# Good Things Come in Small Packages: *Tax Reform Increases the Utility of Cost Segregation on Smaller Properties*


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# Good Things Come in Small Packages:

# Tax Reform Increases the Utility of Cost Segregation on Smaller Properties

Conventional wisdom has generally been that cost segregation studies are only worth performing on properties with a minimum depreciable basis of $1M.  Most people figured that the savings accrued on a smaller study wouldn't even cover the cost of the study itself.  Hard pass.

Not so fast.  The passing of the Tax Cuts and Jobs Act (TCJA) is changing the rules, and it's time to reevaluate conventional wisdom.  Under the PATH Act, Bonus depreciation was fixed at 50%, and only new assets were eligible for Bonus.  The TCJA has boosted Bonus depreciation to 100% for four full years. Furthermore, under the TCJA **acquisitions are also eligible** for Bonus treatment.  Qualifying assets no longer have to be new to be Bonus-eligible; they just have to be "new to you," and as such it's worth taking a closer look at smaller basis properties. Properties that wouldn't have warranted a study in the past might make excellent candidates for a study in the post-TCJA era.

More and more taxpayers are commissioning studies on acquired properties, smaller properties, and 1031 exchange properties with relatively small step-ups in basis.  It's well worth reassessing the fitness of these properties in light of the TCJA, especially considering that the price of the study itself is commensurate with the size and complexity of the property. Smaller properties generally have lower study costs, making for an even better return on your investment.

For example, consider two three-family rental homes on the same block.   The total basis for both properties is $750K. Engineers were able to move 13% of qualified assets to 5-year class life and 5% to 15-year land improvements.  With a basis of $750K, a project like this probably wouldn't have been considered a viable candidate for cost segregation in the past. But take a look at the TCJA-effect, which *almost triples* the additional first year cash flow:

| | **Pre-TCJA** | **Post-TCJA** |
|---|---|---|
| **Additional First Year Cash Flow** | $17,679 | $49,512 |
| **10-Year NPV** | $27,239 | $35,643 |

If you or your client owns smaller-basis real estate, it might be time to consider cost segregation as a viable tax strategy.  Keep in mind that the value of cost segregation extends well past accelerated depreciation.  Cost segregation provides the meticulous data required to support a myriad of tax strategies that confer benefits throughout the real estate life cycle. There's never been a better time to perform a cost segregation study, and it's well worth consulting with a trusted professional to make the most of your real estate – whatever size it might be.

***Bruce Johnson, MBA, CEM is a co-founder and partner at Capstan Tax Strategies****. Bruce works closely with commercial real estate owners and accounting firms to provide practical, creative, and customized engineering-based tax solutions.*