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# Cost Segregation Overview

Texas Assisted Living Association (TALA) Annual Conference

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# Presenting Today

## Agatha Li, Principal



Agatha is a principal in CLA's Federal Tax Strategies (FTS) team. She leads the West region's Fixed Asset practice and serves as the National Fixed Asset leader. Prior to joining CLA, she has over 20 years of fixed asset experience at a Big Four firm. She has performed cost segregation studies, fixed asset income reviews and repairs and maintenance studies on a wide range of industries, including banking, pharmaceutical, real estate, retail, hotels, manufacturing, winery, technology, venture capital and sports.

In addition to fixed asset experience, she also works closely with the Energy Incentive Team to collaborate and identify Section 45L, 179D and Inflation Reduction Act opportunities and bring seamless experiences to her clients.



# Agenda Items

Overview of cost segregation

Benefits of cost segregation for assisted living facilities

Approach to conducting a cost segregation study

Methodology of cost segregation

Case studies and real-life examples





# Overview of Cost Segregation



# Definition and Purpose of Cost Segregation



## Understanding cost segregation

- Cost segregation is a tax planning strategy that identifies personal property assets for accelerated depreciation, ultimately reducing tax liability.

## Depreciation lifespans

- It allows for depreciation of certain assets over a shorter recovery period, enhancing cash flow for property owners.

## Tax liability reduction

- By employing cost segregation, property owners can significantly lower their tax liabilities, improving overall financial health.



# Historical Background and IRS Guidelines



## Evolution of cost segregation

Cost segregation has significantly evolved, reflecting changes in tax laws and practices over the years.



## IRS guidelines

The IRS provides clear guidelines on conducting cost segregation studies, ensuring compliance and maximizing benefits for taxpayers.



## Importance of historical context

Understanding the historical context of cost segregation is crucial for effective compliance with current regulations.



# Benefits of Cost Segregation for Assisted Living Facilities





# Accelerated Depreciation and Tax Savings

## Identifying shorter-lived assets

Assisted living facilities present opportunities to identify assets with shorter tax recovery period and further enhanced depreciation benefits and tax savings.

## Tax savings advantages

Accelerated depreciation leads to significant tax savings, which can greatly enhance the financial stability of the property owners.

## Improved cash flow

The tax savings from accelerated depreciation contribute to improved cash flow, allowing for better financial management.



# Increased Cash Flow and Reinvestment Opportunities



## **Tax savings benefits**

Cost segregation generates significant tax savings that can be leveraged for reinvestment into the facility, improving financial outcomes.



## **Facility enhancements**

Reinvesting savings into the facility leads to enhanced operations, allowing for better services and improved infrastructure.



## **Resident experience**

The improvements from reinvestment directly contribute to a better overall experience for residents, fostering satisfaction and retention.





# Approach to Conducting a Cost Segregation Study



# Identifying and Selecting Qualified Properties



## Understanding cost segregation

Cost segregation is a tax strategy that allows property owners to accelerate depreciation on certain assets.

The study can be performed currently or retroactively.



## Analyzing property type

Identifying the type of property is essential to determine its eligibility for cost segregation studies.

Prepare a **no-charge** benefit analysis as part of initial scoping.



## Eligible assets for reclassification

Recognizing which assets can be reclassified is crucial for maximizing tax benefits through cost segregation.

# Engaging with Professional Consultants and Engineers

**Collaboration with professional**  
Engaging with professionals leads to improved analysis and better project outcomes through their specialized knowledge and skills.

**In-depth asset analysis**  
Professional consultants help enhance a comprehensive examination of assets, which is critical for informed decision-making.

**Credibility enhancement**  
Working with experienced professionals enhances the credibility of the study, making findings more reliable and trustworthy.



# Bonus Depreciation

100% bonus depreciation rules apply to property with a tax life of 20 years or less, that is acquired and placed in service after September 27, 2017 and before January 1, 2023



The applicable percentage for the upcoming years phases down as follows:

2023 – 80%

2024 – 60%

2025 – 40%

2026 – 20%

2027 and  
beyond – 0%



# Data Collection and Analysis Process

## Data gathering

The initial phase focuses on collecting relevant documents such as construction costs, blueprints, and property details.

## Detailed analysis

After data collection, in-depth analysis is performed to classify and evaluate assets accurately based on the gathered information.





# Methodology of Cost Segregation for Assisted Living Facilities





# Classification and Reclassification of Assets



## Asset classification

Assets are classified according to their useful life to determine appropriate accounting treatment and depreciation methods.



## Accelerated depreciation

Components that qualify for accelerated depreciation can be reclassified to enhance tax benefits and improve cash flow.



## Tax benefits

Reclassification of assets can help enhance tax benefits, minimizing taxable income and enhancing financial strategy.

# Comprehensive Report Preparation and Documentation



## Importance of report

Preparing a comprehensive report is essential for documenting the study's findings and methodology accurately.



## Methodology documentation

The methodology section of the report outlines the processes and techniques used during the study.



## Substantiating claims

A well-prepared report is crucial for substantiating claims made to the IRS and ensuring compliance. It is important to have an audit-ready deliverable.



# Case Studies and Real-Life Examples



# Success Stories from Assisted Living Facilities

## **Implementation of Cost Segregation**

Facilities have successfully implemented cost segregation studies, leading to significant financial benefits and improved resource allocation.

## **Financial Improvements**

The result of these studies has led to enhanced financial performance, allowing for better services and facilities for residents.

## **Enhanced Resident Experience**

With increased revenue, facilities have been able to invest in improving resident experiences and community activities.



# Quantifiable Benefits and Financial Outcomes

## Increased cash flow

Cost segregation strategies can lead to increased cash flow for businesses by accelerating depreciation and reducing taxable income.

## Tax savings

Implementing cost segregation can result in significant tax savings, helping businesses retain more capital for growth and investment.

## Financial impacts

Case studies demonstrate the positive financial impacts of cost segregation, highlighting its importance in financial planning and management.



# Lessons Learned and Recommended Practices



## **Importance of detailed analysis**

Conducting an in-depth analysis is crucial in identifying all cost components and maximizing tax benefits in assisted living facilities.



## **Collaboration with experts**

Working with experienced professionals in cost segregation can yield better outcomes and enhance the accuracy of results.



## **Regular updates and reviews**

Regularly reviewing and updating cost segregation studies ensures compliance with evolving tax laws and maximizes benefits.





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# Conclusion

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## **Tax savings opportunities**

Cost segregation studies allow assisted living facilities to enhance tax savings, enhancing overall financial health.

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## **Improved asset management**

Implementing cost segregation methodologies leads to better asset management, maximizing the value of properties.

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## **Substantial benefits**

Understanding these methodologies enables facilities to unlock substantial financial benefits for sustainable growth





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