US GAAP and International Financial Reporting Standards reporting entities are responsible to properly allocate the purchase or construction of real estate among its base components in order to comply with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805 and International Financial Reporting Standard (IFRS) 3.

Detailed allocations of real estate may also be beneficial for federal tax reporting, property tax reporting and insurance placement.

Real Estate allocations for Financial Reporting purposes include an opinion of value for:

A. Land
B. Building Shell, Core and Tenant Improvements
C. Land Improvements, and
D. Intangible Assets, such as:
   1. Leases in place
   2. Tenants in place
   3. Remaining value of tenant improvements
   4. Customer relationships

Clients engage Marshall & Stevens to perform these allocation services for acquired assets, newly constructed asset, and portfolios.

FEDERAL TAX REPORTING – MACRS vs. Straight Line Depreciation

While land is not depreciable, the other components of real estate are depreciable in the U.S. over 5, 7, 15 and 39.5 years (27.5 years for multifamily properties).

The **Modified Accelerated Cost Recovery System (MACRS)** was adopted by the IRS at the end of 1986 in order to provide guidance for building owners interested in accelerating depreciation for components of their properties. The process of allocating real estate according to MACRS is commonly referred to as Cost Segregation.

Assigning a greater percentage of costs to shorter depreciable lives typically creates a great cash benefit to property owners as it reduces their Federal Tax expense. Such an allocation can also be performed for tenants who lease space and who paid for the improvements, not just building owners.

marshall stevens

While some building owners have traditionally limited their component identification for accelerated depreciation to assigning a 5-year life to carpet and cabinets (approximately 3% of the value of a building), a proper engineering-based analysis utilizing MACRS, IRS revenue rulings and case law, can increase the allocation of components for accelerated depreciation to between 5% and 45% of the building's cost (sometimes more) to shorter depreciable lives (5, 7 and 15 years), depending upon the characteristics of the property.

Bonus Depreciation Opportunities

Property eligible for bonus depreciation includes:

- Tangible property with a MACRS general depreciation system ("GDS") recovery period of 20-years or less.
- Computer software depreciable under IRC Section 167(f)(1).
- Water utility property.
- Specified fruit and nut plants.
- Qualified film, television, and live theatrical production property.
- **Qualified Improvement Property** (QIP) placed into service after September 27, 2017. QIP includes certain interior building improvements of most commercial spaces, such as retail stores and restaurants.

When performed by the proper experts, ***Cost Segregation analyses can efficiently be repurposed for insurance placement and property tax reporting purposes.***

RETROACTIVE TAX BENEFIT

Didn't take advantage of accelerated depreciation when the building was purchased (built)? It is acceptable to have a retroactive analyses performed and to petition for a tax refund (benefit of accelerated depreciation over straight line depreciation) and to use the losses created, if any, against past earnings.

For more information about Marshall & Stevens' portfolio of real estate, financial or equipment valuation services, contact:

Patrick T. Craig, MAI, MRICS
Principal, National Practice Leader
Real Estate
212.897.9481
pcraig@marshall-stevens.com

Douglas Van Wickler
Senior Director
Real Estate
646.438.7604
dvanwickler@marshall-stevens.com

Catherine Gu, MAI
Director
Real Estate
646.438.7602
cgu@marshall-stevens.com

Anthony Vu
Director
Cost Segregation
213.233.1517
avu@marshall-stevens.com