

TOPIC

How can I increase the cash flow of my real estate investments in 2009?

ADVICE

We use many techniques to help you enhance the ROI of your real estate—even in these soft times—but I want to mention one in particular: Cost Segregation.

Cost Segregation combines engineering and accounting to separate the structural elements of a building from the non-structural ones so that the parts can be depreciated separately for tax purposes. Non-structural elements that would have been depreciated over 39 years can now be depreciated over 15, 7, or even 5 years.

How do these reclassifications benefit your real estate investments? Consider these:

- **Income tax savings.** Accelerating depreciation results in substantial reductions in income tax liabilities, which can total hundreds of thousands of dollars in the early years.
- **Reduced property taxes.** Elements appropriately reclassified as non-structural are not subject to real property taxes.
- **Increased cash flow.** Tax savings yield increases in cash flows both now and in the future.
- **Insurance savings.** Segregation of a building's elements allows risks to be more accurately calculated.
- **Asset management.** A Cost Segregation study allows complete, immediate tax write-offs of worthless or obsolete elements, yielding additional tax savings. It is also an asset of value to a future buyer, who can use it for the same benefits you do.

Cost Segregation may be performed on new construction, existing properties, acquisitions, redevelopment, and even leasehold improvements. A feasibility study can show you the approximate benefit of a full report.

Even if you think your accountant is using Cost Segregation, it's worth looking into. Unless he or she has engaged a qualified engineer to help with the study, you are probably not realizing the full benefit of Cost Segregation.



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