Cost Segregation

A Value-Added Service for Your Clients

Presented by:
Alan J. Smith—Ernst & Morris Consulting Group, Inc.

To:
CPA Leadership Institute
Cost Segregation: a cash flow solution

*Adapted from “Accounting Today – Inside the Top 100 (©2007) (pg 8)”

Top Niche Services
(A Percentage of 78 Top Firms Reporting an Increase in that Type of Business)

- Attest Services 86%
- Business Valuations 82%
- Litigation Support 78%
- Forensics / Fraud 77%
- Estate / Trust Tax Planning 74%
- International Tax 68%
- Mergers & Acquisitions 68%
- Sarbanes - Oxley Compliance 67%
- Industry Specializations 64%
- Wealth Management 62%
- Nonprofit Organizations 55%
- Cost Segregation 54%
- Employee Benefits 49%
- Retirement Plans 49%
- Personal Financial Planning 46%
- Technology Consulting 46%
- Investment Advice / Services 45%
- Strategic / Business Plans 45%
- Small Business Management 35%
- Bankruptcy / Insolvency 33%
- 

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Technology Consulting 46%
Investment Advice / Services 45%
Strategic / Business Plans 45%
Small Business Management 35%
Bankruptcy / Insolvency 33%
Employee Benefits 49%
Retirement Plans 49%

Relevant History

1981  Established Recovery Periods for Most Business Property At 5 to 15 Years.

1984  Extended Recovery Periods to 19 Years (Tax Act).

1986  Extended Recovery Periods from 19 Years to 31.5 Years Straight-Line. (MACRS)

1993  Extended Recovery Period from 31.5 Years to 39 Years.

2002/2008  Temporary 30% / 50% Bonus Depreciation (CO dated by 12/31/09).

2004/2008  Qualified Leasehold & Certain Retail Improvements from 39 Years to 15 Years Straight-Line (effective 10/22/04 to 12/31/2009).

Tax savings by the square foot
## Current Status

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Description</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>39-Year</td>
<td>Nonresidential Real Property</td>
<td>Straight Line</td>
</tr>
<tr>
<td>27.5-Year</td>
<td>Residential Rental Property</td>
<td>Straight Line</td>
</tr>
<tr>
<td>15-Year</td>
<td>Land Improvements</td>
<td>150 DB</td>
</tr>
<tr>
<td>15-Year</td>
<td>Qualified Leasehold &amp; Certain Retail Improvements (effective 10/22/04-1/09)</td>
<td>Straight Line</td>
</tr>
<tr>
<td>7-Year</td>
<td>Office Furniture, Fixtures, Equipment, Certain Personal Property</td>
<td>200 DB</td>
</tr>
<tr>
<td>5-Year</td>
<td>Cars, Trucks, Computer Related Equipment, Certain Personal Property</td>
<td>200 DB</td>
</tr>
</tbody>
</table>

Benefits are substantial, immediate, and enduring.
Past Precedent

- ACRS -> MACRS (1986)
- HCA – ITC still relevant
- IRS Revenue Rulings / Court Cases
- Whiteco Factors
Audit Techniques Guide

- Not Official Pronouncement of Law
- Not Official Position of IRS
- Primarily Used for Risk Analysis
- Promotes Consistency, Efficiency
- No Bright Line Test - Necessitates IRS Engineers
Cost Segregation Study Types

**Engineering Approach:**

- Complete Listing of All Project Costs
- On-site Inspection of Assets
- Official Documentation/Plan Review
- Cross-reference Take-off w/ Payment Records
- Proper Allocation of Indirect Costs
- Clear Segregation of Property into Asset Classes

“the most methodical and accurate approach, relying on solid documentation and minimal estimation.”

*(IRS Cost Segregation ATG Ch. 3)*
Cost Segregation Study Types

**Engineering Cost Estimation Approach:**
- Similar to Engineering Approach
- Estimated Costs Used in lieu of Actual Cost Data
- Used if Cost Records Not Available or for the Allocation of A Purchase Price
- Cost Estimations Must Be Referenced from Reliable Sources (e.g. Means or Marshall, etc.)
Cost Segregation Study Types

Survey / Letter Approach:

- Also an Estimation
- Costs Obtained from Contractors or Vendors
- Used in Engineering or Estimation Approach

Cost Segregation: a cash flow solution
Cost Segregation Study Types

Residual Estimation Approach:

- Only Short-life Asset Costs are Determined

- ‘Residual’ Cost Assigned to 39 Year Property

“Although this method is simpler and less time consuming than the engineering approaches, it can also be less accurate”

(IRS Cost Segregation ATG, Ch. 3)
Cost Segregation Study Types

**Sampling or Modeling Approach:**

- Created Model or Template for Prototypes
- Study Performed on ‘Representative Sample’ Generalized to Property Population

“to analyze multiple facilities that are nearly identical in construction, appearance, and use”

*(IRS Audit Techniques Guide, Ch.3)*
Cost Segregation Study Types

Desktop or ‘Back of Napkin’ Approach:

- Little or No Documentation
- Usually Based on Estimated Percentages
- Does Not Withstand IRS Scrutiny
Summary of IRS Report Guidelines

- Report Methodology
- Third-party, Engineering-based Studies
- On-site Verification of Assets
- Reliable, Documented Cost Sources
- Cross-referenced Documentation

“an underlying assumption is that the study is performed by "qualified" individuals or firms, such as those employing ...personnel competent in design, construction, auditing, and estimating procedures relating to building construction”

(IRS Cost Segregation ATG, Ch. 3)
Cost Segregation Opportunities

- New construction
- Purchase of existing property
- Renovations or expansions
- Leasehold improvements
- Existing property placed in service after 1986 ("look-backs")
- Real property stepped-up through estate
- Treatment of 1031 Exchange Funds

Reduce Taxes, Improve Cash Flow
Cost Segregation Qualifications

- **Legal Entity Structure/Basis**
  - Pass Through Entities
    - Partnerships, LPs, LLPs
    - LLCs
  - C-Corps
  - REITs
- **Motivation of Taxpayer**
  - Depreciation Recapture – Hold Property or Sell Eventually?
- **Net Passive Loss**
- **Alternative Minimum Tax (“AMT”)**

*Tax savings by the square foot*
### Typical Percentages of Accelerated Property Costs

<table>
<thead>
<tr>
<th>Property Types</th>
<th>Typical % Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy Manufacturing/Processing</td>
<td>30-60%</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>30-60%</td>
</tr>
<tr>
<td>Car Dealerships</td>
<td>25-50%</td>
</tr>
<tr>
<td>Light Manufacturing</td>
<td>20-40%</td>
</tr>
<tr>
<td>MOB’S / MAB’S</td>
<td>20-40%</td>
</tr>
<tr>
<td>Golf Courses</td>
<td>20-40%</td>
</tr>
<tr>
<td>Offices</td>
<td>20-40%</td>
</tr>
<tr>
<td>Restaurants (Single or Multiple)</td>
<td>20-40%</td>
</tr>
<tr>
<td>Apartments</td>
<td>20-35%</td>
</tr>
</tbody>
</table>

*Cost Segregation: a cash flow solution*
## Typical Percentages of Accelerated Property

<table>
<thead>
<tr>
<th>Property Types</th>
<th>Typical % Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail (Dept/Specialty Stores)</td>
<td>20-30%</td>
</tr>
<tr>
<td>Theaters</td>
<td>20-30%</td>
</tr>
<tr>
<td>Grocery Stores</td>
<td>20-30%</td>
</tr>
<tr>
<td>Hotels/Motels</td>
<td>20-30%</td>
</tr>
<tr>
<td>Senior Living/Assisted Living</td>
<td>15-25%</td>
</tr>
<tr>
<td>Strip or Regional Malls</td>
<td>5-30%</td>
</tr>
<tr>
<td>Tenant Improvements</td>
<td>5-50%</td>
</tr>
<tr>
<td>Warehouses</td>
<td>5-10%</td>
</tr>
</tbody>
</table>

*Benefits are substantial, immediate, and enduring.*
Data Requirements

New Construction, Leasehold Improvements and Renovation

1. Tax Depreciation Schedules (“look-back” only)
2. Site Survey ("look-back" only)
3. Capitalized Cost Supported By:
   - AIA Payment Application (form G702/G703)
   - Change Orders (including description & cost)
4. Project Budget Summarizing All Associated Costs
   - Indirect Costs Not Included in Pay Application
   - Cost Paid Directly to Subcontractors Outside General Contract
5. Complete Set of As-Built Construction Drawings is Required (after proposal approval)

Cost Segregation: a cash flow solution
Data Requirements

Purchase Price Allocation

1. Closing Statement
2. Recent Appraisal
3. Property Rent Roll as of Acquisition Date
4. Historical Information
   - Tax Depreciation Schedules or Fixed Asset Schedules (look-back only)
   - Inventories of Furniture, Fixtures, & Equipment
5. Land Value Allocated
6. Site Survey
7. Any Available Construction Drawings

Benefits are substantial, immediate, and enduring.
# NPV Estimate Request Form

## Cost Segregation Study - NPV Estimate Request

**Date:**

**Accounting Firm:**

**Individual:**

**Phone:**

**Proposal Information**

Owner’s Name / Entity: ____________________________

Mailing Address: ______________________________________

Contact: ____________________________ Phone: ____________________________

Fax: ____________________________ Email: ____________________________

**Property Information**

Address: ____________________________

Description: ____________________________

Building Type: ____________________________

Building Square Feet: ____________________________

Site Size or Acreage: ____________________________

(e.g., apartments, dealership, office building, etc.)

No. of Floors: ____________________________

Tenants: □ Yes □ No

Contact: ____________________________ Phone: ____________________________

Fax: ____________________________ Email: ____________________________

Requested Due Date: ____________________________ Is an Extension Possible? ____________________________

## Cost Segregation Proposal Data Requirements

<table>
<thead>
<tr>
<th>New Construction</th>
<th>Cost</th>
<th>Year Placed in Service</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Leasehold Improvements</th>
<th>Cost</th>
<th>Year Completed</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>Cost</th>
<th>Year of Purchase</th>
</tr>
</thead>
</table>

1. Tax Depreciation Schedules (book-back only)
2. Site Survey (book-back only)
3. Capitalized Cost Supported By:
   - AIA Payment Application (Form GT530/670)
   - Change Orders (including description & cost)
4. Project Budget Documentation:
   - Indirect Costs Not Included in Pay Application
     - Architectural Fees, Engineering Fees, Surveying Fees, etc.
   - Costs Paid Directly to Subcontractors Outside General Contract (Landscaping, Carpet, Phone System, etc.)
3. A Complete Set of As-Built Construction Drawings is Required Only After Proposal is Approved Including:
   - Civil / Site Work
   - Structural
   - Architectural
   - Plumbing / HVAC / Electrical

5. Land Value Allocated
6. Site Survey
7. Any Available Construction Drawings

---

**Tax savings by the square foot**
The Benefit

Each $100,000 in assets reclassified from a 39-year recovery period to a five-year recovery period results in approximately $22,000 in net-present-value savings, assuming an 8% discount rate and a 40% marginal tax rate.

Journal of Accountancy, Copyright 2005 by the AICPA

Reduce Taxes, Improve Cash Flow
$10 million retail shopping center, placed into service 10 years ago:

Original Depreciation Method: 39-year Straight Line

Reclassified Amount with Cost Segregation Study:
  • 5-year Property- $1 million
  • 15-year Property- $1.5 million

Adjustment Calculation and Resulting Tax Benefit:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Reported Previously</td>
<td>$2,564,100</td>
</tr>
<tr>
<td>Cost Segregation Study Depreciation</td>
<td>$3,923,070</td>
</tr>
<tr>
<td>Section 481(a) Adjustment</td>
<td>($1,358,970)</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>40%</td>
</tr>
<tr>
<td>Tax Benefit in Year of Study</td>
<td>$543,588</td>
</tr>
</tbody>
</table>

The Benefit Applied

The Bottom Line – by performing an engineering-based cost seg study, the building owner was able to increase the amount of depreciation expense, thus reducing the current year taxable income, resulting in an increase in cash flow of $544k.

Tax savings by the square foot
MACRS Classifications

<table>
<thead>
<tr>
<th>Property</th>
<th>27.5 YEAR</th>
<th>%</th>
<th>15 YEAR</th>
<th>%</th>
<th>5 YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartments Rochester, NY</td>
<td>$12,950,000</td>
<td>70%</td>
<td>$2,590,000</td>
<td>14%</td>
<td>$2,960,000</td>
<td>16%</td>
</tr>
</tbody>
</table>

1st YEAR

<table>
<thead>
<tr>
<th>Total</th>
<th>NPV</th>
<th>NPV*</th>
<th>FEE</th>
<th>ROI**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18,500,000</td>
<td>$1,185,000</td>
<td>$748,000</td>
<td>$15,000</td>
<td>50 to 1</td>
</tr>
</tbody>
</table>

* Net Present Value assumes a 27.5 year holding period, an 8% discount rate and a 40% tax rate.
**Computed Using the After Tax Fee
### Cost Segregation Study - Tax Benefit Summary

**New Construction**  
**Free-Standing Restaurant**

<table>
<thead>
<tr>
<th>Property</th>
<th>39 YEAR</th>
<th>%</th>
<th>15 YEAR</th>
<th>%</th>
<th>7/5 YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant Portland, OR</td>
<td>$836,901</td>
<td>57%</td>
<td>$284,016</td>
<td>19%</td>
<td>$345,991</td>
<td>24%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th><strong>NPV</strong>*</th>
<th><strong>FEE</strong></th>
<th><strong>ROI</strong>**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,466,908</td>
<td>$109,495</td>
<td>$7,000</td>
<td>16 TO 1</td>
</tr>
</tbody>
</table>

*Net Present Value assumes a 39 year holding period, an 8% discount rate and a 40% tax rate.

**Computed Using the After Tax Fee**

Benefits are substantial, immediate, and enduring.
### Cost Segregation Study - Tax Benefit Summary

#### New Construction
**Hotel Building and Land Improvements**

<table>
<thead>
<tr>
<th>Property</th>
<th>39 YEAR</th>
<th>%</th>
<th>15 YEAR</th>
<th>%</th>
<th>7/5 YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel Cocoa Beach, FL</td>
<td>$5,131,014</td>
<td>75%</td>
<td>$860,795</td>
<td>13%</td>
<td>$836,952</td>
<td>12%</td>
</tr>
<tr>
<td>150 Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total                     | $6,828,761|    |           |    |            |    |
| NPV*                      | $285,517  |    |           |    |            |    |
| FEE                       | $10,000   |    |           |    |            |    |
| ROI**                     | 29 TO 1   |    |           |    |            |    |

*Net Present Value assumes a 39 year holding period, an 8% discount rate and a 40% tax rate.
**Computed Using the After Tax Fee

Reduce Taxes, Improve Cash Flow
Cost Segregation Study - Tax Benefit Summary

New Construction & Renovation
Research & Development Facility with Land Improvements

<table>
<thead>
<tr>
<th>Property</th>
<th>39 YEAR</th>
<th>%</th>
<th>15 YEAR</th>
<th>%</th>
<th>7/5 YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R &amp; D Huntersville, NC</td>
<td>$4,895,447</td>
<td>69%</td>
<td>$698,392</td>
<td>10%</td>
<td>$1,505,850</td>
<td>21%</td>
</tr>
<tr>
<td>32,476 SF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>NPV*</th>
<th>FEE</th>
<th>ROI**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,099,689</td>
<td>$424,951</td>
<td>$19,000</td>
<td>36 TO 1</td>
</tr>
</tbody>
</table>

*Net Present Value assumes a 39 year holding period, an 8% discount rate and a 40% tax rate.

**Computed Using After Tax Fee
## Cost Segregation Study - Tax Benefit Summary

### Purchase Price Allocation
Manufacturing Facility with Land Improvements

<table>
<thead>
<tr>
<th>Property</th>
<th>39 YEAR</th>
<th>%</th>
<th>15 YEAR</th>
<th>%</th>
<th>7/5 YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Facility</td>
<td>$4,895,447</td>
<td>59%</td>
<td>$896,282</td>
<td>25%</td>
<td>$567,353</td>
<td>16%</td>
</tr>
<tr>
<td>Mechanicsville, Virginia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200,000 SF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th></th>
<th>NPV*</th>
<th>FEE</th>
<th>ROI**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$220,502</td>
<td>$6,300</td>
<td>58 TO 1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,529,475</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Net Present Value assumes a 39 year holding period, an 8% discount rate and a 40% tax rate.  
**Computed Using After Tax Fee*
Quality Study Procedure

1. Estimate
2. Proposal Letter
3. Document Collection
4. Cost Analysis
5. Engineering Analysis
6. Take Off
7. Site Visit
8. Reconciliation of Costs and Take Off
9. Work Papers
10. Final Report

Benefits are substantial, immediate, and enduring.
1. What to Expect in an Audit

2. Audit Procedure
   - IDR
   - Audit Intent
   - Review of CS Study
   - Review of Tax Depreciation Schedule
   - Interview with Preparer
   - Site Visit
   - Resolve Issues, Determine any Reconciliation

3. What to Expect from your CS Firm in an Audit

Benefits are substantial, immediate, and enduring.
Change In Accounting Method

• Generally it's:

“a change in the overall plan of accounting for gross income or deductions, or a change in the treatment of any material item. A material item is any item that involves the proper time for the inclusion of the item in income or the taking of the item as a deduction.” (Reg §1.446-1(e)(2)(ii)(a))

Benefits are substantial, immediate, and enduring.
Change In Accounting Method

• According to Reg. 1.446-1 a change in depreciation method, period of recovery or convention is a change in accounting method.

• The regulation also recognizes that a 481a adjustment may result.

• See the Reg. 1.446-1, Example 9, for an illustration of how the reg applies to a cost seg study.

Benefits are substantial, immediate, and enduring.
Change In Accounting Method

Revenue Procedure 2002-9 provides basic rules for change in accounting method with respect to depreciation
- Took effect January 7, 2002

Main Provisions:
- Provides for automatic consent unless:
  - Taxpayer under exam
  - Appeals
  - Federal Court
- To get automatic consent:
  - File complete application in duplicate:
    - One copy with timely (including extensions) tax return
    - Signed copy to IRS National Office filed no later than due date of return & no earlier than beginning of tax year of change
- Appendix section 2 governs depreciation

Benefits are substantial, immediate, and enduring.
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Change In Accounting Method

Revenue Procedure 2002-19

- Took effect March 14, 2002

- Clarifies the treatment of a 481a adjustment:
  • Positive adjustment is recognized over 4 years
  • Negative adjustment is recognized entirely in year of change
Change In Accounting Method

Completing Form 3115

- Calculate 481a adjustment
- Fill in applicable sections of the form - see example
- Some attachments will be required to support:
  - Part II, question 12 a - d & question 13
  - Schedule E, question 4
  - Schedule E, question 5
  - Schedule E, question 7 a - e

Benefits are substantial, immediate, and enduring.
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Change In Accounting Method
Completing Form 3115 (Continued)

• Required statement:

“Each item of property that is the subject of the application filed under section 2.01 of the appendix of Rev. Proc. 2002-9 as revised by Rev. Proc. 2004-11, for the year of change beginning January 1, 20___, and that is reclassified from nonresidential (or residential real property) to an asset class of Rev. Proc. 87-56, 1987-2 C.B. 674 (or Rev Proc 83-35, 1983-1 CB 745) that does not explicitly include section 1250 property, is section 1245 property for depreciation purposes.”

• 481a adjustment - be sure to include regular tax as well as AMT
Change In Accounting Method

Completing Form 3115 (Continued)

- Attach one copy of form 3115 to the tax return
- File one copy of form 3115 (signed) with the IRS National Office

- Refer to the form 3115 instructions for filing address, currently:

  Internal Revenue Service
  Attention: CC:PA:LPD:DRU
  Automatic Rulings Branch
  PO Box 7604
  Ben Franklin Station
  Washington, DC 20044

Benefits are substantial, immediate, and enduring.
1031 Exchanges & Cost Segregation

- 1031 allows deferral of gain in an exchange of like kind property
- Cost segregation allows taxpayers to accelerate depreciation deductions on property and thus defer tax
- Cost segregation studies can work in conjunction with 1031 exchanges
- Exchanged basis of replacement MACRS property is depreciated using the relinquished property's:
  - Remaining recovery period
  - Depreciation method
  - Convention

Benefits are substantial, immediate, and enduring.
1031 Exchanges & Cost Segregation

- If there is excess basis on an exchange, i.e., new building FMV exceeds FMV of old, the excess basis can be depreciated under an accelerated method through a cost segregation study.

- Recapture could result:
  - Cost segregation studies result in reclassification of 1250 to 1245 property
  - If replacement 1245 property does not equal relinquished 1245 property - recapture occurs at ordinary rates

Benefits are substantial, immediate, and enduring.
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1031 Exchanges & Cost Segregation

- Recapture can also occur on 1250 property, but only the excess of additional depreciation over straight line depreciation is recaptured.

- Usually land improvements generate additional depreciation subject to recapture because they are depreciated using 150%DB vs. SL
Benefits are substantial, immediate, and enduring.

Other Considerations

- Section 754 Step Up / Inherited Property
- Passive Loss Issues
- Net Operating Losses
- AMT Status

• Incentivized areas:
  – Lighting
  – HVAC
  – Building envelope

• Available for New Construction and Existing Buildings

• Also available for:
  – Tenant owned lease-hold improvements
  – Rental Apartment Buildings 4 stories or above
  – Primary Designers of Government Buildings
**CPA firms can Expand Service Offerings**

<table>
<thead>
<tr>
<th>Commercial Building Owners</th>
<th>Primary Designers of Government Buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Retailers</td>
<td>• Architects</td>
</tr>
<tr>
<td>• Industrial Buildings</td>
<td>• Engineers</td>
</tr>
<tr>
<td>• Warehouses</td>
<td>• Lighting Designers</td>
</tr>
<tr>
<td>• Office Buildings</td>
<td>• Design &amp; Build Firms</td>
</tr>
</tbody>
</table>

**Ernst & Morris**

*The Leader in Cost Segregation*
### Credit/Grants

<table>
<thead>
<tr>
<th>Specified Energy Property</th>
<th>Credit Termination Date</th>
<th>Applicable Percentage of Eligible Cost Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geothermal Heat Pumps</td>
<td>Jan 1, 2017</td>
<td>10%</td>
</tr>
<tr>
<td>Fuel Cells</td>
<td>Jan 1, 2017</td>
<td>30%**</td>
</tr>
<tr>
<td>Microturbines</td>
<td>Jan 1, 2017</td>
<td>10%***</td>
</tr>
<tr>
<td>Combined Heat &amp; Power</td>
<td>Jan 1, 2017</td>
<td>10%</td>
</tr>
<tr>
<td>Large Wind</td>
<td>Jan 1, 2013</td>
<td>30%</td>
</tr>
<tr>
<td>Closed-Loop Biomass Facility</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Open-loop Biomass Facility</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Geothermal under IRC sec. 45</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Landfill Gas Facility</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Trash Facility</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Qualified Hydropower Facility</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Marine &amp; Hydrokinetic</td>
<td>Jan 1, 2014</td>
<td>30%</td>
</tr>
<tr>
<td>Solar</td>
<td>Jan 1, 2017</td>
<td>30%</td>
</tr>
<tr>
<td>Geothermal under IRC sec. 48</td>
<td>Jan 1, 2017</td>
<td>10%*</td>
</tr>
<tr>
<td>Small Wind</td>
<td>Jan 1, 2017</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Geothermal Property that meets the definitions of qualified property in both § 45 and § 48 is allowed either the 30% credit or the 10% credit but not both.

** For fuel cell property the maximum amount of the payment may not exceed an amount equal to $1,500 for each 0.5 kilowatt of capacity.

*** For microturbine property the maximum amount of the payment may not exceed an amount equal to $200 for each kilowatt of capacity.
Additional Benefits of Credits/Grants

• 5 year accelerated depreciation

• bonus depreciation

• additional depreciation for 50% of the credit/grant amount
Grant in Lieu of Tax Credit

- Great for companies who don’t pay taxes
- Forms have been released
- Applications now being Accepted
  - For projects placed in service after:
    - 1/1/2009
  - or projects started before:
    - 12/31/2010
- Applications accepted through 10/1/2011
- Marketing the Grant
  - Get the word out
  - Include Grant in Proposals
Geothermal Heat Pumps

• Tremendous Opportunity
  – Benefits
    • Energy Savings
    • 10% Grant/Tax Credit
    • 5 Year Depreciation
    • Bonus Depreciation
    • Depreciation of 50% of Grant/Tax Credit amount
    • Building will likely qualify for $1.80/sq.ft. EPAct Tax Deduction
Questions and Answers

For Further Information Contact

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