



Bonus Depreciation: American Recovery and Reinvestment Act of 2009



The American Recovery and Reinvestment Act of 2009 has made cost segregation more valuable by bringing back 50% bonus depreciation for a limited time. If real property is reclassified as 5-, 7- and 15-year personal property, it may qualify for 50% bonus depreciation for the 2009 tax year. This bonus depreciation applies to new property in the first year it is placed in service. The magnitude of this additional allowance in the first year can be enormous. For example, a shift of \$1 million from 39-year property to 5-year property can augment first-year depreciation deductions by a whopping \$580,000 (\$20,000 vs. \$600,000).

Cost segregation studies reclassify a substantial portion of a building project from 39 or 27 1/2 years, into 5-, 7- and 15-year property. In addition to the normal accelerated deductions this creates, the assets also become eligible for 50% bonus depreciation. Taxpayers constructing or remodeling buildings have even more incentive to have a cost segregation study performed. The study will help the taxpayer take full advantage of the bonus depreciation rules by identifying every constructed asset that qualifies for the shorter depreciation periods.

Case Study #1

In June 2009, ABC Company constructs a \$5 million hotel. Without a cost segregation study the first year's depreciation will be \$69,550. As a result of a cost segregation study along with the newly enacted stimulus tax act that includes 50% bonus depreciation in 2009, the resulting depreciation for 2009 will be approximately \$669,000, nearly \$600,000 in additional depreciation the first year alone.

Case Study #2

In June 2009, XYZ Company makes \$2 million in improvements to tenant spaces within an existing office building. Without a cost segregation study, depreciation in 2009 will be \$27,820. A cost segregation study in conjunction with the American Recovery and Reinvestment Act of 2009 will yield nearly \$117,000 in additional depreciation the first year, or approximately \$145,000.

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