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# WHAT'S IT WORTH?

*For Business Owners, Corporate Officers, & Their Advisors*

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## How Cost Seg Studies Can Save You Money

*Submitted by Cindy Briggs, CPA*

Recent tax law changes have enabled business owners to deduct in the first year a bigger portion of the costs of new assets with a depreciable life of 20 years or less. But you may not know how a cost segregation study can help you make the most of this benefit.

A cost segregation study is an analytical process that identifies nonstructural elements and exterior site improvements in new and existing buildings (including remodeled property) that qualify for faster depreciation. By employing this procedure, you can realize even greater tax savings with the depreciation deduction and prevent future asset misclassifications.

### **How they work**

Your business can depreciate real nonresidential property using a 39-year, straight-line method under the Modified Accelerated Cost Recovery System (MACRS). But a cost segregation study may allow you to write off many related building assets more quickly. For instance, you can depreciate land improvements over 15 years. Here are some other examples of items that typically qualify for shorter depreciable lives:

- o Sidewalks, parking lots and roads,
- o Drainage and landscaping,
- o Equipment and structures to house equipment,
- o Process-related plumbing and wiring,

- o Furnishings (such as movable wall partitions), and
- o Lighting — security and decorative.

You can sometimes deduct a proportional amount of capitalized indirect and overhead costs as well.

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*“Generally, you may enjoy significant savings on federal and state income taxes.”*

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Generally, you may enjoy significant savings on federal and state income taxes. (Keep in mind that a cost segregation study doesn't change personal property tax classifications. As a precaution, check out your area's personal property statutes.)

### **When you should get one**

Let's look at an example. Warner Widget Co. was expanding operations and constructing a small factory. It planned on depreciating \$2,500,000 worth of office furniture as building components under the straight-line method.

By doing so, Warner could deduct only about \$64,000 each year for 39 years. But a cost segregation study revealed that these assets qualified for faster depreciation. In fact, this allowed Warner to take depreciation over seven years on \$2,500,000 of equipment, for a first year tax deduction of \$357,250 and \$612,250 in the second year using the half-year convention.



You may not need a cost segregation study for every building you own or build. Generally, invest your time and money in this procedure only if you have a new construction or major renovation project worth \$1 million or more. That said, you should still watch for property classification savings whenever you can.

### **How it affects your business**

Cost segregation studies are a good way to reduce taxes and increase cash flow. But, like many company owners and managers, you may have further questions about them and their benefits. We can help you determine whether one is right for your business.



*Do you own a building or are you in the process of constructing one? Contact Dave Moser to arrange a free consultation about cost segregation.*

**Sidebar: Will a cost segregation study trigger an audit?**

Some business owners forgo cost segregation studies for fear of getting audited. But continuing to incorrectly depreciate building assets could raise problems and trigger IRS attention, too. A cost segregation study will enable you to properly depreciate your building.

Taking advantage of a cost segregation study performed by an experienced professional during construction generally will not increase the likelihood of an audit.

All members of our Valuation and Transaction Services Group have some experience in cost segregation work. In particular, Dave Moser, Director of the group, has been conducting cost segregation and cost estimating work since 1967. Dave has completed cost segregation studies on over 150 properties with over \$5 Billion in cost, and holds a degree in civil engineering along with an ASA accreditation since 1976.

A number of boutique cost segregation firms have emerged in the past ten years employing rather detailed report summaries. While a cost segregation study does not necessarily require dozens of pages of detail, it should be of a high quality and defensible to the IRS. The IRS cost segregation guidelines do provide an excellent job of setting forth expectations for adequacy and we work closely within these guidelines on all cost segregation projects.

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## Meet the Valuation and Transaction Services Group

*By: Dave Moser, Director Valuation & Transaction Services*

I hope you have enjoyed our complimentary newsletter. **If you would like to add a client or friend to the distribution list, or join our monthly e-mail newsletter, please e-mail: [dmoser@coulterjustus.com](mailto:dmoser@coulterjustus.com)** with "Subscribe" as the subject.

Our Valuation and Transaction Services team has over 60 years of combined experience involving more than 1,000 projects, and continues to be the largest and most experienced full time valuation group in East Tennessee. We understand the significant financial and emotional impact our services play in client's lives, and are excited to offer a full range of transactions services.

In addition to business valuations throughout North America and Internationally, we provide M&A advisory services for substantial private firms, as well as a host of real estate advisory services including: cost segregation studies, real property tax appeals, lease audit and negotiation, and feasibility analysis.

### David G. Moser, ASA, CEI

*Director of Valuation and Transaction Services*  
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David is a certified member of the American Society of Appraisers (ASA) and has over 34 years experience in the valuation profession. Before joining Coulter & Justus in 1996, he served as partner and director in charge of valuation with Ernst and Young and in management positions with two other international valuation firms. He has considerable experience in valuations, cost segregation studies, and as an expert witness.

### Renee M. Harwell, CPA/ABV, ASA

*Senior Manager*  
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Renee joined Coulter & Justus in 1999 and has over ten years of business valuation experience. She has valued businesses for purposes including mergers, estate tax and gifting, litigation, bankruptcy reorganization, and in performing cost segregation analysis. Renee also has troubled business turnaround and controllership experience in addition to tax and audit experience.

**Christopher C. Chotard, CCIM**  
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Having closed several hundred thousand feet of real estate deals, Chris specializes in commercial real estate consulting, appealing real property tax assessments, and business valuation. Chris holds an MBA from the University of Notre Dame Mendoza School of Business, as well as the CCIM (Certified Commercial Investment Member) designation.

### Sven V. Serspinski

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Sven has over 14 years experience in investment banking and business valuation, including mergers and acquisitions. He joined Coulter & Justus in 2003 and has an MBA with an emphasis in Finance from New York University's Stern School of Business and also holds the CM&AA (Certified Merger & Acquisition Advisor) designation.

### Cindy H. Briggs, CPA

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Cindy has over 14 years client service experience in the areas of auditing, budgeting, and finance as well as general business consulting. She joined Coulter & Justus in 1997 as a Business Valuation Consultant.

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