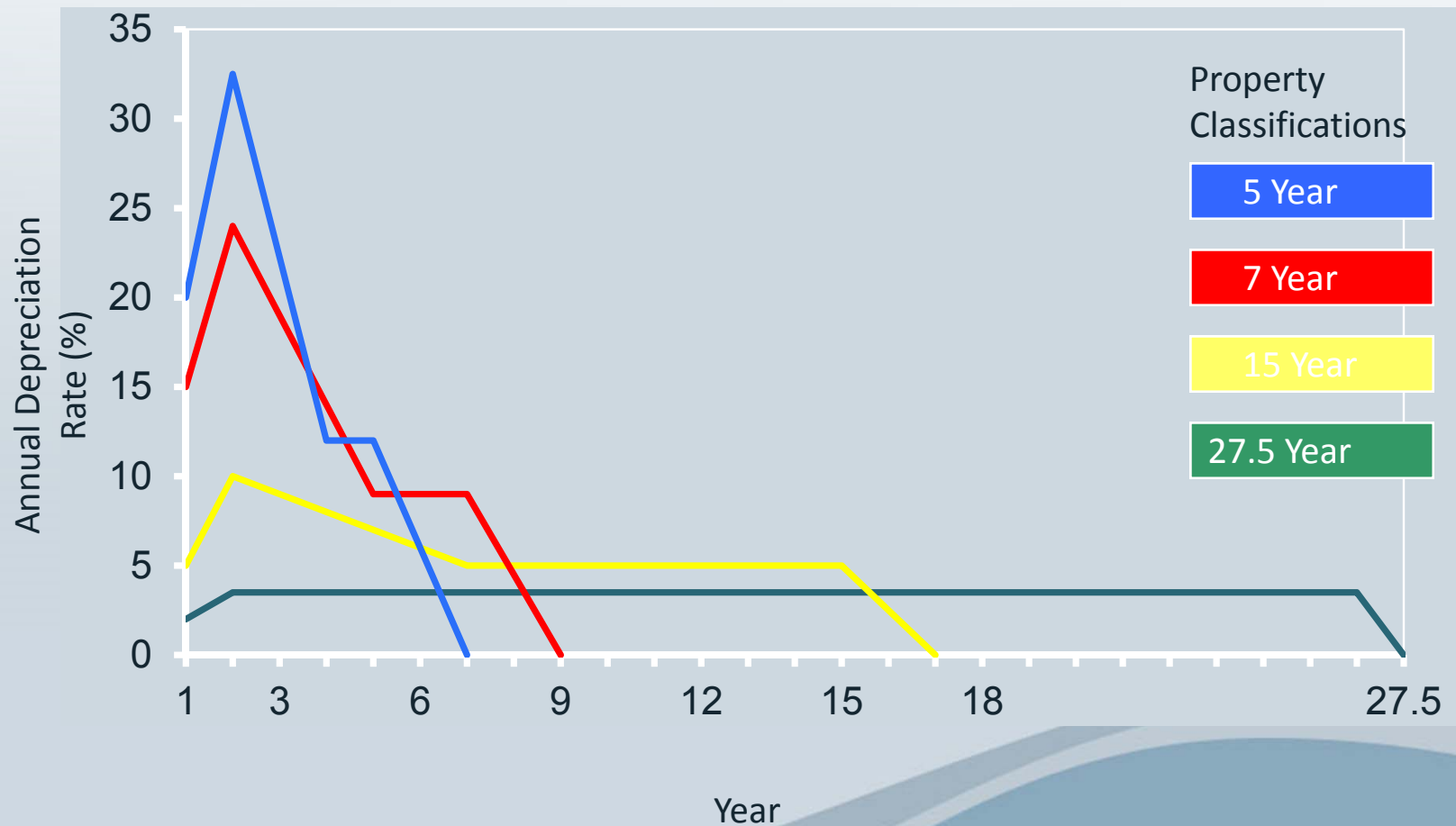


**Business Growth**

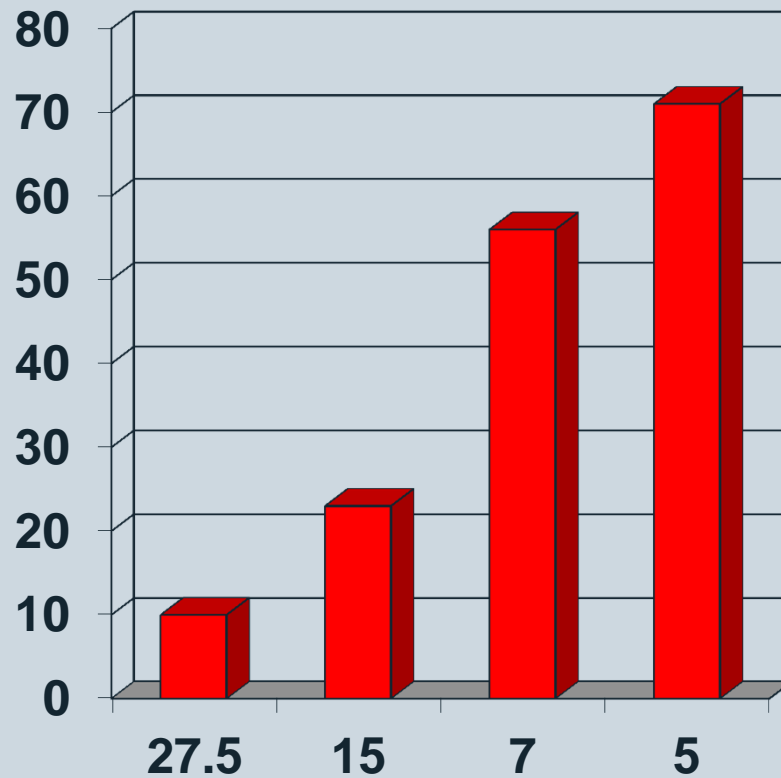
# Depreciation Comparisons



Using MACRS



# Cost Segregation Depreciation



■ % of Cost Basis  
Depreciated in First 3  
Years

Property Asset in Years

(Assumes MACRS Half-Year Convention)

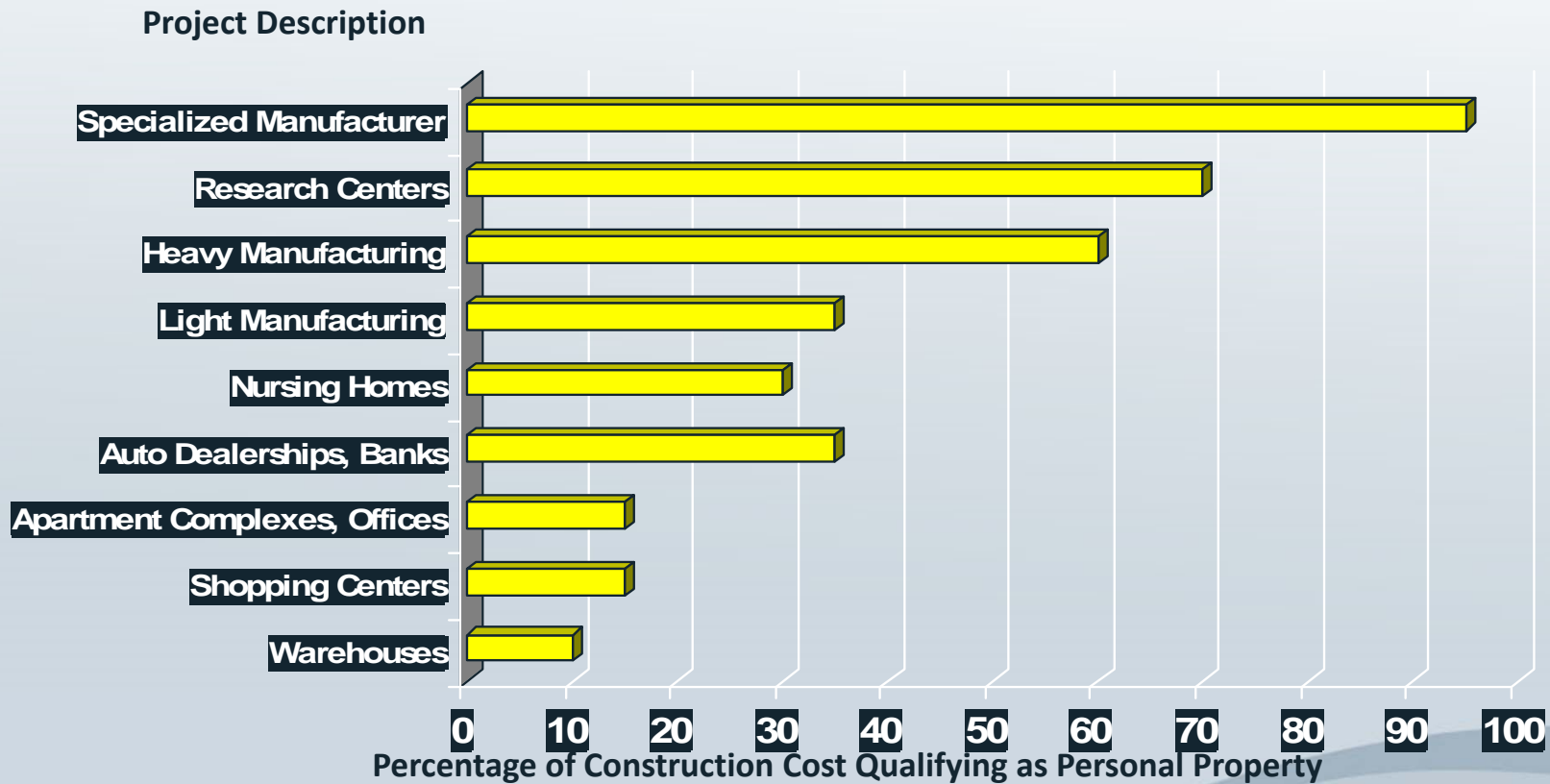


# Cost Segregation Study – When Does It Make Sense?



- › New Construction
- › Major Renovation
- › At Time of Acquisition
- › Existing Real Estate Holdings

# Construction Cost Qualifying for Accelerated Depreciation

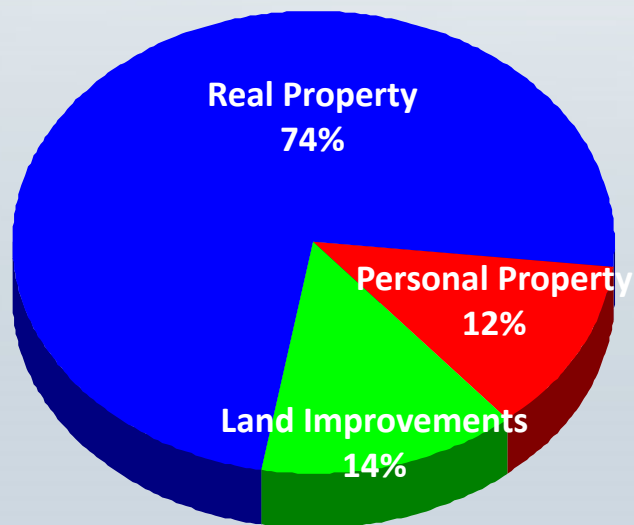


# Property Management Company with 19 Apartment Communities



*Total Project Cost \$55.5 Million*

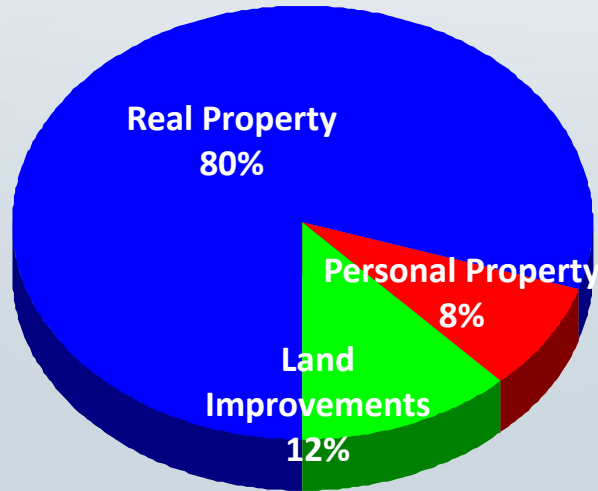
1st Year Increased Cash Flow	\$6,600,000
NPV of Increased Cash Flow	\$4,400,000
Professional Fees	\$150,000
Benefit-to-Cost 1 <sup>st</sup> Year	72:1
NPV	48:1



# 6 Retail Malls



*Total Project Cost \$25 Million*

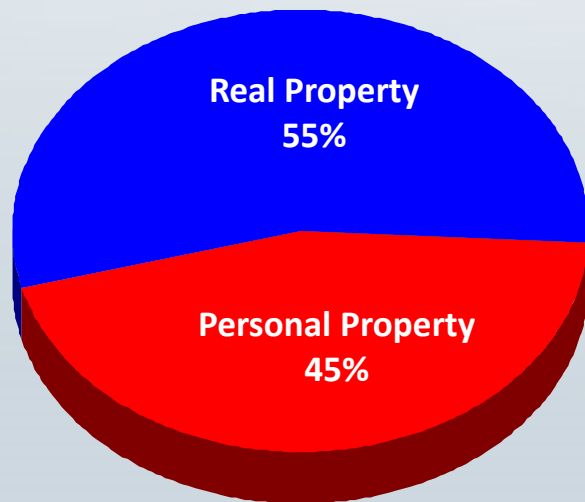


1st Year Increased Cash Flow	\$221,500
NPV of Increased Cash Flow	\$836,700
Professional Fees	\$49,500
Benefit-to-Cost 1 <sup>st</sup> Year	7:1
NPV	27:1

# Restaurant



*Total Project Cost \$683,000*



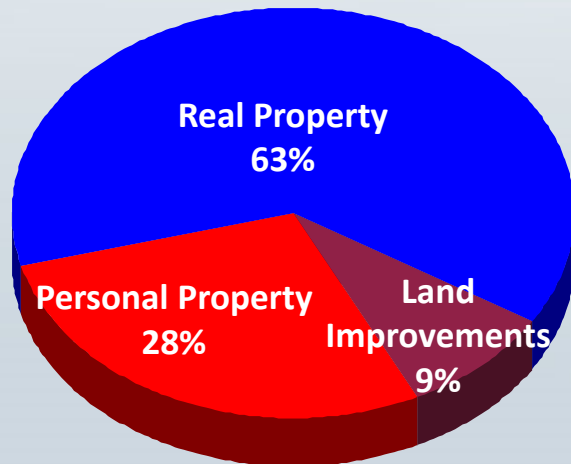
1st Year Increased Cash Flow	\$55,700
NPV of Increased Cash Flow	\$58,900
Professional Fees	\$5,500
Benefit-to-Cost 1 <sup>st</sup> Year	15:1
NPV	16:1

# Retirement Facility



*Total Project Cost \$2.9 Million*

1st Year Increased Cash Flow	\$210,000
NPV of Increased Cash Flow	\$211,000
Professional Fees	\$18,500
Benefit-to-Cost 1 <sup>st</sup> Year	18:1
NPV	18:1



# Questions?



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