



IFA ANNUAL CONVENTION



20
22



COST SEGREGATION SERVICES FOR THE FRANCHISE INDUSTRY:

Engineering Increased Cash Flow
Through Accelerated Depreciation
and Green Energy Tax Incentives

WITH YOU TODAY



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HOW TO PROMOTE YOUR SESSIONS

- Tweet from your account or your organization's account before, during, and after your session.
- Use **#IFA2022** and tag **@Franchising411** on Twitter and Instagram or **@IFA.DC** on Facebook

DURING THE CONFERENCE



- Live tweet and share quotes from sessions you attend
- Tweet top takeaways and include your twitter handle
- Tweet questions and share statistics/data
- Use **#IFA2022** and tag **@Franchising411** on Twitter and Instagram or **@IFA.DC** on Facebook

JOIN THE CONVERSATION

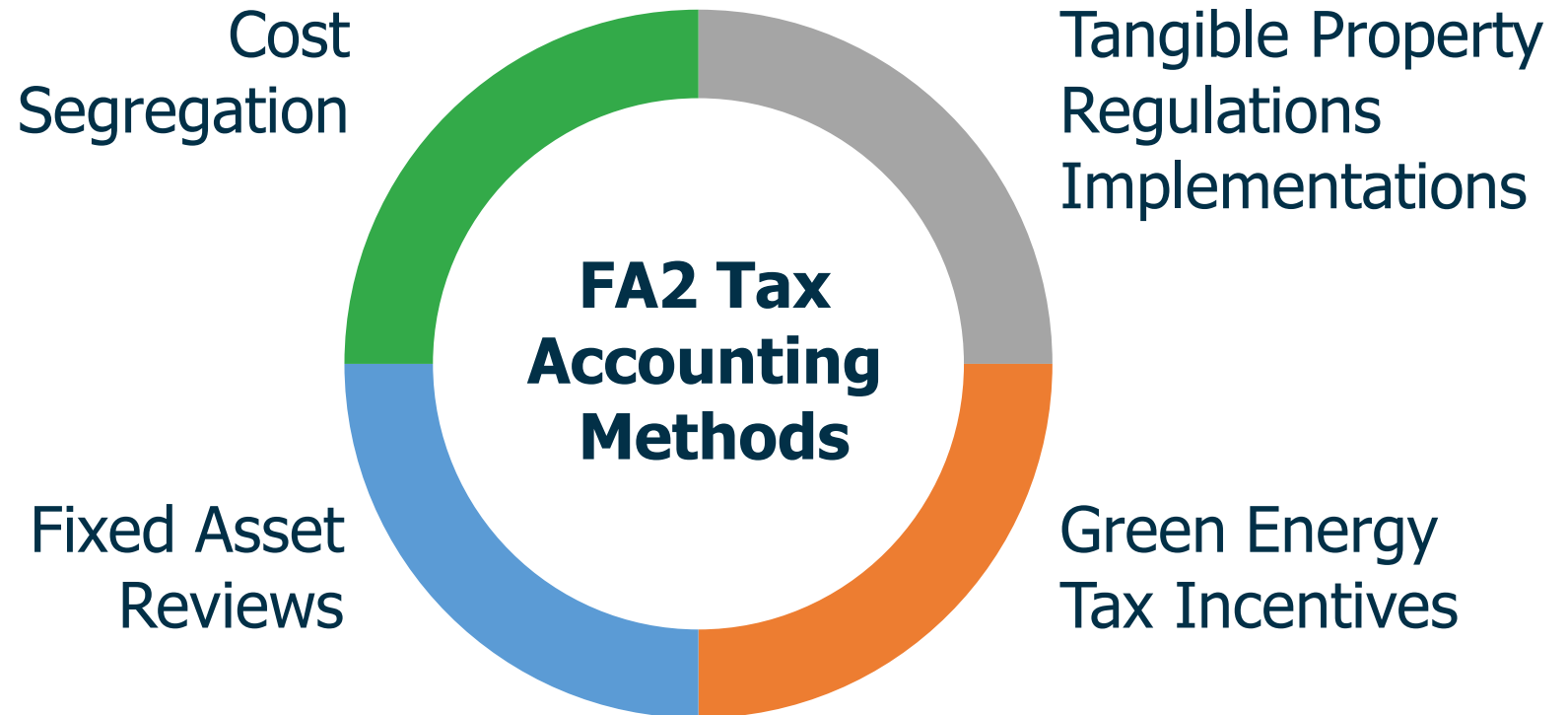


- Use **#IFA2022** to talk with others on social media before, during, and after the conference.

FIXED ASSET ADVISORY (FA2) SERVICES GLOBAL APPROACH



- A comprehensive fixed asset study approach that helps companies effectively manage and recognize the often unrecognized and significant tax value of their fixed assets



COST SEGREGATION FRANCHISE INDUSTRY



Cost Segregation - Accelerated Federal Tax Depreciation of Real Estate Assets

- Increased Cash Flow in Early Years
- Net Present Value Benefits may be Significant
- Maximizes Bonus Depreciation
- Identifies Repairs Expense Opportunities
- Identifies Assets that may be Disposed

Green Energy Tax Incentives

- Tax Deductions, Credits and Rebates for Investments in Green Building Technologies
- Identifies Federal and State Green Energy Tax Incentives

COST SEGREGATION



Cost Segregation and Green Energy Tax Opportunities

Newly Constructed Buildings

- Existing Buildings Acquired in the Current Year
- Buildings Constructed or Acquired in Prior Years – Automatic Change in Accounting Method
- Buildings that Incorporate Energy Efficient and Sustainable Technology – Green Energy Tax Incentives
- Buildings that Have Been Improved - Identify Repair Expense Opportunities
- Projects that Qualify for the Remodel Safe-Harbor

COST SEGREGATION FRANCHISE INDUSTRY



BDO's Full-Service Approach

- In-House Engineering Expertise (per the IRS Cost Segregation ATG, this is essential)
- Real Estate Tax Expertise
- Accounting Methods Expertise
- Partnering Opportunities with other BDO USA, LLP Specialized Tax Services

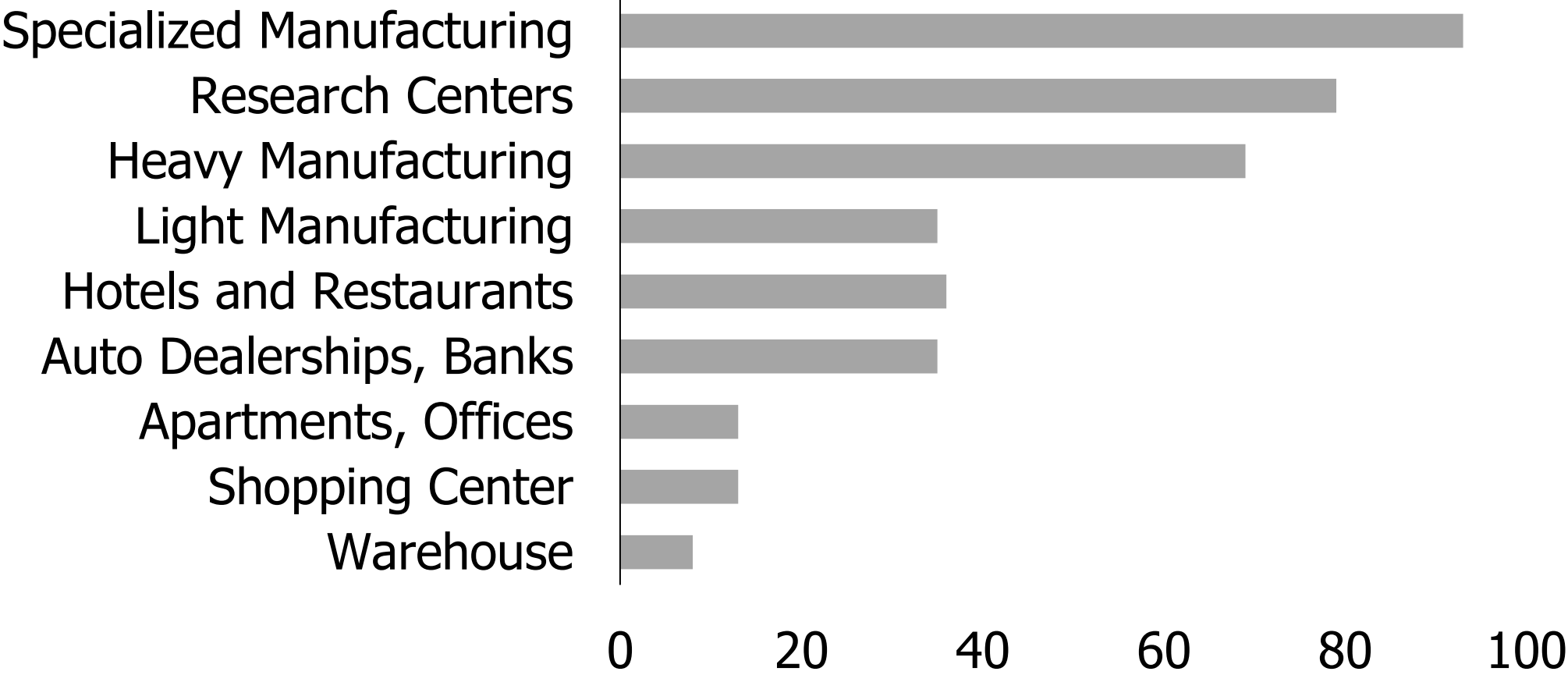
Cost Segregation – Partnering with other BDO STS Practices

- Property Tax Assessment and Management Services
- Public Incentives and Credits Services
- R&D Tax Credit Services
- Engineering Certification for Energy Incentives

COST SEGREGATION SERVICES OPPORTUNITY BY TYPE OF BUILDING



Typical Short-Lived Property - % of Building Cost



TAX CUTS AND JOBS ACT OF 2017, CARES ACT OF 2020, OTHER ACTS



COST SEGREGATION SERVICES TCJA AND CARES ACT

BONUS DEPRECIATION: 9/28/2017

ONWARD



Tax Cuts and Jobs Act of 2017

- Assets with a recovery period of 20 years or fewer are eligible
- Must be acquired and placed in service after 9/27/2017
- Original use requirement is generally eliminated – existing buildings/equipment are eligible
- 100% bonus for 2017 (post Sept. 27) through 2022
- 20% reduction per year between 2023 and 2026 (80%, 60%, 40%, and 20%), expires in 2027
- The “retail glitch” – qualified improvement property (QIP) remains at 39 years (no bonus)

COST SEGREGATION SERVICES TCJA AND CARES ACT

BONUS DEPRECIATION: 9/28/2017

ONWARD



CARES Act of 2020

- QIP is 15-year property retroactive to 1/1/2018 and bonus eligible
- Can claim missed bonus via retroactive cost segregation study and accounting method change

COST SEGREGATION SERVICES TCJA AND CARES ACT

BONUS DEPRECIATION: 9/27/2017

AND PRIOR



Can claim missed bonus via accounting method change for all prior year assets

Bonus Rates in 2017 and Prior Years		Bonus rates for assets acquired before 9/28/2017 and placed in service after 9/27/2017	
2008 – 2010	50% bonus	2018	40% bonus
2011	100% bonus	2019	30% bonus
2012 – 2017	50% bonus	2020	No bonus

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT PROPERTY - QIP



QIP Defined

- Improvements to an interior portion of an existing building that is non-residential real property (2016 onward, residential properties are not included)
- Exclusions: elevators/escalators, internal structural framework, enlargements to buildings
- Improvements must be made by taxpayer
 - Original use requirement
 - Acquired assets: QIP owned by seller is treated as 39-year property by buyer

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT PROPERTY - QIP



QIP Defined

- Examples: electrical, plumbing, drywall, floor tile, fire protection, interior HVAC
- HVAC: interior components are QIP, exterior roof-top units are not QIP

Simply put, QIP is any improvement that does NOT touch the outside air, does NOT expand the or hold up the building, and is NOT an elevator/escalator

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT PROPERTY - QIP



QIP - History

- Introduced in the PATH Act of 2015 - bonus-eligible class of real property in 2016 onward
- QIP can be constructed pursuant to a lease or within owner occupied building
- For 2016 and 2017, QIP could be 15-year property (SL) if qualified real property (leasehold improvement, restaurant, retail improvement) or 39-year property if not
- QIP also eligible for Sec. 179 expensing

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT PROPERTY - QIP



QIP - History

- Tax Cuts and Jobs Act of 2017 eliminated three classes of qualified real property as of 12/31/2017 and QIP was supposed to be 15-year property beginning on 1/1/2018 onward
- Due to drafting error QIP was not designated as 15-year property and remained as 39-year property (no bonus) – the “retail glitch”
- CARES Act of 2020 made technical correction - QIP is 15-year property (retroactive to 1/1/2018) and bonus eligible

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT

PROPERTY - QIP



CARES Act - How Should Taxpayers Fix Depreciation for QIP

- Taxpayers with QIP in 2018 and/or 2019 that filed their returns treating the assets as bonus ineligible 39-year property can amend return(s) to claim additional depreciation
- Alternatively, taxpayers may file an automatic Form 3115 under Rev. Proc. 2020-25 with their 2020 return to claim the missed depreciation as a favorable Section 481(a) adjustment
- Rev. Proc. 2020-25 provides ability to make/revoke certain bonus depreciation elections for a limited time
- Continuing to treat QIP as 39-year property is technically an impermissible method of accounting – taxpayers are expected to make the change

COST SEGREGATION SERVICES TCJA AND CARES ACT

QUALIFIED IMPROVEMENT PROPERTY - QIP



Sec. 179 Expensing

- Max. Sec. 179 is increased to \$1.0 million (with indexing)
- Phase-out threshold is increased to \$2.5 million (with indexing)
- Eligible Assets
 - Sec. 1245 property (new and used)
 - Qualified real property
 - QIP
 - Certain improvements to existing buildings that are non-residential real property: roofing, HVAC systems, fire protection and alarm systems, and security systems
- Coordinate with bonus depreciation for optimum results

Assessing Opportunities



COST SEGREGATION SERVICES

INFORMATION REQUIRED TO ASSESS OPPORTUNITIES



Acquisition of Existing Facility

- Real Estate Appraisal (or Offering Memorandum)
- Closing Statement
- Type of Ownership Entity and Whether Current Year is a Short Tax Year
- Are there any Planned Improvements?

Prior Year Construction or Acquisition

- Current Federal Tax Depreciation Schedules
- Applicable Information Described Above

COST SEGREGATION SERVICES

INFORMATION REQUIRED TO ASSESS OPPORTUNITIES



New Construction

- General Contractor's Most Recent Pay Application (or Schedule of Values)
- Overall Project Budget (e.g., General Contractor, Architect Fees, Interest, etc.)
- A Set of Design Drawings (or Site Plan and Architectural Floor Plan)
- Type of Financing (any Tax Exempt Financing?)
- In-Service Date

COST SEGREGATION SERVICES



QUANTIFY POTENTIAL BENEFITS AND PREPARE A PROPOSAL

Estimate Increased Cash Flow Benefits

- Additional First-Year Depreciation Including Sec. 481(a) Adjustment
- Increased Cash Flow Benefits in Early Years (Applicable Federal and State Tax Rate)
- Time Value Benefits – NPV and Discount Rate
- Available Tax Credits (Green Energy and/or Rehabilitation Tax Credits)

COST SEGREGATION SERVICES

QUANTIFY POTENTIAL BENEFITS AND PREPARE A PROPOSAL



Developing a Plan of Action

- Can Taxpayer Utilize the Benefits?
- If Client can Utilize Benefits, BDO will Prepare a Cost Segregation Proposal
 - Number of Properties Included in the Scope
 - Will Site Visit (or Visits) will be Required?
 - Will Form 3115 be Required?
 - Estimated Benefits Included – Benefit-to-Cost (BDO's Fees)
Assessed by Client

Cost Segregation Update – Franchise Industry Cost Segregation



RESTAURANT CLIENT SUCCESS STORIES



City Barbeque

- Seven new leasehold locations in 2019
- Some locations in existing buildings (QIP)
- \$7.3 million in construction



Benefits

Increased Depreciation – Year 1 (100% bonus)	\$ 4,072,000
Increased Cash Flow – Year 1 (37.0% fed. rate)	1,506,000
NPV of Increased Cash Flow (6%, 39-years)	923,000

HOTEL CLIENT SUCCESS STORIES



- One new location in 2018 (Form 3115)
- Two new locations in 2019
- \$14 million in construction (does not include FF&E)



Benefits

Increased Depreciation – Year 1 (100% bonus)	\$ 4,023,000
Increased Cash Flow – Year 1 (21.0% fed. rate)	845,000
NPV of Increased Cash Flow (6%, 39-years)	515,000

RESTAURANT CLIENT SUCCESS STORIES



Sonic

- 99 locations purchased in prior years (Form 3115)
- \$___ in total basis



Benefits

Increased Depreciation – Year 1 (no bonus)	\$ 4,072,000
Increased Cash Flow – Year 1 (37.0% fed. rate)	1,506,000
NPV of Increased Cash Flow (6%, 39-years)	923,000

RESTAURANT INDUSTRY FIXED ASSET ADVISORY SERVICES (FAAS)



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