

TAX TOPICS

Chip Chesteen, Chesteen & Associates



Tax Topics Overview

- **Cost Segregation**
- **Leasehold Improvements**
- **Income Taxes on Real Estate Sales**

Cost Segregation

Allocation of real estate cost to recovery periods:

Nonresidential building structure	39 years
Residential building structures	27.5 years
Land improvements	15 years
Personal property	5-7 years

Cost Segregation - Benefits

- Increased depreciation write off in early years of ownership
- Reduction in “phantom income” for financed property

Cost Segregation – The Process

- Cost segregation study performed by qualified outside consultant
- Using methodology approved by IRS
- New construction studies are easier and cheaper
- Studies for existing properties eligible to take deferred depreciation expense in year of election

Leasehold Improvements

- **Prior Law – write over the life of the structure**
- **Improvements placed in service between May 5, 2003 and January 1, 2005**
 - Eligible for bonus depreciation equal to 50% of the cost
 - Some leasehold improvements do not qualify
- **Cost segregation can apply to leasehold improvements**

Income Tax on Sales of Real Estate

- **Property held less than one year taxed at ordinary income rates**
- **Property held more than one year taxed at federal tax rate of 15%**
- **Depreciation taken in prior years on real estate taxed at 25%**

Future Tax Trends

- **Further development of cost segregation – watch for IRS reaction**
- **Income tax rates depends on election results and budget issues**