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COST SEGREGATION STUDIES FOR REAL ESTATE

While the straight-line method of expensing real estate costs is most commonly used by real estate investors, completing a cost segregation study may be worth consideration to help reduce taxable income and increase operating cash flow.

WHAT IS IT

A cost segregation study identifies personal property asset groups that would typically be depreciated as one group (e.g., a building). For example, instead of using this lump-sum group, an engineer, with the help of a tax professional, will break the building down into different structural components, like a roof, windows, electrical fixtures, and HVAC systems.

BENEFITS OF STUDYING

According to the IRS, nonresidential buildings have a 39-year life. That generally means you'll write off the cost of the building over 39 tax years. But, with cost segregation, parts of that building would fall into different tax categories and could be written off quicker, lowering your taxable income in earlier years.

For example, improvements to land for things like fences, sidewalks and shrubbery have a 15-year life. That means you could deduct those costs over 15 years, instead of over 39 years.

You might also find other tax breaks from completing a cost segregation study. The Commercial Building Energy Efficiency tax deduction is available for



certain real estate owners who make energy efficient improvements to HVAC and lighting systems.

STUDY PITFALLS

Cost segregation studies can cost several thousand dollars, so making sure it's a wise use of your company's cash is vital. Also, you'll want to be able to hold the property for at least five years to receive a payoff. That's because when the short-life assets found in a study are sold, they can be subject to the depreciation recapture rules that tax the gain at ordinary income tax rates instead of favorable capital gain rates.

When depreciating your real estate investment, there are multiple factors to consider, including bonus depreciation and Section 179. So, you'll want to talk through all your options with your tax professional.

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BACK-TO-SCHOOL TAX HOLIDAYS

Several states offer a tax break for parents buying back-to-school supplies. It's a growing trend with more states allowing this each year, so check with your state. During the tax holiday, qualifying items are exempt from sales tax. Each state program varies.

School Supplies - includes pencils, paper, and notebooks that sell for less than the specified dollar amount.

Clothing and Shoes - jackets, pants, shirts, and coats generally qualify if they cost under a certain amount. Note that sporting equipment typically doesn't qualify for the exemption.

Computers and Electronics - computers and related accessories less than the specified amount are exempt. However, gaming systems, televisions, and cell phones are excluded.

CLIENT PROFILE

Veronica is preparing a cyber security training program for her employees. What are some of the crucial topics she should include?



First, emphasize employees' responsibilities to protect company information and reporting procedures if an employee's computer becomes infected by a virus or is operating outside its norm (e.g., unexplained errors, running slowly, changes in desktop configurations, etc.). In such cases, employees should immediately report the incident to the IT team so they can investigate and mitigate the threat.

Then, teach employees how to select and save strong passwords and show staffers how to recognize scams, prevent data theft and know not to respond to emails they do not recognize.

Prevent installation of unlicensed software on any company computer. Unlicensed software downloads could make the company susceptible to malicious software downloads that can attack and corrupt company data.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

THE CHILD TAX CREDIT FOR 2022

The American Rescue Plan passed in 2021 was one of the COVID-19 financial assistance packages and temporarily expanded the child tax credit. However, in 2022, the temporary changes are gone, and the older rules return. Let's revisit the requirements in place for 2022.

QUALIFICATION MATTERS

Children under the age of 17 as of December 31, 2022, qualify for the child tax credit. Along with the age limit, the child must be your son, daughter, stepchild, brother, sister, stepsibling, half-sibling, grandchild, niece, or nephew.

You must also provide at least half of the child's support in 2022, and generally, they must have lived with you for at least half the year. And if the child is married, they usually can't file a joint tax return, and they need to be a U.S. citizen or resident alien with a Social Security number.



CREDIT AMOUNT

The child tax credit allows eligible taxpayers to reduce their federal income tax liability by up to \$2,000 per qualifying child. And unlike most tax credits, this one is partially refundable. If the credit exceeds the amount of tax you owe, you may receive up to \$1,400 as a refund.

INCOME LIMITATIONS

The child tax credit is intended to ease the tax burden for low- and moderate-income taxpayers. Single filers with an adjusted gross income greater than \$200,000 and joint filers greater than \$400,000 will begin to see the credit phase out.

TIME LIMIT

These rules remain in place through 2025 unless Congress takes action to change them before their expiration date. Or they can choose to extend them beyond 2025. Barring any changes, starting in 2026, the child tax credit will revert to the rules in place before the 2017 changes.

THE AVERAGE COST OF A DATA BREACH

In 2021, data breach costs rose from \$3.86 million to \$4.24 million globally. This is the highest average total cost in the 17-year history of the IBM study.* It took an average of 287 days to identify and contain a typical breach. In the U.S., the average cost per breach was \$9.05 million.

The top three affected industries include:



Healthcare
\$9.23M



Financial:
\$5.72M



Pharmaceuticals:
\$5.04M

* <https://www.ibm.com/security/data-breach>

DISASTER PREPAREDNESS

With hurricane and severe weather season in full swing, be sure to have an accurate inventory of your property and an action plan.

TAKE INVENTORY

Start by going through your home room-by-room and document everything in it. Record when you purchased the items, the prices and approximate fair market value. Using best guesses is okay. You can use a spreadsheet or choose one of many home inventory apps that are available. They allow a photo and information for each item in list form.



Take pictures of your items or a video of each room to help document your property. Save the photos offsite or in the cloud.

TAXES AND INSURANCE

If you incur a disaster-related loss, take photos of all damaged property. This will help you to get a fair settlement from your insurance company. Also, if the loss occurred in a nationally declared disaster area, you may qualify for a tax deduction.

MAKE A PLAN

The website: <https://www.ready.gov> and some apps provide actionable plans for each type of emergency to help you prepare for the worst.

KEY HIRING DECISIONS FOR EVERY STARTUP

As your startup takes off, you'll have to consider adding staff. Hiring decisions will depend on available resources and where you need help. When the time comes to expand staff, consider your skills first, to determine where your time is best spent. Then build from there with the long term in mind.

OUTSOURCING

As you get started, hiring freelancers, and outsourcing some jobs may make sense. For example, you might find it valuable to outsource your accounting and finance role to your CPA. But once your company size reaches a certain point, you may want to internalize that work and hire a Chief Financial Officer (CFO) to help with everyday necessities like paying employees and suppliers.

GROWING PAINS

When your business is ready, you'll probably need to hire administrative help, and eventually other managerial positions to oversee product development and sales. And when you have more sales and customer calls than you can handle, it's time to staff a customer service department. Don't rush hiring decisions. Determine how much you can pay and where it will have the biggest impact on the bottom line.



Q

What does travel insurance cover?

A

Your summer travel plans may come with the option to purchase travel insurance. There are different policies, so read through what's included and excluded to find what fits your needs.

Medical expense policies will cover you if you get sick or injured because your health insurance may not cover you if you're out of the country.

Cancellation or delay insurance will kick in if you need to cancel your travel or incur additional costs from an airline delay. Insurance prices are generally dictated by the length and cost of your trip.

CONSIDER TAXES WHEN PLANNING FOR RETIREMENT

When it comes to planning for retirement, one important element that people often overlook is taxes, which can be an expensive mistake.

INCOME TAXES

Contrary to what you might think, your tax bracket may not be lower when you retire. Here are a few taxable events to consider:

- ❖ You may not have some tax deductions in the future that you have now.
- ❖ Retirement income from investments, retirement plans, or a job, could cause your Social Security benefits to be taxed.
- ❖ Withdrawals from 401(k) plans and traditional IRAs are taxable as ordinary income.

SOME TAX-SAVING INVESTMENTS

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation and offer tax benefits. Interest income and principal growth are exempt from state and local income taxes.

Opening a Roth IRA can provide tax-free income when you retire. Although contributions to a Roth IRA are made with after-tax dollars, withdrawals of earnings generally are tax free after age 59½, if the account has been open for five years. Work with your financial and tax professionals to plan for taxes.

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