10 BIG QUESTIONS

TO MAXIMIZE TAX SAVINGS IN TY 2022

There are real estate tax savings strategies old and new in play for 2022. The variety of incentives available makes thoughtful and comprehensive tax planning more important than ever. To ensure that no opportunity is overlooked, ask yourself – or your clients – Capstan's BIG Questions:

01 Did you build/acquire any commercial real estate in 2022?

- Was a cost segregation study performed to begin maximizing deductions from year 1? Accelerated depreciation takes advantage of the time value of money, and a study is best performed as soon as possible after construction/acquisition. Plus, 100% bonus is still in play for properties placed-in-service through 12.31.2022.
- If a Cost Segregation study was performed, was Unit of Property (UOP) data included in the report? UOP data creates an accurate and complete breakdown of assets useful for making expense vs. capitalization decisions and capturing further deductions in future.

---

02 Did you acquire any real estate in the last several years?

- Was a cost seg performed at the time of acquisition? It's not too late to perform a study now – "look-back studies" allow you to "catch-up" on the depreciation you would have accumulated had you performed the study in year 1.
- Did you recall that under the TCJA acquisitions are eligible for bonus depreciation? This incentive continues to motivate many clients to perform studies on their acquisitions.

---

03 Did you renovate or improve any previously acquired property?

- Was a Partial Asset Disposition (PAD) Analysis performed to document the disposition of the remaining cost basis of assets retired, replaced, or demolished? This additional write-off can only be taken in the year in which the asset was removed from service.

---

04 Has all spend been categorized correctly?

- Have BAR and Materiality tests been performed to identify and reclassify any assets that were capitalized but are actually expensable under the Tangible Property Regulations (TPRs)?
- It's easy to overlook the TPRs while focusing on newer legislation, but they continue to provide significant benefit and can be applied in tandem with the CARES Act, IRA, etc.

05 Have you maximized your expensing?

- Have you done improvements on HVAC, security systems, or roofing? Remember, the TCJA permits the expensing of these building improvements under Section 179, with a 2022 deduction limit of $1,080,000The Section 179 election must be taken in the year the work is placed-in-service, and cannot place a taxpayer into a loss situation.
- Safe Harbor expensing opportunities under the TPRs are also still in play.
- Routine Maintenance Safe Harbor is applicable across the board.
- Safe Harbor for Small Taxpayers is an extra election.
- The De Minimus Safe Harbor remains an excellent source of deductions for AFS and Non-AFS taxpayers alike.

06 Are you planning renovations in the near future?

- Consider a cost segregation study now, in order to document and breakdown assets that could be written off post-renovation through PAD elections.
- Keep timing in mind to maximize bonus rates. After 12/31/2022 the Bonus depreciation rate will begin to decline by 20% annually. While cost segregation will bring benefit at any bonus rate, attempt to place renovations in service before the end of a calendar year whenever possible. A temporary Certificate of Occupancy may be helpful in some cases.

07 Did you perform an energy retrofit, or build a green building from the ground-up?

- You may be eligible for the 179D Deduction, for commercial buildings or residential rental buildings that are at least 4 stories high. If the residential
- rental property is 3 stories above grade or less, you might be eligible for the 45L Credit.
- If the property was placed-in-service in 2022, you'll be dealing with the "legacy" forms of these programs, with lower maximum benefit, but also fewer requirements.

08 Do you have energy projects on the books for 2023?

- Properties placed-in-service after 1/30/2023 will be subject to the newer forms of the programs established under the Inflation Reduction Act. Significant benefit is possible, but might be mitigated by the cost of meeting the associated Prevailing Wage and Apprenticeship requirements. Looking into these requirements now is a must – see our guide to the most recent details.
- If you have potential 45L projects on the books for 2023, they must meet Energy Star (or Zero Energy Ready) Home Certification to qualify. This will require major changes in procedure. Energy consultants need to be involved in planning and design throughout the process, and applications must be made up front with Energy Star.

09 Did you perform a 754 Step-Up?

- Recall that the stepped-up basis and new placed-in-service date seen in a 754 Step-Up may often tee up a great cost segregation opportunity.
- Additionally, 743(b) Step-Ups that involve the purchase of a partnership interest are eligible for bonus.

10 Did you engage in any like-kind exchanges?

- Under the TCJA, personal property is excluded from the exchange basis if exceeding the safe harbor, and this very exclusion may trigger a taxable event. A cost segregation study is well placed to help mitigate the potential tax liability.
- When considering a 1031 exchange, always consider the simultaneous performance of a cost segregation study if there is new basis.

CAPSTAN
our strength. your tax savings.

Clearly, there are a myriad of tax strategies available to the commercial real estate owner. To really make the most of your fixed assets, it's crucial to thoughtfully assess all potential opportunities. The Capstan team is here to help you and your tax professionals do just that. Here's to a successful TY 2022.

215-885-7510 | capstantax.com