Commercial Property Benefit

Property Reclassification is a proven engineered based, tax planning strategy that allows commercial property owners to accelerate substantial depreciation deductions and defer tax payments. Reclassification provides an opportunity to significantly reduce your current income taxes while creating an immediate increase in cash flow reduction in both income and real estate property taxes and an easy opportunity to claim 'catch up' depreciation on previously misclassified assets.

If your company is planning to purchase, remodel or build commercial facilities, or if you have done so in the last few years, you should be aware of this tax strategy that could save you considerable money.

The idea is to separate the individual assets within a facility and reclassify some of them as land improvements and tangible personal property, which can be depreciated much faster than real property.

Most purchasers lump the entire depreciable basis into one category—without realizing that the purchase also includes land improvements and personal property which may be depreciated over a period as short as five years.

An engineered based study provides a comprehensive and detailed analysis and review of the costs related to the acquisition or construction of a facility. The purpose of the study is to allocate or reallocate these costs as either real property, land improvements or tangible personal property for the purpose of determining depreciation deductions.

The bottom line: The faster depreciation write-off achieved by property reclassification can result in larger tax deductions in the earlier years, accelerating the after-tax return on capital by freeing up cash flow during the earlier years of the facility's life. In addition, property reclassification may also reduce real estate and property taxes helping further boost cash flow.

Properties most likely to benefit from property reclassification include:

- Office and apartment buildings
- Retail Stores, restaurants and shopping centers
- Hotels and motels
- Warehouses and distribution centers
- Manufacturing and industrial plants
- Medical facilities

Sample Benefits:

Medical Building
Purchased in 2005 for $3,000,000
1st year cash savings - $127,226
5 year cash savings - $243,626

Hotel
Purchased in 2007 for $4,152,317
1st year cash savings - $260,535
5 year cash savings - $300,333

Small Strip Mall
Purchased in 2003 for $1,959,067
1st year cash savings - $142,764
5 year cash savings - $131,925

Hotel
Purchased in 1993 for $2,608,735
1st year cash savings - $121,810
5 year cash savings - $88,683

Strip Mall
Purchased in 2006 for $4,000,000
1st year cash savings - $64,959
5 year cash savings - $320,282