



"A CPA firm that understands dealership management, accounting, and tax issues"

**Cost Segregation Analysis Can Accelerate Depreciation Deductions and Reduce Current Income Taxes**

Certain costs incurred in acquiring, constructing or improving dealership facilities can be depreciated over shorter lives by applying an engineering approach which is called cost segregation analysis.

When a dealer buys or improves a dealership, he will likely categorize most costs associated with real property, with a 39 year straight-line depreciation method. An effective cost segregation analysis done using IRS criteria can break down some of these 39 year costs into 5 or 7 year personal property, or 15 year land improvement categories. This accelerated depreciation does not eliminate the tax but it defers it to later years.

New IRS regulations enacted in 2002 allows taxpayers to change their depreciation method for the 2002 year and also "catch up" any missed depreciation from prior years.

**The following is an example:**

In 2000, Dealer A bought a dealership facility for \$2,000,000, of which \$400,000 is land and \$1,600,000 is building that is depreciated over 39 years. A cost segregation analysis was done in 2002 with the following results:

	<i>With Study</i>	<i>Prior Method</i>
5 Year Property	\$ 192,000	\$ 0
15 Year Property	384,000	0
39 Year Property	<u>1,024,000</u>	<u>1,600,000</u>
Total	<u>\$1,600,000</u>	<u>\$1,600,000</u>

<i>Year</i>	<i>Total Depreciation With Study</i>	<i>Prior Depreciation Taken</i>	<i>Additional Depreciation Allowed</i>	<i>Tax Effect 40%</i>	<i>Accumulated Tax Effect</i>
2000	\$ 71,844	\$ 22,256	\$ 49,588	\$ 19,835	\$ 19,835
2001	124,175	41,024	83,151	33,261	53,096
2002	95,951	41,024	54,927	21,971	75,067

In the above example, the dealer would save \$75,067 in federal and state taxes for 2002. There will be additional tax benefits in the years beyond 2002 as well.

Dealers who have purchased or improved their facilities over the past 5 years should consider a cost segregation analysis. These studies are done by specialists with engineering backgrounds and knowledge of the income tax regulations and procedures and, in most cases, are not CPA's. The cost segregation analysis should be supported with a comprehensive report from a qualified professional.

For more information on how a cost segregation analysis might help to reduce your current tax obligations, please email Paul McGovern at [pmcgovern@downeycocpa.com](mailto:pmcgovern@downeycocpa.com) or call **781.849.3100**.

Visit our web site at [www.downeycocpa.com](http://www.downeycocpa.com).