



## Our Team is Your Resource

Established in 1999 with offices across the US, KBKG provides turn-key tax solutions to CPAs and businesses. By focusing exclusively on value-added tax services that complement your traditional tax and accounting team, we always deliver quantifiable benefits to clients.

Our firm provides access to our knowledge base and experienced industry leaders. We help determine which tax programs benefit clients and stay committed to handling each relationship with care and diligence. Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

## Value Added Services



### Research & Development Tax Credits

Federal credit worth approximately 6.5% of wages related to designing, developing and improving products, processes, formulae and software.



### 45L Credits for Energy Efficient Residential Developments

Newly constructed or renovated apartments, condos, and tract home developments that meet certain criteria are eligible for a \$2,000 credit per unit.



### 179D Incentive for Energy Efficient Commercial Buildings

Federal deduction worth \$1.80 per square foot of energy efficient buildings. Available to architects, engineers, design/build contractors and building owners.



### Employment Tax Credits for Businesses

Employers with 10 or more employees can benefit from a wide range of federal and state business tax incentives designed to spur economic growth.



### Cost Segregation for Buildings and Improvements

Any building improvement over \$750,000 should be reviewed for proper classification of the individual components for tax depreciation, and retirement purposes.



### Repair vs. Capitalization Review & Compliance

Taxpayers often capitalize major building expenditures that should be expensed as repairs and maintenance such as HVAC units, roofs, plumbing, lighting and more. Retirement loss deductions for demolished building structural components are also identified.



### Fixed Asset Tax Review

While a cost segregation focuses on buildings, a comprehensive Fixed Asset Tax Review encompasses all fixed assets a company owns including real property, machinery, furniture, fixtures, and equipment.



### IC-DISC

The Interest Charge Domestic International Sales Corporation (IC-DISC) offers significant Federal income tax savings for making or distributing US products for export.



### Property Tax Review (Real and Personal)

Overstated property values and failure to fully leverage available exemptions and abatements often result in substantial overpayment of property taxes.



### Sales and Use Tax Review

Complex transaction tax laws vary from state to state and create opportunities to recover overpaid taxes, reduce future liabilities, and implement best practices.



## INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES (updated 09-22-2015)

Industry	R&D Tax Credits	Repair /Asset Retirement	45L Tax Credits	179D Tax Deductions	Employment Tax Credits	Cost Segregation	IC-DISC	199 DPAD Deduction
Affordable Housing		X	X	X	X	X		
Agriculture, Forestry & Fishing	X				X	X	X	
Architecture & Engineering	X			X	X	X	X	X
Auto Dealerships		X		X	X	X		
Communications & Utilities	X	X		X	X	X		
Construction	X				X	X		X
Film & Music	X	X		X	X	X	X	X
Financial Services		X			X	X		
Government Contractors	X	X		X	X	X	X	
Healthcare		X		X	X	X		
Hotels		X		X	X	X		
Logistics & Distribution		X		X	X	X	X	X
Manufacturing	X	X		X	X	X	X	X
Mining	X				X	X	X	
Multifamily Developers		X	X	X	X	X		
Oil & Gas	X	X			X	X		
Pharmaceutical	X	X		X	X	X	X	X
Professional Services		X			X	X		
Real Estate		X			X	X		
Restaurants		X			X	X		
Retail		X		X	X	X		
Technology/Software	X	X		X	X	X	X	X
Transportation					X	X		
Wholesale Trade		X		X	X	X	X	

Call us today at **877-525-4462** to see how we can help you and your clients better understand these opportunities and secure these specialty tax incentives.

**NATIONWIDE SERVICE**



Identifying Value-Added Tax Opportunities (updated 01-07-16)

KBKG Service	Description & Highlights	Applicable Clients/Industries	How much is it worth?	Years	Tax considerations
<b>Research &amp; Development Tax Credits</b>  (Federal & State)	Federal and State tax credit - designed to promote technological innovation in US companies. Research must be conducted in the US, not abroad.  Most <b>Qualified Expenses are wages paid to employees conducting certain activities.</b> Payments to contractors doing R&D for Client may also qualify.	<ul style="list-style-type: none"> <li>• <b>Manufacturing</b></li> <li>• <b>Architects</b></li> <li>• <b>Food Processing</b></li> <li>• <b>Software Development</b></li> <li>• <b>High Tech</b></li> <li>• <b>Equipment or tools</b></li> </ul> <ul style="list-style-type: none"> <li>• Clients developing prototypes, testing, applying for patents, upgrading systems/software</li> <li>• Clients improving products or</li> <li>• Improving their manufacturing processes</li> </ul>	<b>Federal Benefit - Roughly 6.5% of their total Qualified R&amp;D Expenses</b>  Ex. Client has \$1M/year of wages related to R&D. Benefit = \$65k/year.  Many states also allow an R&D credit. For example, CA R&D Credit is worth an additional 6% of Qualified R&D expenses.	Any open tax year.  3 year Federal Statute and 4 years for some states.	General Business Tax Credit <ul style="list-style-type: none"> <li>• Dollar-for-dollar reduction in income tax liabilities.</li> <li>• 1 year Carryback / 20 year carryforward of unused credits.</li> <li>• Qualified small businesses can reduce alternative minimum tax liabilities.</li> <li>• Qualified start-up companies can offset up to \$250,000 in payroll taxes.</li> </ul>
<b>Repair v. Capitalization Review</b>  <b>"Asset Retirement Study"</b>  (Federal)	New rules allow you to <b>assign value to "structural" components removed from a building and write off the remaining basis!</b> Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements.  KBKG also provides compliance consulting for repair and disposition regulations.	<b>Any building renovation costs &gt; \$400k</b>  <b>Retirement Study-</b> Building is renovated AFTER owning it at least 1 year. Building should have <b>&gt;\$500K of remaining depreciable basis left.</b>  <b>Repair Study-</b> renovations that include <b>roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring,</b> etc.	Additional Year 1 deductions of <b>15%-40% of renovation costs (on top of benefits from 1245 reclassification)</b>  Ex. Client spends \$3M on structural renovations. Additional Year 1 deductions of \$450K-\$1.2M.	Any building renovated or improved in the last 15 Years.  Use Form 3115 to claim missed deductions anytime.	<ul style="list-style-type: none"> <li>• Depending on specific issue, may require a separate 3115 if doing concurrently with a depreciation change.</li> </ul>
<b>Fixed Asset Tax Review</b>  (Federal)	Comprehensive review of company's entire Fixed Asset listing & supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed.  Includes Cost Segregation & Repair analysis.	Operations with > \$40M in real property or > 1,000 lines of fixed assets.  <ul style="list-style-type: none"> <li>• Retail, Restaurant, Bank and Hotel Chains of 10 or more</li> <li>• Manufacturing</li> <li>• Utility Companies</li> </ul>	Net Present Value of 5-8% of total building related costs.  Ex. Manufacturing client has \$60M of 39 year fixed assets. NPV Cash value = \$3M - \$4.8M	Use Form 3115 to claim missed deductions anytime.	<ul style="list-style-type: none"> <li>• Reduces AMT</li> <li>• Generally, 2 year NOL carryback and unused deductions carryforward.</li> <li>• Must recapture personal property upon sale of building.</li> </ul>
<b>Residential Energy Credits (Section 45L)</b>  (Federal / States can have similar programs)	Federal credit for developers of <b>Apartments, Condos, or Spec Homes</b> that meet certain energy efficiency standards.  Units must be certified by a qualified professional to be eligible.	Anyone that built Apartments, Condos, or Track Home Developments in the last 4 years. <b>Generally more than 20 units.</b>	<b>Federal Credit = \$2,000 per apartment/home unit.</b>  <b>Many states have similar credits.</b>  Ex. 100 unit apartment/condo can get \$200,000 of Federal Tax Credits.	Any open tax year.  3 year Federal Statute	General Business Tax Credit <ul style="list-style-type: none"> <li>• Credit is realized when unit is first leased or sold, not placed in service.</li> <li>• 1 year Carryback</li> <li>• 20 year carryforward.</li> <li>• Does not reduce AMT except for 2010.</li> <li>• 2010: ESB allows carry back 5 years.</li> </ul>
<b>Commercial Energy Deductions (Section 179D)</b>  (Federal/ States can have similar programs)	Federal deduction for <b>Architects, Engineers, and Design/Build Contractors</b> that work on Public or Government Buildings such as Schools, Libraries, Courthouses, Military Housing etc.  <b>Also available to any commercial building owner.</b>	<ul style="list-style-type: none"> <li>• <b>179D for Designers:</b> Architects, General Contractors, Engineers, Electrical &amp; HVAC Subcontractors.</li> <li>• <b>Any Building Owner or Lessee:</b> That has constructed a commercial improvement greater than 40,000 SF since 1/1/2006.</li> </ul>	<b>\$.30 up to \$1.80 per square foot in Federal Tax Deductions.</b>  Ex. 100,000SF building is eligible for \$180,000 in deductions.	Designers: Open tax years. 3 year Federal Statute  Owners: Can go back to 2006 with Form 3115 to claim missed deductions.	<ul style="list-style-type: none"> <li>• Reduces AMT</li> <li>• Generally, 2 year NOL carryback and 20 year carryforward.</li> <li>• Deduction reduces basis in real property.</li> </ul>
<b>Employment Related Tax Credits</b>  (Federal)	Federal Work Opportunity Tax Credit (WOTC)  Federal Empowerment Zone Credits - Location Based  Federal Health Insurance Premium Credits (FHIPC)	<ul style="list-style-type: none"> <li>• <b>WOTC - 500 or more employees.</b> Location doesn't matter.</li> <li>• <b>Empowerment Zones - 10 or more employees</b> located in the designated area.</li> <li>• <b>FHIPC (Section 45R) - clients w/ under 50 employees</b> and paying health insurance.</li> </ul>	<b>WOTC - up to \$9,000 per eligible employee.</b>  <b>Empowerment Zone - \$3,000 per eligible employee.</b>  <b>FHIPC - 35% to 50% of health insurance premiums.</b>	Any open tax year.  3 year Federal Statute	General Business Tax Credit <ul style="list-style-type: none"> <li>• Various tax considerations can be discussed with KBKG.</li> </ul>
<b>CA Competes Credit</b>  (State)	California income tax credits designed to stimulate growth throughout the state.	<b>CA Competes Credit:</b> Growing business clients who anticipate hiring additional employees, constructing new buildings, or investing in new equipment.	Must apply for credits.  Up to <b>\$37,000 per eligible employee,</b> over a 5 year period. <b>Generally 15-35% of employees qualify.</b> <b>Equipment- Credit is equal to Sales Tax paid.</b>	Any open tax year.  4 year CA State Statute	<ul style="list-style-type: none"> <li>• Credits will reduce taxes on owners W2 wages and personal return.</li> <li>• Credits flow through to owners.</li> <li>• Credits will offset tax at the S-Corp level.</li> </ul>



**Identifying Value-Added Tax Opportunities** (updated 01-07-16)

<p><b>Cost Segregation</b> (Federal &amp; State)</p>	<p>Allows <b>taxpayers who have constructed, purchased, expanded, or remodeled any kind of real estate</b> to accelerate depreciation deductions by reclassifying building components into shorter tax lives.</p>	<p>Any <b>building with over \$750k</b> of depreciable tax basis.  Any <b>leasehold improvement with over \$500k</b> of depreciable tax basis.</p>	<p>Net Present Value = <b>3-6% of the total building cost.</b>  Ex. \$2M office can yield an NPV of \$60k-\$120k.</p>	<p>Assets acquired in the last 20 Years.  Use Form 3115 to claim missed deductions anytime.</p>	<ul style="list-style-type: none"> <li>• Reduces AMT</li> <li>• Generally, 2 year NOL carryback and unused deductions carryforward.</li> <li>• Must recapture personal property upon sale of building.</li> </ul>
<p><b>IC-DISC Federal Income Tax Incentive</b> (Federal)</p>	<p>The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.</p>	<p>Any <b>closely held, privately owned business with over \$250,000 in profits from exports.</b></p> <ul style="list-style-type: none"> <li>• Manufacturers</li> <li>• Distributors</li> <li>• Architects &amp; Engineers</li> <li>• Agriculture and Food Producers</li> <li>• Software Developers</li> <li>• Other Producers</li> </ul>	<p>Minimum permanent <b>19.6% decrease in tax rate on half of export profits.</b> Benefits can be dramatically higher by performing a transaction-by-transaction analysis.</p>	<p>Benefits begin when entity is formed. Transaction-by-transaction analysis for existing IC-DISC calculations can be amended for any open tax year (3 year Federal Statute).</p>	<ul style="list-style-type: none"> <li>• Requires annual filing 1120 IC-DISC.</li> <li>• No changes to business operations.</li> </ul>
<p><b>Property Tax Consulting: Appeal and Compliance Services</b>  • Personal Property • Real Estate</p>	<p>Ensure that companies pay the minimal real estate and personal property tax amount, meet all compliance requirements and leverage available exemptions and abatements.</p>	<p><b>Real Property: All states. \$100k+ tax bill</b></p> <ul style="list-style-type: none"> <li>• Commercial real estate owners</li> <li>• Multi-Family, Hospitality</li> <li>• Manufacturing, Distribution, Oil &amp; Gas</li> </ul>	<p>Immediate <b>reduction in current property tax liability.</b> Client pays a % of savings.  Per return fee arrangements are typical for compliance engagements.</p>	<p>Year by Year</p>	<ul style="list-style-type: none"> <li>• Appraisal district must rely on mass appraisals techniques.</li> <li>• Assessed Value is an opinion of value and may not equate to market value.</li> <li>• Unique characteristics of building may not be accounted for.</li> </ul>
<p><b>Sales &amp; Use Tax Review</b> (State)</p>	<p>State tax codes are very specific regarding products &amp; services which can be exempt from taxation. Ensure that clients did not overpay Sales and Use Taxes. Over/ Under payments are identified, quantified and submitted to the respective State for a refund.</p>	<p><b>Non-taxable states:</b> NM, NH, OR, MT, AZ, DE.</p> <ul style="list-style-type: none"> <li>• <b>\$30 million+ in sales</b>, greater than \$100k in audit liabilities</li> <li>• <b>Multistate operations</b></li> <li>• <b>Multiple vendor relationships</b></li> <li>• <b>Poor accounting/tax software</b></li> <li>• <b>Manufacturing, Oil &amp; Gas, Hotels, Telecom, etc</b></li> </ul>	<p><b>Refund of overpaid sales and use tax on expenditures.</b>  Can be significant when refund covers multiple years.  Voluntary disclosures of unpaid tax can minimize penalties.</p>	<p>Any open periods allowed by statute of limitations.  (SOL= 4 years in most states)</p>	<ul style="list-style-type: none"> <li>• Sales &amp; Use tax state law is complex and varies by State.</li> <li>• Over and Under payments are reviewed for a net assessment.</li> <li>• Sampling is used for large transaction data sets.</li> </ul>

For an electronic copy of our service matrix, contact us at 877.525.4462 or email [info@kbkg.com](mailto:info@kbkg.com)



Qualified Improvements - Depreciation Quick Reference (last updated 3-22-2016)

	Applicable PIS Dates (inclusive)	MACRS GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	179 Expense Eligible	Important Notes	Code Section
Qualified <b>Leasehold</b> Improvements (QLI): 2001 - 2004 Partial	09/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	N/A	39 year QLI qualifies for Bonus. Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified <b>Leasehold</b> Improvements (QLI): 2004 Partial and onward	10/23/04 onward	15 Year / SL	Y <sup>1</sup>	Y	Y	2010 onward <sup>6</sup>	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified <b>Retail</b> Improvement Property: 2009-2015	01/01/09 - 12/31/15	15 Year / SL	N <sup>2</sup>	Y	N	2010 onward <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified <b>Retail</b> Improvement Property: 2016 onward	01/01/16 onward	15 Year / SL	Y	Y	N	2010 onward <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified <b>Restaurant</b> Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N <sup>3</sup>	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified <b>Restaurant</b> Property: 2008	01/01/08 - 12/31/08	15 Year / SL	Y	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified <b>Restaurant</b> Property: 2009 onward	01/01/09 onward	15 Year / SL	N <sup>4</sup>	N	N	2010 onward <sup>6</sup>	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified <b>Improvement</b> Property (QIP): 2016 onward	01/01/16 onward	39 <sup>5</sup> Year / SL	Y	N	N	N <sup>7</sup>	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)

Bonus Depreciation Rates (inclusive dates)	
09/11/01 - 05/05/03 <sup>8</sup>	30%
05/06/03 - 12/31/04 <sup>8</sup>	50%
01/01/08 - 09/08/10 <sup>8</sup>	50%
09/09/10 - 12/31/11 <sup>8</sup>	100%
01/01/12 - 12/31/17 <sup>8</sup>	50%
01/01/18 - 12/31/18 <sup>8</sup>	40%
01/01/19 - 12/31/19 <sup>8</sup>	30%

Footnotes:

- 1) NOT eligible for bonus if placed in service 1/1/2005 - 12/31/2007.
- 2) Retail Improvements are not eligible for bonus depreciation unless it meets the criteria for QLI.
- 3) Qualified Restaurant Property is eligible for bonus depreciation if placed in service 10/23/2004 - 12/31/2004.
- 4) Improvements that also meet the criteria for QLI are eligible for bonus depreciation. After 2015, improvements that also meet the criteria for QIP are eligible for bonus depreciation.
- 5) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI, Qualified Retail Improvements, or Qualified Restaurant Property can be depreciated over a 15-year straight line period.
- 6) Eligible up to \$250k from 2010 - 2015, 2016 and onward are subject to normal 179 expense cap.
- 7) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI, Qualified Retail Improvements, or Qualified Restaurant Property qualify for the 179 Expense.
- 8) Long Production Period (QLIs over \$1M and construction period exceeds 1 year) - can be placed in service one year after bonus normally expires. QLI (that is also LPP) started before 1/1/2012 can be entirely eligible for 100% bonus if completed during 2012. Bonus is applicable if LPP is started before 1/1/2020. Only pre-1/1/2020 basis is bonus eligible on any LPP.

See Next Page For Definitions & Depreciation Rules

**KBKG** is a specialty tax firm that works directly with CPAs and businesses to provide value add solutions to our clients. Our engineers and tax experts have performed thousands of tax projects resulting in hundreds of millions of dollars in benefits. Our services include:

- » Research & Development Tax Credits
- » Green / Energy Tax Incentives
- » 179D for Designers
- » 45L for Multifamily
- » Repair v. Capitalization 263(a) Review
- » Cost Segregation
- » Fixed Asset Depreciation Review
- » IC-DISC
- » Employment Tax Credits
- » Federal

## Definitions:

**3 Year Rule:** The improvements must have been placed in service by any taxpayer more than three years after the date the building was first placed into service.

**Leased Between Unrelated Party Qualification:** Improvements must be made subject to a lease between unrelated parties (see code section 1504). Can be made by lessees, sub-lessees or lessors to an interior portion of a nonresidential building. Parties are related when there is more than 80% ownership shared between them.

**Long Production Period Property: 168(k)(2)(B)** - Must have a recovery period of at least 10 years, is subject to section 263A, has an estimated production period exceeding 2 years, or an estimated production period exceeding 1 year and a cost exceeding \$1,000,000.

**Qualified leasehold improvement property (QLI)<sup>A</sup> 2001-onward:** (A) Any improvement to an interior portion of a building which is nonresidential real property if— (i) such improvement is made under or pursuant to a lease (I) by the lessee (or any sublessee) of such portion, or (II) by the lessor of such portion, (ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and (iii) such improvement is placed in service more than 3 years after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, and (iv) the internal structural framework of the building.

**Qualified retail improvement property<sup>A</sup> 2009-2015:** Any improvement to an interior portion of a building which is nonresidential real property if— (i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and (ii) such improvement is placed in service more than 3 years after the date the building was first placed in service. QRIP shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefitting a common area, or (iv) the internal structural framework of the building.

**Qualified restaurant property<sup>B</sup> 2004-2008:** an improvement to a building if— (A) Such improvement is placed in service more than 3 years after the date such building was first placed in service, and (B) more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

**Qualified restaurant property<sup>B</sup> 2009-onward:** Any section 1250 property which is (i) a building or improvement to a building — if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals, and (ii) if such building is placed in service after December 31, 2008

**Qualified improvement property<sup>A</sup> (QIP) 2016-onward:** (A) Any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) the internal structural framework of the building.

## Other notes:

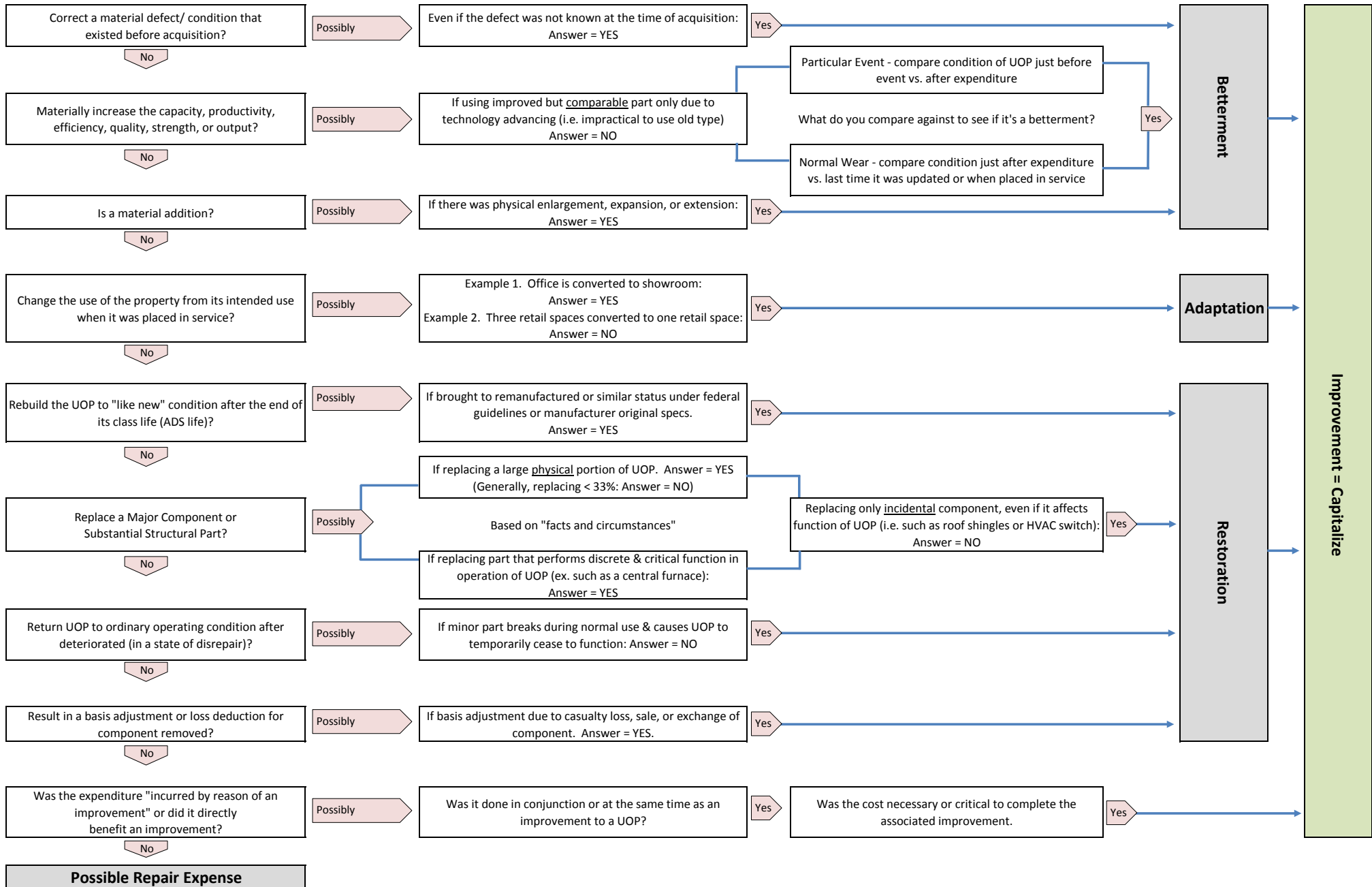
A) Tenant improvements that include costs for HVAC rooftop units are excluded from the definition of Qualified Leasehold Improvements (QLI), Qualified Retail Improvements, and Qualified Improvement Property (CCA 201310028)

B) Restaurant tenant improvements located within a multi-tenant building where 50 percent of the building's total square footage is not leased to restaurants, do not meet the definition of Qualified Restaurant Property.



# KBKG Repair vs. Capitalization: Improvement Decision Tree - Final Regulations

Considering the appropriate Unit of Property (UOP), does the expenditure:  
(Last Updated 3-20-2015)





## KBKG Building Unit of Property & Major Components Chart (updated 3-20-2015)

This chart was created to help users identify building systems & typical "major components" in real estate assets. Replacing a major component is a capital expenditure, while replacing an incidental component can be expensed.

Real Estate Major Component (examples)	Building Structure	Land Improvements	HVAC System	Electrical System	Plumbing Systems	Fire Protection System	Security System	Gas Distribution System	Escalators	Elevators
	<ul style="list-style-type: none"> <li>•Roof System (membrane, insulation &amp; structural supports)</li> <li>•Foundation</li> <li>•Other structural Load Bearing Elements, incl: stairs</li> <li>•Exterior Wall System</li> <li>•Ceilings</li> <li>•Floors</li> <li>•Doors</li> <li>•Windows</li> <li>•Partitions</li> <li>•Loading Docks</li> </ul>	<ul style="list-style-type: none"> <li>•Landscaping incl: shrubs, trees, ground cover, lawn, irrigation</li> <li>•Storm drainage incl: inlets, catch basins, piping, lift stations</li> <li>•Site lighting (pole lights, bollard lights, up lights, wiring)</li> <li>•Hardscape (retaining walls, pools, water features)</li> <li>•Site Structures (gazebo, carport, monument sign)</li> <li>•Paving (roads, driveway, parking areas, sidewalks, curbing)</li> </ul>	<ul style="list-style-type: none"> <li>•Heating System (boilers, furnace, radiators)</li> <li>•Cooling System (compressors, chillers, cooling towers)</li> <li>•Rooftop Packaged Units</li> <li>•Air Distribution (Ducts, fans, etc)</li> <li>•Piping (heated, chilled, condensate water)</li> </ul>	<ul style="list-style-type: none"> <li>•Service &amp; Distribution (panel boards, transformers, switch gear, metering)</li> <li>•Lighting (interior &amp; exterior building mounted)</li> <li>•Site Electrical Utilities</li> <li>•Branch Wiring (outlets, conduit, wire, devices etc.)</li> <li>•Emergency Power Systems</li> </ul>	<ul style="list-style-type: none"> <li>•Plumbing Fixtures (sinks, toilets, tubs etc.)</li> <li>•Wastewater System (drains, waste &amp; vent piping)</li> <li>•Domestic Water (supply piping and fittings)</li> <li>•Water Heater</li> <li>•Site Piping Utilities</li> </ul>	<ul style="list-style-type: none"> <li>•Sprinkler System (piping, heads, pumps)</li> <li>•Fire Alarms (detection &amp; warning devices, controls)</li> <li>•Exit lighting &amp; signage</li> <li>•Fire Escapes</li> <li>•Extinguishers &amp; hoses</li> </ul>	<ul style="list-style-type: none"> <li>•Building security alarms (detectors, sirens, wiring)</li> <li>•Building access &amp; control System</li> </ul>	<ul style="list-style-type: none"> <li>•Gas piping incl: to/from property line &amp; other bldgs.</li> </ul>	<ul style="list-style-type: none"> <li>•Stair and Handrail</li> <li>•Drive System (motors, truss, tracks)</li> <li>•Exit lighting &amp; signage</li> </ul>	<ul style="list-style-type: none"> <li>•Elevator Car</li> <li>•Drive System (motors, lifts, controls)</li> <li>•Suspension system (counterweights, framing, guide rails)</li> </ul>

\* Building unit of property (UOP) rules apply to each building structure located on a single property.

\*\* Building system components with a different tax life are separate units of property. For example, a cost segregation study separating HVAC into 5 year & 39 year categories for a restaurant creates two separate HVAC units of property.

- Lessee of Building** Must apply the same units of property above but only to the portion of the building being leased.
- Personal Property** UOP are parts that are "functionally interdependent" i.e. placing one part in service is dependent on placing the other part in service.
- Plant Property** UOP is each component that performs a discrete and critical function. Generally each piece of machinery or equipment purchased separately.
- Network Assets** UOP is determined by taxpayers particular facts

**Definitions**

- Plant Property** Machinery & Equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities
- Network Assets** Railroad track, oil & gas pipelines, water & sewage pipelines, power transmission & distribution lines, telephone & cable lines; -- owned or leased by taxpayers in each of those respective industries.
- Major Component** Part or combination of parts that performs a discrete and critical function in the operation of the unit of property
- Incidental Component** Relatively small, inexpensive, or minor part that performs a discrete and critical function for the UOP. Generally, not capitalized because of it's size, cost, or significance.  
 Examples: Asphalt sealer, HVAC thermostats, HVAC fan coils, HVAC registers, Plumbing valves and fittings, lighting or power control devices, hardware, escalator handrail, paint, roof shingles.

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- » Cost Segregation
- » Federal
- » 179D for Designers
- » Fixed Asset Depreciation Review
- » 45L for Multifamily
- » IC-DISC





**Tangible Property Repair vs. Capitalization Regulations:**  
**Election Summary and Possible Accounting Method Changes (last updated 2-9-2015)**

**ELECTIONS UNDER THE FINAL REGULATIONS**

Elections <u>not</u> requiring Form 3115	Statements required to make election	Application	Revocation Allowable?	Code Section
Capitalize certain materials and supplies (only rotatable, temporary, or standby emergency spare parts); an optional method is available	No. Election made by treatment on timely filed return (including extensions).	Rotable, temporary, or standby emergency spare parts	Only by Private Letter Ruling	§1.162-3(d)
De minimis safe harbor (\$5K with Applicable Financial Statements, \$500 without)	Yes. Attach statement to the taxpayer's timely filed original Federal tax return (including extensions) each year.	All eligible materials and supplies & improvements	Irrevocable for tax year elected	§1.263(a)-1(f)
Capitalize employee compensation and overhead as amounts that facilitate an acquisition transaction	No. Election made by treatment on timely filed return (including extensions).	Each transaction, applies to either employee compensation or overhead, or both	Only by Private Letter Ruling	§1.263(a)-2(f)(iv)(B)
Safe harbor for small taxpayers with buildings (less than \$10M in gross receipts, unadjusted building basis is less than \$1M)	Yes. Attach statement to the taxpayer's timely filed original Federal tax return (including extensions) each year.	Only apply if <u>total</u> costs < \$10,000 or 2% of the unadjusted building basis	Irrevocable for tax year elected	§1.263(a)-3(h)
Capitalize repair and maintenance costs (must be consistent with financial statements)	Yes. Attach statement to the taxpayer's timely filed original Federal tax return (including extensions) each year.	All repair and maintenance costs capitalized for financial accounting purposes	Irrevocable for tax year elected	§1.263(a)-3(n)
Partial Disposition Election (see below for <u>Late</u> Partial Disposition Election)	No. Election made by treatment on timely filed return (including extensions).	Any type of MACRS property	Only by Private Letter Ruling	§1.168(i)-8(d)

**FINAL REGULATIONS - Rev. Proc. 2015 -14**

Change #	General Topic	Specific Purpose	481(a) Adjustment	Stat Sampling Addressed?	Regulation	Notes	Concurrent Change on One Form 3115?
184	Repair and maintenance costs, amounts for improvements to tangible property	To deduct amounts for repair and maintenance or to capitalize amounts for improvements to tangible property and, if depreciable, to depreciating under §167 or §168. <b>Includes a change, if any, in the method of identifying the unit of property, or in the case of a building, identifying the building structure or building systems for the purpose of making this change.</b>	YES	YES	Reg. §1.162-4, 1.263(a)-3	No timing restrictions, Taxpayers are expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
185	Regulatory accounting method	Change to the regulatory accounting method.	Cut-Off	NO	Reg. §1.263(a)-3(m)	No timing restrictions since this is optional.	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
186	Non-incident materials and supplies	Change to deducting non-incident materials and supplies when used or consumed.	Cut-Off	NO	Reg. §1.162-3(a)(1), Reg. §1.162-3(c)(1)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
187	Incidental materials and supplies	Change to deducting incidental materials and supplies when paid or incurred.	Cut-Off	NO	Reg. §1.162-3(a)(2), Reg. §1.162-3(c)(1)	No timing restrictions	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
188	Non-incident rotatable and temporary spare parts	Change to deducting non-incident rotatable and temporary spare parts when disposed of.	Cut-Off	NO	Reg. §1.162-3(a)(3), Reg. §1.162-3(c)(2)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
189	Optional method for rotatable and temporary spare parts	Change to the optional method for rotatable and temporary spare parts.	YES	YES	Reg. §1.162-3(e)	No timing restrictions since this is optional.	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
190	Commissions and other transaction costs that facilitate the sale of property (DEALER).	Change by a dealer in property to deduct commissions and other transaction costs that facilitate the sale of property.	YES	YES	Reg. §1.263(a)-1(e)(2)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
191	Commissions and other costs that facilitate the sale of property (NON-DEALER)	Change by a non-dealer in property to capitalizing commissions and other costs that facilitate the sale of property.	YES	YES	Reg. §1.263(a)-1(e)(1)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
192	Capitalizing acquisition or production costs	To capitalize acquisition or production costs and, if depreciable, to depreciating under section 167 or 168 / A change to capitalize inherently facilitative amounts allocable to real or personal property even if the property is not eventually acquired.	YES / Cut-Off	YES / NO	Reg. § 1.263(a)-2 / Reg. §1.263(a)-2(f)(3)(ii)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.
193	Costs for investigating or pursuing the acquisition of real property	Change to deducting certain costs for investigating or pursuing the acquisition of real property (whether and which).	Cut-Off	NO	Reg. §1.263(a)-2(f) (2)(iii)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Can be combined with Changes #184 through #193 from section 10.11 of Rev. Proc 2015-14.



**Tangible Property Repair vs. Capitalization Regulations:**  
**Election Summary and Possible Accounting Method Changes (last updated 2-9-2015)**

**FINAL DISPOSITION REGULATIONS - Rev. Proc. 2015-14**

Change #	General Topic	Specific Purpose	481(a) Adjustment	Stat Sampling Addressed?	Regulation	Timing	Concurrent Change on One Form 3115?
180	Late GAA election	To make a late General Asset Account (GAA) election; Late election to recognize gain or loss upon disposition of all assets, the last asset, or the remaining portion of the last asset; Late election to recognize gain or loss upon disposition of assets in a qualifying disposition.	Cut-Off	NO	Reg. §1.168(i)-1; Reg. §1.168(i)-1(e)(3)(ii); Reg. §1.168(i)-1(e)(3)(iii)	Tax year beginning on or after 1/1/2012 and beginning before 1/1/2014 – <i>May require single Form 3115 if filed with other changes.</i>	Should file one form 3115 for all assets that are subject to the GAA election
196	Late partial disposition election for MACRS Property (not in GAA)	Change to make a late partial disposition election for a portion of an asset. Used for most dispositions of building structural components (not listed in §1.168(i)-8(d)(1))	YES	NO	Reg. §1.168(i)-8	<b>Tax year beginning on/after 1/1/2012 and before 1/1/2015 §1.168(i)-8(d)(2)(i) - or- 1st or 2nd tax year succeeding applicable tax year §1.168(i)-8(d)(2)(iv)(B)</b>	Can combine with Change #7 (Depreciation) for the same asset in tax years before January 1, 2015
197	Revocation of GAA election	Change to revoke a General Asset Account (GAA) election.	YES	NO	Reg. §1.168(i)-1	Tax years beginning on or after 1/1/2012 and beginning before 1/1/2015.	See RP 2015-14 Sec 6.34 for list of possible combinations.
198	Partial dispositions of tangible depreciable assets to which the Service's adjustment pertains (not in GAA)	Change to make partial dispositions of tangible depreciable assets to which the Service's adjustment pertains.	YES	NO	Reg. §1.168(i)-8(d)(2)(iii)	Applicable when audited by IRS	Should file one form 3115 for all assets that are being changed under this section
199	Depreciation of leasehold improvements	Change to comply with § 1.167(a)-4 for leasehold improvements in which the taxpayer has a depreciable interest at the beginning of the year of change.	YES	NO	Reg. §1.167(a)-4	No timing restrictions, Taxpayers are expected to comply for tax years beginning 1/1/2014	Can combine with certain UNICAP changes. See RP 2015-14 Sec 6.36
200	Permissible-to-permissible accounting method for depreciation of MACRS property	Various changes involving permissible to permissible method of accounting for depreciable MACRS property. Applies to assets in GAA, Single Asset Accounts or Multiple Asset Accounts, and dispositions of property not in a GAA. (change in method of determining the unadjusted depreciable basis of the disposed portion of an asset from one reasonable method to another)	Cut-Off	NO	Regs. §1.168(i)-1(c); §1.168(i)-1(j)(2); §1.168(i)-1(j)(3); §1.168(i)-7; §1.168(i)-7(c); §1.168(i)-8(f)(2) or (3); §1.168(i)-8(g)	Tax years beginning on or after 1/1/2012 and beginning before 1/1/2015.	See RP 2015-14 Sec 6.37 for list of possible combinations.
205	Disposition of a building or structural component (not in a GAA)	Changes involving disposition of a building or structural component not in a General Asset Account. Typically used if a listed event occurs (see §1.168(i)-8(d)(1)); e.g. Casualty event, like kind exchange.	YES	YES	Reg. §1.168(i)-8(c)(4); Reg. §1.168(i)-8(f)(2) or (3); Reg. §1.168(i)-8(g); Reg. §1.168(i)-8(h)(1)	No timing restrictions, expected to comply for tax years beginning 1/1/2014. <i>May require single Form 3115 if filed with other changes.</i>	Can combine with Change #7 (Depreciation) for the same asset in tax years before January 1, 2015
206	Dispositions of tangible depreciable assets (other than a building or its structural components) (not in a GAA)	Changes involving dispositions of tangible depreciable assets (other than a building or its structural components) not in a General Asset Account.	YES	YES	Reg. §1.168(i)-8(c)(4); Reg. §1.168(i)-8(f)(2) or (3); Reg. §1.168(i)-8(g); Reg. §1.168(i)-8(h)(1)	No timing restrictions – <i>May require single Form 3115 if filed with other changes.</i>	Can combine with Change #7 (Depreciation) for the same asset in tax years before January 1, 2015
207	Dispositions of assets (in a GAA)	Various changes from impermissible to permissible methods involving disposition of tangible assets or portion of tangible assets in a General Asset Account.	YES	NO	Reg. §1.168(i)-1(e)(2)(viii); Reg. §1.168(i)-1(j)(2); §1.168(i)-1(j)(3)	No timing restrictions, Taxpayers are expected to comply for tax years beginning 1/1/2014	Can combine with Change #7 (Depreciation) for the same asset in tax years before January 1, 2015

**Other Notable Accounting Method Changes for Consideration Rev. Proc. 2015-14**

Change #	General Topic	Specific Purpose	481(a) Adjustment	Stat Sampling Addressed?	Regulation	Timing	Concurrent Change on One Form 3115?
7	Depreciation or amortization (impermissible)	Change from an impermissible method to a permissible method for changes allowed under Regulations section 1.446-1(e)(2)(ii)(d), and for depreciable property owned at the beginning of the year of change.	YES	NO	Reg. §1.446-1(e)(2)(ii)(d)	No timing restrictions.	
21	Removal Costs	Treatment of removal costs in disposal (entire or partial) of a depreciable asset	YES	NO	Reg. §1.263(a)-3(g)(2)(i)	No timing restrictions, expected to comply for tax years beginning 1/1/2014	Use a separate Form 3115 in accordance with the automatic change procedure described in Appendix Section 10.03(1) of Rev. Proc. 2015-14

\*Cut-off method\*: use old accounting method for years prior to effective date and use new accounting method for items after the effective date.

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- » Property Tax Review
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**BD 100: Bonus Depreciation Update & Cost Segregation Tax Planning**

All attendees are muted. The webinar will begin promptly at 11 AM Pacific / 2 PM Eastern

Download power point slides from [KBKG.com/resources](http://KBKG.com/resources)

## Administrative



Audio

- For the best sound, you should dial in and use the provided telephone # for audio.

Handout materials – Were provided before class.

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CPE (Continuing Professional Education – for CPAs only)

- Answer all four polling questions during the webinar


Question & Answers

- Please submit your questions and we will answer as many as time permits. All questions will be answered and sent to the group within 2-3 weeks.

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## BONUS DEPRECIATION & COST SEGREGATION TAX PLANNING



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**Guest Speaker**  
**John Hanning, CCSP, MBA**  
Director

## John Hanning, CCSP, MBA



- Director at KBKG in the Fixed Assets / Cost Segregation practice
- Member of the Accounting Methods and Credit Services Group (AMCS) specializing in Fixed Assets, Repairs & Maintenance, Construction Tax Planning and Cost Segregation Services
- Economics Management Degree - Ohio Wesleyan University
- MBA - Ohio University
- Holds his LEED Green Association credential
- ASCSP Certified Cost Segregation Specialist



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## Bonus Depreciation



### [Protecting Americans from Tax Hikes Act of 2015 \(December\)](#)

- Extended bonus depreciation through 2019
- Made Qualified Leasehold Improvements, Qualified Retail Improvements, and Qualified Restaurant Property a permanent provision
- Introduced Qualified Improvement Property
- Bonus depreciation rules are generally the same found in Sec. 168(k)

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## Bonus Depreciation Criteria



**Property will qualify for bonus depreciation as long as each of the following four requirements under IRC 168(k)(2) are met:**

- Property of a Specified Type
- Original Use
- Acquisition of Property
- Placed in Service Date



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## Specified Property Type



**Qualified Property is:**

- **New Category – QUALIFIED IMPROVEMENT PROPERTY**
- MACRS property with GDS recovery period of 20 years or less
- Water Utility Property
- Computer Software (with the exception of software covered by Section 197 (purchased as part of a business))
- **Long Production Period Property**

**Qualified Property is not:**

- Qualified Restaurant and Retail Improvements (as defined in the regs.)
- Alternative Depreciation System (ADS)



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### PATH Act Bonus Extension Dates

- Bonus depreciation
  - 50% - placed in service 1/1/12 – 12/31/17
  - 40% - placed in service 1/1/18 – 12/31/18
  - 30% - placed in service 1/1/19 – 12/31/19\*
    - \*12/31/2020 for Long Production Period Property

Period	Bonus Depreciation
1/1/2012 - 12/31/2017	50%
1/1/2018 - 12/31/2018	40%
1/1/2019 - 12/31/2019	30%
1/1/2020 - Future	0%

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### “Qualified” Real Property

- Qualified Leasehold Improvement Property (QLI)
- *Qualified Improvement Property (QIP)*
- Qualified Restaurant Property (QRES)
- Qualified Retail Property (QRET)

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## Qualified Leasehold Improvements (QLIs)



Qualified leasehold improvement property:

- Any Section 1250 property which is an improvement to non-residential real property; and
- To interior portion of building occupied exclusively by lessee (not a common area); and
- Placed in service more than 3 years after the building was first placed in service by any person; and
- Made pursuant to a lease
  - Lease cannot be between related parties
    - See related party rules (Code Section 1504)
    - 80% common ownership in both entities
- Depreciated over 15-years with HY convention, AND qualifies for bonus



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## Qualified Leasehold Improvements - Exclusions



Qualified leasehold property does NOT include:

- Costs for the enlargement of a building,
- Elevators, escalators
- The internal structural framework of a building
- *Structural components that benefit a common area*

Many taxpayers make the mistake of claiming bonus on all Tenant Improvement / Leasehold Improvement costs assuming they are all for QLI

- Roofing, Concrete, Steel, Windows, Storefront, Masonry, Finishes, EIFS, Seismic Retrofitting, Thermal & Moisture Protection, Elevators, Lobby Area, Hallways, Bathrooms



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## Qualified Leasehold Improvements – Related Parties



### Example

- Penny and Leonard (business partners) own a research and development business called “*Bazinga*” and lease the space from a real estate holding company “*TBBT, LLC*”
- R&D business ownership: Penny (50%) and Leonard (50%)
- TBBT, LLC ownership: Penny 35%, Leonard 35%, Sheldon 20%, Howard 5%, Raj 5%
- TBBT, LLC ownership is (70%) common with the R&D business (100%)
- **Unrelated parties** since the threshold is 80%
- **Improvements are QLI and receive a 15-year life**

*Regardless of the lease agreement, these improvements meet the definition of QIP and receive bonus depreciation*

“Don't you think if I were wrong, I'd know it?”  
- Sheldon



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## Qualified Improvement Property (QIP)



### Qualified Improvement Property:

- Any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date the building was first placed in service.
- Property must be placed in service after 2015
- Replaces the bonus deduction for QLI
- *Depreciated over 39-years with MM convention, but eligible for bonus!*

### Qualified Improvement Property does NOT include:

- Costs for the enlargement of a building
- Elevators, escalators
- The internal structural framework of a building



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## Qualified Restaurant Property



### Restaurant Property

- 15-year depreciable life permanently extended

### Definition of QREST Property:

- Any 1250 property that is a building or an improvement to the building,
- At least 50% of the building's square footage is devoted to the preparation of, and seating for on-premises consumption of, prepared meals.




## Qualified Retail Improvements



### Qualified Retail Property


- Similar to Restaurant, 15-year depreciable life permanently extended
- Any improvement to an interior portion of a building which is nonresidential real property if
  - such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and
  - such improvement is placed in service more than 3 years after the date the building was first placed in service.
- QRET shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefitting a common area, or (iv) the internal structural framework of the building. Long Production Period Property






**POLLING QUESTION #1**




### Bonus Requirements - Nuances



- The nuances of the bonus requirements
  - Qualified Improvement Property Chart
  - Self Constructed Property
  - Written Binding Contracts
    - Not applicable to property produced or construction by the taxpayer
  - Long Production Period Property
  - Planning Considerations




## Qualified Improvement Chart






See Handout Material for KBKG's Qualified Improvement Reference Chart\*




	Applicable PIS Dates (inclusive)	MACRS GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	179 Expense Eligible	Important Notes	Code Section
Qualified Leasehold Improvements (QLI): 2001 - 2004 Partial	09/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	N/A	39 year QLI qualifies for Bonus. Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified Leasehold Improvements (QLI): 2004 Partial and onward	10/23/04 onward	15 Year / SL	Y <sup>1</sup>	Y	Y	2010 onward <sup>6</sup>	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified Retail Improvement Property: 2009 onward	01/01/09 - 12/31/15	15 Year / SL	N <sup>2</sup>	Y	N	2010 onward <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified Retail Improvement Property: 2016 onward	01/01/16 onward	15 Year / SL	Y	Y	N	2010 onward <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified Restaurant Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N <sup>2</sup>	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified Restaurant Property: 2008	01/01/08 - 12/31/08	15 Year / SL	Y	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified Restaurant Property: 2009 onward	01/01/09 - 12/31/15	15 Year / SL	N <sup>4</sup>	N	N	2010 onward <sup>6</sup>	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified Improvement Property (QIP): 2016 onward	01/01/16 onward	39 <sup>5</sup> Year / SL	Y	N	N	Y	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)




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## Self Constructed Property

- What exactly is self constructed property?
  - Property constructed by the taxpayer
  - Property constructed for the taxpayer by another person under a WBC (that is ***entered into prior*** to the start of manufacturing, construction, or production of the property)
  
- If you sign the contract *before construction begins*, it's "self constructed property" which is most common in real estate development
  
- Self constructed property is NOT subject to the WBC rules (but subject to certain other rules) but generally ***construction must begin*** on or after 1/1/2012 to get 50% bonus and 1/1/2018 to get 40% bonus



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## Buildings - Acquired vs. Self Constructed Property



Important to understand the difference!

- Acquired Property
  - Client signs a contract to acquire property *AFTER* construction begins.
  - Date of contract is highly relevant to bonus eligibility
- Self Constructed Property
  - Client signs a contract to acquire the property *BEFORE* construction begins.
  - Date of contract is not relevant to bonus eligibility
  - Consider when construction began and 10% Safe Harbor



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## Acquired Property Example



Example – Acquired Property

- Developer begins construction of a building on **11/1/2017**
- Taxpayer signed a WBC on 12/28/2017 to buy when finished
- Property is placed in service by the taxpayer in 2018.
- Eligible costs qualify for 50% bonus depreciation because the WBC was signed before 1/1/2018 (date bonus goes from 50% to 40%)
  - This is considered “acquired property”
  - Note that this may qualify for only 40% bonus if it met the definition of “self constructed property” in 2018



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## Self Constructed Property Example



- Taxpayer signed a WBC on 3/28/2017 to build property
- Developer begins construction on **11/1/2017** (same date as before)
- Property is placed in service by the taxpayer in 2018.
- “Self Constructed Property”
- Eligible costs qualify for 40% bonus depreciation because the WBC was signed before construction began. (10% safe harbor must also be satisfied)



## Written Binding Contract Rules



Applicable to acquired property only! (after construction started)

- Regulations provide detailed guidance on the definition of a binding contract in Reg. 1.168(k)(2)(A)(iii) and (k)(4)
- Substantial changes to a contract signed outside a bonus period may create an opportunity.

Planning Consideration for Acquired Property

- If you signed a WBC after construction began, look to see if any substantial changes were made to the contract during a bonus eligible period
  - Ex. Contract signed in July 2017 (50% bonus) but changes were made in 2018 (40% bonus depreciation)
  - Change Orders of size may constitute a significant change. See Reg. §1.168(k)-1(b)(4)(ii)(B)



## When does construction begin? Self Constructed Property



- The construction of property begins when “Physical Work of a Significant Nature” (PWSN) begins and is a facts and circumstances test
- This does not include preliminary activities such as planning or designing, securing financing, exploring, or researching

### Safe Harbor Rule

- Construction begins after taxpayer pays or incurs more than 10% of the total cost of the property
  - (excluding land and preliminary activities such as planning or designing, securing financing, initial clearing, etc.)
- Accrual Based - Even if the taxpayer didn't yet pay 10% costs, but 10% of construction is completed, construction has begun
- **Important to document if safe harbor is relied upon (cost segregation study)**




## Maximize Bonus Deductions using Cost Segregation




- Cost segregation studies reclassify a substantial portion of Real Property assets
- From tax lives of 39 or 27.5 years into asset classes that will qualify for bonus depreciation (5, 7, 15 year property).
- Allows taxpayer to take full advantage of the bonus rules
- Identifies every building component eligible
  - Special piping and fixtures (5 or 7 years)
  - Certain finish carpentry and millwork (5 or 7 years)
  - Special electrical connections (5 or 7 years)
  - Certain exterior land improvements (15 or 20 years) and so on...






**POLLING QUESTION #2**

### Long Production Period Property






- LPPP - Property which
  - Has a recovery period of at least 10 years or is transportation property,
  - Is subject to §263A, and
  - Has a production period exceeding one year and a cost exceeding \$1M
- Qualified Leasehold Improvements can be LPPP
- **One year extension of Bonus Placed in Service Date**
- Eligible basis is lesser of payments made or percent complete by 12/31/19

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## Rev. Proc. 2011-26






### Long Production Period Property




- Clarification that Long Production Period Property started in 2017 can still get 50% bonus depreciation on the entire basis as long as it's placed in service in 2018.
- When 2017 comes around, if construction is over \$1M and the construction period close to a year, it may be advisable to instruct your client to extend construction to over a year for the 50% bonus (as opposed to 40% in 2018).

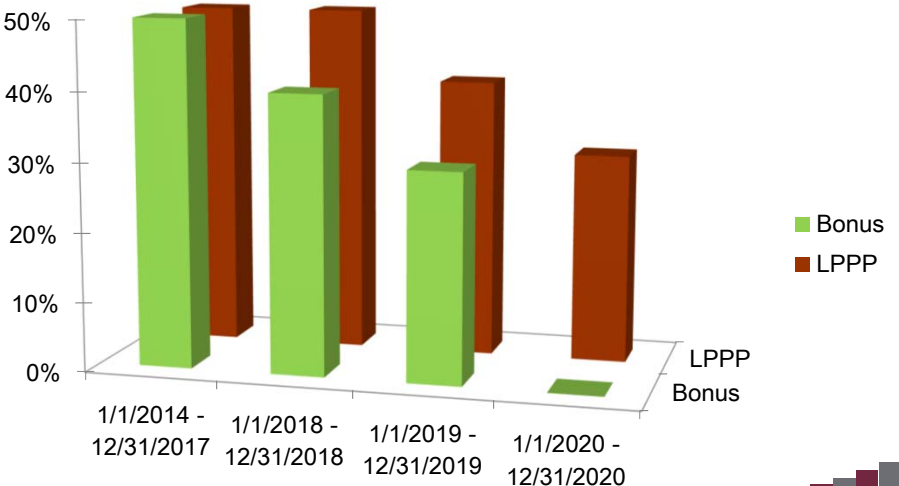


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## Bonus Depreciation Timeline



Period	Bonus (%)	LPPP (%)
1/1/2014 - 12/31/2017	50	50
1/1/2018 - 12/31/2018	40	50
1/1/2019 - 12/31/2019	30	42
1/1/2020 - 12/31/2020	0	32

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## Planning Considerations



### State tax conformity

- Most states don't follow federal bonus depreciation and either disallow or modified it
- Some state's don't provide a 15-year tax life for QLI, QRET, QRES, QIP
- Don't dismiss a cost segregation study if your state does not follow the Federal rules



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**POLLING QUESTION #3**

## Cost Segregation Recent Developments & Case Law



- Tangible Property Regulations IRC §263(a): Repair v. Capitalization (Sept 2013)
- Common Accounting Method Changes for Tax Year 2015 and beyond



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## Final Regulations for 263(a) Repair v. Capitalization



- **Guidance when certain building expenditures should be expensed**
  - Clarification of “Unit of Property” definitions.
  - Define 9 “Building Systems” and require each to be treated as their own UOP for repair vs. capitalization analysis
  - Major Structural Component includes any combination of parts that perform a discrete and critical function
  - Define improvement as Betterment, Adaptation, or Restoration
- **Removal of structural component is a disposition. Ability to write off the remaining basis of 1250 building items retired.**



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## Tangible Property Regulations Example



- CPA Referral - Client spent \$3M on “Renovations” in 2009
  - Capitalized and depreciated entire amount.
  - KBKG review of invoices and interview with contractor - included work to portion of roof, asphalt patching & resurfacing, 2 HVAC unit replacements, painting one room.
- Rules require “Repair” & “Unit of Property” analysis to determine treatment
- KBKG engineer applies proper tests and identifies \$350K of costs should be repair deductions.
- Recognized additional **\$328K** in that current tax year by filing Form 3115. (original cost basis less depreciation already taken)



## Retirement of Structural Components



Example: KBKG Client acquired \$5M building in 2010

- 2015 they spent \$1M to remodel portion of 2<sup>nd</sup> floor (ceilings, walls, lighting, plumbing, ducting, electrical wiring, etc.)
- Using IRS approved techniques, KBKG engineer assigns value to all original building components consistently.
- KBKG Retirement Study determines the original cost basis of demolished components is \$470K
- Recognize a loss of **\$404K** in current tax year. (Original cost basis less depreciation already taken)

## Common Accounting Method Changes for 2015 and beyond



- Common Change of Accounting Methods include:
  - Depreciation Changes such as cost segregation and individual asset reclassification (DCN 7).
  - Disposition of a building or structural component for separately stated assets, such as tenant improvements or roof (DCN 205).
  - Partial Dispositions for non-separately stated assets such as replacement of a roof, HVAC system, or windows (no method change necessary as this only applies to current year dispositions).
    - Note: Late Partial Dispositions (DCN 196) – 2014 only
  - Removal Costs (DCN 21)
  - Repairs (DCN 184)
  - 179D Deduction for Energy Efficient Commercial Buildings (DCN 152)
    - Note: Applies to building owners and lessors only. Designers of public buildings must amend.



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## Consider KBKG




- What are the real capabilities of the cost segregation provider you are using? There is a big difference in technical knowledge.
- The value of Cost Seg is not just about breaking a building down into components!
- Many low cost or small providers don't have the resources to stay on top of all the tax issues.
- Is your provider advising you on
  - Situational bonus depreciation rules such as Long Production Period Property, RP 2011-26 rule to componentize your property?
  - Repair vs. Capitalization Regulations?
  - Energy credits for your multi-family clients under IRC 45L?
  - Energy tax incentives for your commercial building developers?
  - Tax Considerations of Cost Seg?
  - Property Tax Issues?





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**POLLING QUESTION #4**

## QUESTIONS & ANSWERS




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See if you qualify:  
[KBKG.com/qualify](http://KBKG.com/qualify)

### KBKG SERVICES

- R&D Tax Credits
- Green Tax Incentives
- Hiring Tax Credits
- Cost Segregation
- Fixed Asset Review
- IC-DISC
- Repair v. Capitalization
- Property Tax
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