

FLASH!

Dealer Services Group newsbrief

WINTER 2009

Don't Miss an Opportunity to Recover Cash from Your Dealership

by Chris L'Heureux, Cost Segregation Services

The lagging economy and current credit freeze have many dealers feeling the crunch in their sales numbers. Finding ways to boost cash flow is a top priority for many business owners, and your dealership facility could be the answer. Taking advantage of favorable tax provisions geared toward commercial property owners may lower your taxes and help you preserve cash.

By passing the Economic Stimulus Act of February 2008 and the subsequent Emergency Economic Stabilization Act of October 2008, the government provided incentives to business owners to invest in their commercial properties by offering tax relief for certain building and renovation activities.

The tax breaks relate to beneficial depreciation allowances on qualified property that allow owners to deduct depreciation at a faster rate than is normally allowed. Commercial property is typically depreciated over 39 years, providing an annual deduction of roughly 2.5% of the costs spent on capital improvements. When that depreciation can

be taken, or recovered, over a shorter time period, the result is a bigger deduction on your tax return in the early years and more money in your pocket right now.

How Do the Incentives Work?

These tax provisions include 50% "bonus" depreciation and shortened (15- versus 39-year) depreciation allowances for assets identified as qualified leasehold improvement property (QLIP) or qualified retail improvement property (QRIP).

- > QLIP is broadly defined as nonstructural improvements made to the interior portion of an existing commercial building that is leased from (or to) a nonrelated party.
- > QRIP has a similar definition, but is more specifically applied to retail properties (including many types of retail and commercial dealerships) and does not have a related party exception.

To illustrate the differences in the various recovery periods (15- and 39-year) and

the effect of bonus depreciation, the table below left outlines the depreciation deduction amounts for a typical \$1,000,000 building improvement. Depreciation is shown for the first year and the first 15 years under three different scenarios.

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The Economic Stimulus and Emergency Economic Stabilization Acts both have qualification limits and time restrictions, however. At press time, bonus depreciation is in effect for 2008, but pending legislation may extend the provision for 2009. The 15-year depreciation allowance for QLIP is applicable for both 2008 and 2009; for QRIP it is applicable for 2009 only. As with most new tax laws that may have significant ramifications, consulting with a tax professional about these Acts can help you make the most of the benefits available.

Depreciation deduction amounts for a \$1,000,000 building improvement

Period	39-Year	15-Year	15-Year & 50% Bonus
Year 1	\$25,641	\$66,667	\$533,333
Years 1-15	\$384,615	\$1,000,000	\$1,000,000

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INSIDE Tax **FLASH!** WINTER 2009

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> Save-the-Date :

3rd Annual CFO & Controller's Workshop, June 25-26, 2009
Las Vegas, Nevada.

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- > Automobiles
- > Heavy equipment
- > Commercial trucks
- > Recreational vehicles
- > Rental and fleet companies

Your industry and business issues, your goals and measures of success, and your expectations of our performance all drive our service approach. We endeavor to provide creative solutions to our clients' complex business problems.

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