Our Approach

Scarpello Consulting cost segregation studies are designed to maximize your depreciation allowance while minimizing the risk of audit exposure. We accomplish this by doing more than properly classifying an asset as real or personal property, we also clearly demonstrate how that value was established. This includes clearly identifying the improvements on the building plans, quantifying the property using the most detailed level of cost information available, and describing the pricing method used.

Whenever possible, we use actual contractor costs to help make value a non-issue when dealing with the IRS. If detailed costs are not available from the contractor or subcontractor, we will use an alternative approach that meets IRS recommendations for valuation.

Our Team

The proper segregation of costs requires the knowledge of tax laws, construction costs and techniques. Our service team is led by Tom Scarpello, an industrial engineer and former building contractor with extensive experience in both commercial and industrial construction. Tom also has significant experience in public accounting as both a cost segregation analyst and construction consultant. For more information about cost segregation services, please contact us **Toll-Free 877.410.5040.**

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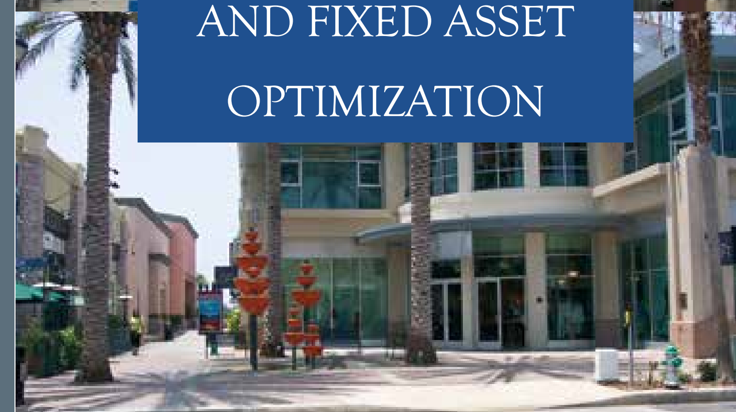
SCARPELLO CONSULTING

COST SEGREGATION AND FIXED ASSET OPTIMIZATION



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What is Cost Segregation?

Cost segregation is a strategic tax tool that allows taxpayers to accelerate their depreciation expense, which in turn increases cash flow. To do this, qualifying project-related costs that would be classified as 39-year real property are identified and reclassified into shorter depreciable lives (5 or 7-year personal property or 15-year land improvements) for federal income tax purposes.

How Clients Benefit

Cost segregation allows taxpayers to increase cash flow by accelerating depreciation expense and deferring federal and state income taxes. The economic value of properly classifying an asset as personal property with a 7-year depreciation cycle instead of real property with a 39-year cycle is approximately 15% to 20% of the asset's cost, based on present value after taxes.

When to Apply A Cost Segregation Study

We are frequently asked when a cost segregation study should be performed.

Consider a cost segregation study when:

- Constructing a new facility
- Acquiring an existing facility
- Renovating or expending an existing facility

Clients that have built or purchased buildings or facilities in the past and have not performed a cost segregation study, may benefit from a study which allows for the correction of missed depreciation in past years.

Typical Reclass Percentages By Facility Type

The following are typical percentages of the whole building cost that can be classified as personal property or land improvements rather than real property.

Apartments	15-35%
Hospital/Healthcare	20-45%
Hotels	15-35%
Manufacturing	20-45%
Office Building	10-35%
Restaurant	20-45%
Retail Space	15-45%

Cost segregation studies can be performed on numerous property types in addition to those listed above.

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Example of Potential Savings

Consider a typical two-story office building with a total construction cost of $1.5 million dollars, assuming that 10% of the cost of the building was improperly classified as real property (39-year) instead of personal property (7-year). By moving the 10% improperly classified as 39-year property to 7-year property, the first year tax savings realized would be approximately $27,000. The estimated After-Tax Net Present Value Benefit (ATNPV) of the entire project is as follows:

Amount Reclassified:

7-Year Property	$150,000
15-Year Property	$225,000
Total Reclassified	**$375,000**

Net Present Value of Tax Savings:

7-Year Property	$27,000
15-Year Property	$23,000
Total Savings	**$50,000**