

## Fixed Assets Can Be Your Friend

**ENHANCE CASH FLOW BY OPTIMIZING FIXED ASSET  
EXPENSING AND DEPRECIATION ALTERNATIVES**



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## ASSET EXPENSING AND DEPRECIATION

If you have not had a tax professional review your fixed asset ledger, this may be an area ripe with cash flow enhancements.

Many of you have been exposed to cost segregation studies; whereby, assets are reviewed to determine whether they should be reclassified to a shorter life to accelerate depreciation write-offs. For example, a newspaper publisher was able to reclassify over \$1,000,000 from building costs to equipment costs related to the installation of a new press line. The publisher had to demolish an exterior wall to bring in the press, rebuild the wall, pour a new extra thick foundation, install permanent steel catwalks around the press, install new electrical, water and drain lines, and install new HVAC equipment around the press to keep humidity and temperature at precise levels. HVAC assets are usually classified as 39-year building costs. However, if the HVAC equipment is needed to protect other equipment—such as computers or is needed to control production environment such as printing operations, baking operations, etc.—then the HVAC equipment is depreciated as equipment and not building costs.

There are also other areas within your fixed asset ledger which may prove even more fruitful. Consider these tips when evaluating your company's fixed asset ledger:

- **Rethink asset expensing policies** - Oftentimes companies adopt a policy to capitalize all costs over a certain dollar threshold for financial or “book” purposes without considering the tax ramifications of such a policy. Companies have been astounded to find that tens of thousands of dollars that actually are repair or maintenance expenses are being depreciated as fixed assets over as much as 39 years. Removing these costs from the fixed asset ledger and expensing them currently can substantially reduce a company's tax liability or create a net operating loss that can be carried back to recover taxes previously paid.
- **Evaluate how you handle repair expenses (expense v. capitalization?)** - On December 23, 2011, 250 pages of temporary regulations were issued specifically addressing the issue of capitalization and deductibility of repair expenses. These regulations are binding on taxpayers whose tax year begins on or after January 1, 2012 and alter the playing field surrounding expense versus capitalization. Certain provisions require that taxpayers take affirmative action to change their existing tax accounting methods relative to expense versus capitalization which means filing Form 3115, *Change in Tax Accounting Method*, and accumulating the data to support such filing. However, there is still time for taxpayers to file changes for their 2011 tax years under the previous guidance (2008 proposed regulations and various court cases), keeping in mind that heightened IRS scrutiny will likely occur now that the new regulations are issued. This is yet another reason to have your fixed asset policies reviewed as soon as possible.
- **Consider bonus depreciation elections carefully** - Keep in mind that not all depreciation incentives are created equal. The interplay of these depreciation provisions are tricky and requires detailed multi-year analysis to determine what elections create the optimum tax solution for each taxpayer. For example a Section 179 deduction cannot create or add to a net operating loss while another provision may offer such a benefit. While these adjustments constitute “Changes in Tax Accounting Methods,” the IRS has ruled that several are “automatic” changes. Such automatic changes carry no filing fee and also allow 100% of any additional tax benefit to be deducted in the current year (at least for the time being).
- **Look for renovations that might qualify for “green” tax benefit** - If your business built or significantly renovated a commercial building in the last 6 years or plans to do so in the near future, there may be a “green” tax benefit waiting for you. The Energy Efficient Commercial Buildings Deduction (Section 179D of the Internal Revenue Code) allows up to \$1.80 per square foot in tax deductions for qualifying energy efficient expenditures. This provision is not an all or nothing proposition. Partial benefits are available since there are three areas of qualifying costs. These areas are interior lighting, HVAC and hot water systems and the area of the building that actually offers protection from heat and cold. A

good rule of thumb is that the building in question be at least 50,000 square feet. One common type of qualifying energy property is overhead lighting systems. In order to obtain these benefits, the law states that qualified engineers be involved to certify that the different elements meet the statutory requirements. Section 179D remains in force until December 31, 2013.

Is your company optimizing the asset expensing and bonus depreciation methods now available under the recent tax acts and extensions signed by Congress? If you're not sure, more cash may be waiting to be recovered. We recommend you address this opportunity as soon as possible. Many of the favorable expensing and bonus depreciation limits may be reduced after December 31, 2011 and will require us to monitor Congress' tradeoffs to determine which incentives continue.

## **WE CAN HELP**

Decosimo professionals stand ready to help you determine how best to enhance your cash flow through optimizing your depreciation alternatives.

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