The NOHRE REPORT

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Valuable Tax Savings Imbedded in Buildings

Real Estate Cost Segregation - Seize the Opportunity

For years taxpayers have used cost segregation to defer income taxes and enjoy the benefit of increased cash flows. Now with the new bonus depreciation rules brought about by the Jobs & Growth Tax Relief Reconciliation Act of 2003, the benefits of cost segregation are an even more attractive concept.

What is Cost Segregation?

Cost segregation is an engineer-based analysis of your building that specifically looks at the construction and acquisition expenditures for the purpose of identifying tangible personal property. It allows for faster depreciation of assets specifically identified (i.e., segregated) as personal property.

By carving out personal property assets (qualifying for 5-, 7-, 15-year write off periods) you will greatly accelerate the period and rate in which depreciation deductions can be claimed for tax purposes. The building components identified as personal property will be depreciated using an accelerated recovery method, while the remaining costs are recovered over 39 years for commercial property and 27.5 years for residential property using a straight-line method.

For example, a study performed for an owner of a $4 million office building resulted in a net present value tax savings of approximately $130,000.

This savings was realized after identifying eligible personal property in excess of $800,000 and using a conservative (4%) discount factor.

What Real Estate Applies?

- Commercial or residential property
- New buildings presently under construction
- Existing buildings undergoing renovation, remodeling, or expansion
- Purchases of existing buildings
- Office/facility leasehold improvements
- Post-1986 real estate construction, building acquisitions, or improvements where no cost segregation study was performed.

Bonus Time!

With the recent Jobs & Growth Tax Relief Reconciliation Act of 2003, the IRS issued new rules allowing bonus depreciation for personal property assets. Depending on when the asset is placed in service you are allowed up to a 50% first year write-off on personal property assets (special rules apply to assets placed in service prior to 2004).

Note: The 50% bonus depreciation will expire January 1, 2005. In other words, it applies to assets placed in service through December 31, 2004.

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BE SMART WHEN DONATING A CAR TO CHARITY

Be wary of taking an improper deduction for a car donated to charity.

- The IRS says many people claim excessive valuations for donated cars, such as by claiming full blue book value rather than lower actual value, which is the price the car would actually obtain if sold on the market.

- A recent government study of car donations found that in two-thirds of donations examined, charities received 5% or less of the value that vehicle donors deducted on their tax return. The discrepancy resulted from high program fees, such as those incurred at car auctions, as well as excessive deductions. So, a charity may not receive nearly as much from a car donation as you think.

- Some organizations that have taken car donations are not eligible to receive tax deductible contributions.

Risk:

The IRS says all these factors have caused it to make car donations an examination target.

Self-defense:

If you donate a car to charity:

- Deduct on your tax return no more than the actual value for which you could have sold it.

- Verify that the charity you donated it to is eligible to receive deductible contributions. If you have any doubt, the IRS list of such organizations is on-line, IRS Publication 78, Cumulative List of Organizations. Go to www.irs.gov/charities and enter *IRS Publication 78* in the "Search Forms and Publications" box.

- If you deducted $250 or more, obtain the required acknowledgement letter from the charity by the date you file your tax return or its due date, whichever is earlier.

  If you deducted more than $500, attach Form 8283, Noncash Charitable Contributions, to your return. And, if you deducted more than $5,000, be sure that the value is supported by a qualified appraisal.

THE KIDDIE TAX

What it is: In 2004, the first $800 worth of unearned income received by a child under age 14 is tax free while the next $800 is taxed at the child's low rate, generally 10%. Income in excess of the $1,600 is taxed at the parent's top tax rate which can be as high as 35%. This high tax rate on children's unearned income is referred to as the "kiddie tax."

Bottom line: Children under age 14 typically owe only $80 in federal tax on the first $1,600 of investment income.

Investment Strategy: As an example, for young children you can place up to approximately $64,000 worth of investments, bank accounts, money market funds, etc., in their names. Assuming an interest rate of 2.5%, they would earn $1,600 of low-taxed income each year, an amount that keeps you free of the kiddie tax.

Once your children reach age 14, the kiddie tax rates no longer apply. Their income is taxed using the single tax rates.

Caution: Money transferred to such custodial accounts will belong to the children when they reach legal age. If you are concerned about them acting responsibly, you may prefer other strategies.

If we can be of service to you please contact Gary Gochanour at (715) 833-6748 or (800) 785-8570 or Karen Rose at (715) 833-6743 or (800) 433-1393.

The Experts Speak?

Telephone -"That's an amazing invention, but who would ever want to use one of them?" President Rutherford Hayes, 1876

Television - "People will soon get tired of staring at a plywood box everynight." Darryl Zanuck, head of Twentieth Century Fox, 1946

Computers - "There is no reason for any individual to have a computer in their home." Ken Olson, President, Digital Equipment Corp., 1977

Nuclear Energy - "Nuclear powered vacuum cleaners will probably be a reality within 10 years." Vacuum cleaner manufacturer, Alex Lewyt, 1955

YOUR BUSINESS COULD BE PAYING PHONY INVOICES

Businesses are cheated out of millions of dollars every year by paying invoices for goods or services that were never delivered.

Once a phony invoice is paid, it often will be followed by additional billings for publications, services, or supplies not delivered. Such schemes are successful because many businesses have inadequate procedures for approving and paying bills.

Here are some techniques that should help reduce the chances that your company will fall prey to a billing scam.

- Inform your staff that they are never to give equipment model or serial numbers to callers. If the vendor is legitimate, they will already have the necessary numbers.
- Payments should be made only when supporting documents, such as invoices, receiving reports, purchase orders, and packing slips have been reviewed and approved.
- Always pay on the original invoice only; do not pay on copies or duplicates.
- Payments should not be made on monthly statements that may include prior-paid items. Also, monthly statements seldom have the detail necessary to determine legitimate charges.
- Mark on the face of the invoice the date of payment and the check number.

You may want to set aside some time to review your company's purchasing and payment policies to make your company less of a target.

Some of Life's Little Nuisances

The way everyone drives slower when you are in a hurry.

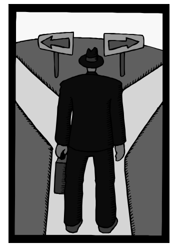
The tire gauge that lets out half the air in your tire while you're trying to get a reading.

You reach under the table to pick something up and whack your head coming up.

Setting your alarm clock for p.m. rather than a.m.

Trying on sunglasses with the tag still attached.

DOWN THE ROAD



We have a common bond, we all have parents. So, if we are not addressing issues relating to our "later" years, we may be looking at it for our parents. All too often we hear clients say they will look at those issues when they get closer to retirement. The clients that have planned well in advance frequently do so because they recently experienced the "lack of planning" issues with their parents.

So, what are some of the questions that you should ask? Good planning begins with questions such as these:

- Do you have a will?
- Do you have a durable power of attorney?
- What do you want to happen if you become disabled or incapacitated? This question may lead to the following—Do you want to stay at home? Go into a nursing home? Which nursing home? Do you have long-term care insurance? Where are your assets and do others know what you have? Are your trusts in place?

We could go on and on…

Answers to these questions generally lead to the person's overall objectives and goals. The next step is to identify strategies to fulfill the objectives. Many times, the most important step is communication. All too often, the problems that arise after death or during a long period of incapacity are due to a lack of communication.

The spouse/children are making decisions based upon what they believe their loved one desired. We know it is not always easy to discuss these issues with your family, but communication takes out the guesswork.

The financial and legal pieces that pull the planning together are the things that make the planning work. Where are assets? What are the tax and estate issues? What about Social Security, Medicare, Medicaid?

In summary, ask questions, communicate desires, and plan before a crisis. This encompasses more than financial issues. Many are emotional, and it can be difficult. If we can be of service to you or your family, please contact Gary Gochanour at (715) 833-6748 or (800) 785-8570 or Karen Rose at (715) 833-6743 or (800) 433-1393.

COST SEGREGATION

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Am I Too Late for a Cost Segregation Study?

No, it is not too late. If you constructed or purchased real estate in a prior year but did not take advantage of a cost segregation study there is an opportunity, courtesy of the IRS. The IRS has issued certain procedures for taxpayers to prospectively deduct depreciation amounts that you were entitled to but did not claim.

There are strict rules, methods, and procedures to follow when performing a cost segregation study, but the benefits can far exceed the cost of the analysis itself.

Many individuals and businesses can benefit from the tax deferral and cash flow savings of a cost segregation study. If you would like to receive more information regarding cost segregation studies, please contact Stuart Cooper at (715) 833-6752 or (800) 785-8725 or Gary Gochanour at (715) 833-6748 or (800) 785-8570.

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NEWSLETTER POLICY

This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.

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Please forward comments to newsletter@nohre.com