Tax Solutions for Commercial Building Owners

Recent tax reform has significant economic benefits for building owners. Reduce your income taxes and receive $30,000 - $70,000 in income tax savings per million in building cost through these methods.

1 Cost Segregation

This method of identifying and classifying building components allows you to accelerate depreciation, capture bonus depreciation, and generate additional cash flow to reduce taxes. An engineering-based cost segregation study is the basis for you to capture the tax savings opportunities below. Additionally, the reduction in income will maximize a loss carryback refund found in the 2020 CARES Act.

2 Partial Asset Disposition

A PAD allows an owner to write down the cost of items removed during a renovation (including LEDs) as well as the cost of removal and disposal. Taxpayers can receive a tax deduction in the current year as this is a “use it or lose it” opportunity. Fail to capture it in the current tax year and lose the ability to write it down. PADs yield permanent tax savings at the time of sale by reducing recapture costs.

3 Qualified Improvement Property

Qualified Leasehold Improvements, Qualified Retail Improvements, and Qualified Restaurant Property are all replaced with Qualified Improvement Property (QIP). QIP has a 15-year recovery period, is eligible for bonus depreciation, and is eligible for Section 179 Expensing. A QIP is an improvement to the interior (excluding elevators, escalators, and internal structural framework) of any nonresidential real property placed in service after the date the building was first placed in service. Interior and exterior LED retrofit projects may qualify for different types of bonus depreciation including QIP.

4 Capital to Expense Reversal

Building owners may reverse previously capitalized items on an asset schedule and expense them in the current year by applying the new regulations to prior years. This reversal is achieved through a forensic evaluation of asset schedules, including historical improvements and repairs.

5 Section 179D

The Section 179D federal tax incentive is intended to promote the design and construction of energy-efficient commercial buildings. All commercial buildings, parking garages, and multi-family residential buildings (greater than three stories) qualify for the deduction and expensing of $0.30 to $1.80 per square foot for qualifying energy-efficient projects. These items are normally required to be depreciated over 27.5 or 39 years and include lighting, HVAC, and/or the building envelope. Projects completed from 2008 through 2020 may still qualify for the benefit.

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