

Cost Segregation Study Identifies \$36 million Tax Benefit for Real Estate Management Company

Situation

An award-winning real estate management company with operations throughout the U.S. purchased 50-plus multifamily properties for \$390 million. Company executives wanted to conduct cost segregation studies to maximize and accelerate depreciation deductions on their investments. After requesting bids for the project, management narrowed their selection down to two firms, a Big Four accounting firm and Cherry Bekaert. Ultimately, the company selected Cherry Bekaert to complete the cost segregation services within a very short timeline.

Cherry Bekaert's Guidance

Cherry Bekaert's Tax Credits & Incentives Advisory team utilized statistical sampling as outlined under Revenue Procedure 2011-42. The Cherry Bekaert Team analyzed the required sample size of the 50-plus properties, completed the technical analysis and applied those results to the entire population of properties. This approach was more efficient and effective for the client and the engagement team.

Results

Cherry Bekaert's team segregated approximately \$90 million in shorter-lived property subject to 100% bonus depreciation, which translated into a first-year tax cash benefit of approximately \$36 million.

By using the tax law and the IRS approved statistical sampling methodology along with sophisticated tax law analyses, our team was able to complete the cost segregation study within a shortened period while using proper tax analysis to segregate the property into asset groups and identifying correct recovery periods for the asset groups.

Company leaders were not only extremely satisfied with the more than \$36 million in positive cash flow because of the study, but they were also pleased with Cherry Bekaert's streamlined statistical sampling methodology, the detail of study and subsequent report, and the degree of involvement from all levels of the Cherry Bekaert team.

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