



The History of Cost Segregation

A Brief History

The legislation and procedures used in an engineering based cost segregation study have been in existence since the enactment of the Investment Tax Credit (ITC) in 1962. When the act was repealed in 1986, most people assumed that cost segregation studies provided no further benefit under the new tax law. However, in a landmark 1997 tax court case, Hospital Corporation of America successfully detected the application of engineering-based cost segregation as a viable method to differentiate real and personal property under existing law.

The Benefits of Cost Segregation

Engineering based cost segregation studies allow commercial real estate owners to take what would otherwise be classified as real property (1250) for depreciation purposes and reclassify it as more rapidly depreciation personal property (1245) This reclassification results in substantial cash flow benefits in both current and future years through substantially shorter depreciable tax life and accelerate depreciation methods.

Why haven't I heard of it?



So if cost segregation has been around so long, it begs the question, why haven't you heard of it? In order to realize the maximum benefits available under current tax law, the IRS requires a specialized engineering firm to provide your CPA with an engineering-based cost segregation study. The majority of CPA firms are not qualified to provide these services.

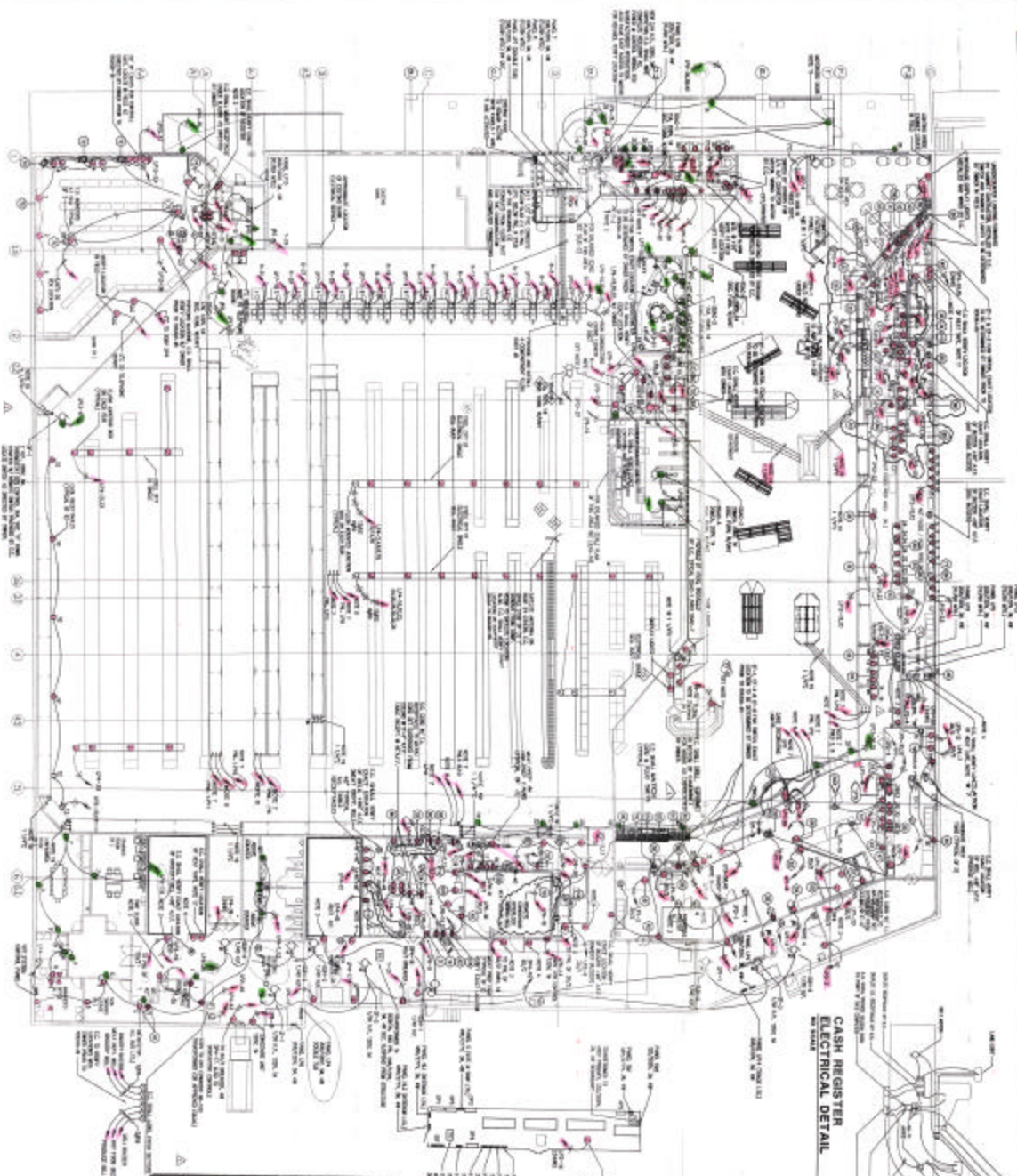
Recent Developments

Several recent rulings have been issued by the government to spur economic growth, which can have a major impact for building owners with previous construction and acquisitions. During 2002, the IRS automatically consents to changes in the method of depreciation via Form 3115, filed with the return in the year the change is elected. (Rev. Procedure 2002-09)

What this means to you

The IRS made it easy to change your method of depreciation to account for a cost segregation study, without the headache of an amended return. Following the 911 tragedies, the government allowed taxpayers to catch up on all deductions from previous years for items reclassified into the shorter tax lives, as a result of a cost segregation study. (Rev. Proc. 2002-19) Prior to the 9/11 ruling the beneficial adjustment had to be spread out across four years, but can now be expensed entirely in the year of the change, reported as a reduction to the current year taxable income. In 2004 the IRS reversed the two year waiting period required to change the method of calculation for depreciation on their property. (Rev.Proc. 2004-11)



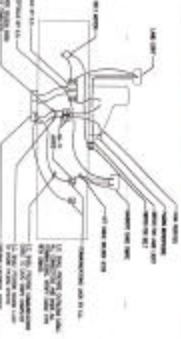


LESSON POWER PLAN



PROJECT NORTH

CASH REGISTER ELECTRICAL DETAIL



ENLARGED CASH OFFICE/COMPUTER ROOM ELECTRICAL PLAN



PROJECT NORTH

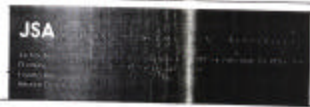
GENERAL CONTRACTOR ELECTRICAL NOTES

1. ALL ELECTRICAL WORK SHALL BE IN ACCORDANCE WITH THE NATIONAL ELECTRICAL CODE (NEC) AND THE LOCAL CODES.
2. ALL ELECTRICAL WORK SHALL BE PERFORMED BY A LICENSED ELECTRICIAN.
3. ALL ELECTRICAL WORK SHALL BE SUBJECT TO INSPECTION AND APPROVAL BY THE LOCAL ELECTRICAL INSPECTOR.
4. ALL ELECTRICAL WORK SHALL BE MARKED WITH THE APPROPRIATE SYMBOLS AND NOTATION.
5. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED TIME FRAME.
6. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED BUDGET.
7. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED QUALITY STANDARDS.
8. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED SAFETY STANDARDS.
9. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED ENVIRONMENTAL STANDARDS.
10. ALL ELECTRICAL WORK SHALL BE COMPLETED WITHIN THE SPECIFIED COMMUNITY STANDARDS.

ELECTRICAL EQUIPMENT SCHEDULE

NO.	DESCRIPTION	QUANTITY	UNIT	MANUFACTURER	MODEL	NOTES
1	40 AMP 240V CIRCUIT BREAKER	1	CB	ABB	1000	
2	100 AMP 240V MAIN CIRCUIT BREAKER	1	CB	ABB	1000	
3	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
4	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
5	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
6	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
7	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
8	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
9	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
10	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
11	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
12	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
13	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
14	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
15	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
16	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
17	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
18	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
19	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
20	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
21	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
22	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
23	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
24	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
25	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
26	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
27	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
28	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
29	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
30	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
31	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
32	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
33	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
34	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
35	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
36	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
37	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
38	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
39	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
40	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
41	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
42	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
43	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
44	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
45	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
46	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
47	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
48	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
49	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	
50	100 AMP 240V MAIN PANEL	1	MP	ABB	1000	

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October 9, 2007

Ms. Example
ABC Automotive Group
123 Example Rd
Charlotte, NC 28227

Dear Ms. Example,

We are pleased to present our proposal to perform a cost segregation study for ABC Automotive Group, in connection with the ABC Honda Dealership located in Charleston, North Carolina.

Our cost segregation study will provide ABC Automotive Group with **three** major benefits:

- We will maximize your depreciation benefits through a detailed engineering analysis that decreases your current tax liability, improves your cash flow, and increases your profits.
- We will provide thorough documentation for the classifications we recommend, organized in a clear, easy-to-use format.
- Our study will be supported by our interpretation of applicable tax laws and regulations.

The purpose of this cost segregation study is to help you maximize depreciation benefits for federal income tax purposes. This proposal will describe how we would conduct your project: our approach, the report you can expect, documentation, quality assurance and fees.

It is through our excellence of service, our unparalleled track record in this industry and through the professional relationships that we set out to build with our clients, that we respectfully desire to earn your valued business. As we work together, we trust you will agree that the professionals at Commercial Property Consultants are your best choice.

We look forward to working with you on this important project.

Very truly yours,

CPC Authorized Affiliate

16427 North Scottsdale Road ~ Suite 270
Scottsdale, AZ 85254 ~ 800.866.6009



**ENGINEERING COST SEGREGATION STATEMENT OF WORK
PREPARED FOR:**

**ABC AUTOMOTIVE GROUP
ABC HONDA**

ESTIMATED BENEFITS

In order to illustrate the benefits of a cost segregation study, an estimate of your benefit has been prepared based upon the data that you have provided. Upon our review of this information, it is our opinion that a significant tax deferral may be realized by conducting the Engineering Based Cost Segregation Analysis. The estimated benefits are:

TABLE OF ESTIMATED BENEFITS

Schedule	Accelerated Depreciation Range	Expected Benefit Range
Year 1	\$ 302,295 to \$ 453,443	\$ 120,918 to \$ 181,377
Year 2	\$ 6,880 to \$ 10,320	\$ 2,752 to \$ 4,128
Year 3	\$ 6,844 to \$ 10,265	\$ 2,737 to \$ 4,106
Year 4	\$ 6,880 to \$ 10,320	\$ 2,752 to \$ 4,128
Year 5	\$ 6,844 to \$ 10,265	\$ 2,737 to \$ 4,106
Year 6	\$ 6,880 to \$ 10,320	\$ 2,752 to \$ 4,128
TOTAL RANGE	\$ 336,623 to \$ 504,933	\$ 134,969 to \$ 201,974

PROFESSIONAL FEES & ROI

Professional Fees	Fees and ROI
Total Professional Fees	\$22,500
After Tax Fee	\$13,500
Anticipated ROI	10:1 to 15:1

These benefits are for “regular” income tax purposes and are based upon a federal income tax rate of 40%. **These benefits are estimates only as the actual benefits may be higher or lower than these estimates. This estimate is valid until September 30, 2007.**

APPROACH

The purpose of our analysis is to classify the construction and associated costs in accordance with the applicable cost recovery system for federal income tax purposes. The basis for developing and supporting the classification of cost components is a detailed engineering and construction cost analysis.



Our engineering approach to cost segregation analysis is unique in the industry. Using tax and construction skills, we will examine the construction drawings, depreciation schedule, and the contractor's application for payment including change orders. These will assist us in determining the cost basis for the property. We also plan to inspect the property to secure photographs to document those components that, in our opinion, qualify for accelerated depreciation.

Our engineering analysis will be structured to provide a clear and detailed audit trail. This will be accomplished by constructing a series of sections within our report that consistently relate to the construction costs. This cross-referencing will provide substantiation and documentation for the classifications we recommend.

By basing the format of our analysis upon such criteria, we are able to accomplish two goals. First, our engineering study can be defended as a stand-alone product. Second, there is a clearly understood relationship between our engineering analysis and our written report.

REPORT

At the completion of our work, we will issue a narrative report containing the following:

- A transmittal letter
- A forward section describing the following:
 - The purpose of our analysis
 - The property
 - Property definitions
 - Study procedures
 - Conclusions
 - Terms and definitions
- The following schedules, which provide a complete audit trail:
 - **Project Cost Summary**--Identifies the total capitalized costs and reconciles to your supporting documentation.
 - **Component Unit Summary**--Summarizes component units as complete and uniformly functioning assets among MACRS property classes for federal income tax purposes.
 - **Component Unit Detail** --Provides a detailed summary of the individual construction elements that make up each component unit.



DOCUMENTATION AND QUALITY ASSURANCE

The quality of documentation is critical in both the report and the work paper files. We focus on documentation as a central issue in the cost segregation process, not as an afterthought. CPC utilizes rigorous standards and procedures when conducting a cost segregation study.

- Our work papers are organized and indexed according to the cost segregation report format.
- All schedules contained in our files are cross-referenced to source documents.
- All numerical conclusions are clerically checked and validated.
- Our report is cross-referenced to the work papers.
- Work papers are well organized and stored in secured space.

These procedures will ensure that additional time is not required years later for further documentation in the event of a revenue agent's examination. The original cost segregation specialist or subsequent specialist will quickly grasp the ideas, assumptions, and conclusions from your project and effectively support our findings. We stand behind our conclusions. We are experienced in assisting clients before the revenue service in regards to cost segregation studies. We are available now and in the future to support our work. Should any meetings with a revenue agent or any testimony be required, we will provide our services at no additional cost beyond travel expenses.

FEES

We propose to perform the Engineering Based Cost Segregation Study on the building for a fee of **\$22,500**. The fee for the proposed study described above is based on the estimate of time and labor necessary to complete the study and the benefit of our services to ABC Automotive Group. A deposit of **\$11,250** will be due to initiate the engagement and the remaining **\$11,250** will be due upon successful completion and approval of the final study.

CPC will complete 3115 tax forms at the request of the client. Please call 800.866.6009 ext 228 for a price quote.

ASSUMPTIONS

The proposal fee is derived using assumptions based on the extent and type of information made available to us during this proposal process. Should there be any circumstances that materially alter the estimate we will immediately bring these issues to your attention. Any changes that require additional professional time will be discussed with you before proceeding. We have estimated the potential reclassification of costs and the estimated tax benefit for the first six years as summarized on page one.



SUMMARY

Commercial Property Consultants is best qualified to perform your cost segregation study. Our extensive experience and knowledge of current legislation, regulations, revenue rulings, and court cases will provide you with a thorough and supportable analysis. The methodologies and procedures we employ rely on fully documented engineering and appraisal techniques. If this proposal is acceptable, we would appreciate your written confirmation of this agreement by signing in the space provided below and returning one executed copy to us. Should you have any questions about this proposal or our services, please contact Chris Mass at 803.242.5816.

Agreed and Accepted for:

ABC Automotive Group
ABC Honda

(Authorized Agent)

Date: _____

PLEASE FILL OUT THE REQUIRED INFORMATION BELOW:

My CPA will be involved in this process: _____ yes _____ no

If Yes, please provide your CPA's name, phone number and e-mail address:

If No, who should we contact regarding the execution of the study?



**DEPRECIATION
STRATEGIES
GROUP, LLC**

PMG Client #1

WHAT CAN COST SEGREGATION DO FOR ME?

Cost segregation is a powerful tax planning method that uncovers huge savings for owners of commercial real estate.



Your Additional Depreciation Benefits Using Our Cost Segregation Method

Year	Additional Annual Depreciation	Accumulative Depreciation
1	\$46,500 to \$51,150	\$46,500 to \$51,150
2	\$79,253 to \$87,178	\$125,753 to \$138,328
3	\$55,775 to \$61,353	\$181,528 to \$199,681
4	\$39,058 to \$42,963	\$220,586 to \$242,644
5	\$28,425 to \$31,268	\$249,011 to \$273,912
6	\$25,098 to \$27,608	\$274,109 to \$301,520
Total Range	\$274,109 to \$301,520	\$274,109 to \$301,520

Professional Fees: \$16,350

*Financing available over 10 months. Monthly financed payment = \$1,635 per month.

Performance Management Group

Additional Category Requirements

Item	Category Questions for Cost Segregation of client's building	Responses
1.	Owner of the Building?	
2.	Address of the Building?	
3.	Contact person for the building? (Address, phone # and email of President, CFO or Gen. Mgr)	
4.	Building Usage/Description?	
5.	Building Square footage?	
6.	Number of floors in the building?	
7.	Lot size or acreage of the building?	
8.	Purchase price or cost of building? (when placed in service)	
9.	Has a copy of the current building depreciation schedule been provided? (Please provide one.)	
10.	Has a copy of the building's blueprints been provided? (optional)	
11.	Have copies of AIA documents or cost breakdowns been provided? (optional)	
12.	Has a copy of closing documents or appraisal been provided? (optional)	
13.	What was the date that the building was placed in service with the current owner?	
14.		
15.		
16.		

17.		
18.		
19.		
20.		



Cost Segregation Study - Request Form

Date: _____
 Affiliate's Name: _____ Phone: _____
 Associate's Name: _____ Phone: _____
 Email: _____

Owner Information

Owner's Name/Entity: _____
 Mailing Address: _____
 Contact: _____ Phone: _____
 Fax: _____ Email: _____

Property Information

Address: _____
 Description (be specific): _____
 Building Usage: _____ Building Square Footage: _____ Site Size/Acreage: _____
 # of Floors: _____ Tenants: Yes No # of Units: _____
 Contact: _____ Phone: _____
 Fax: _____ Email: _____

Existing Property

Tax Depreciation Schedule
 Was Original Purchase
 New Construction
 Acquisition
 Purchase Price*: _____
 Purchase Date*: _____
 Land Value Allocated*: _____
 Site Survey

*Normally found on included depreciation schedule

New Construction

Cost: _____
 Place in Service: _____
 Improvements & Renovations
 Completed Date: _____
 Amount \$: _____
 Renovated Sq. Ft: _____
 Capitalized Costs Supported By:

- AIA Payment Application (form G702/G703)
- Change orders including description costs

 Budget Costs:

- Indirect costs not included in pay application (architectural fees, engineering fees, etc.)
- Costs paid to subcontractors outside general contract (landscaping, carpet, phone, etc.)

 Site Survey

Acquisition

Purchase Price: _____
 Purchase Date: _____
 Closing Statement:
 Recent Appraisal:
 Property rent roll as of the acquisition date (multiple tenants only)
 Historical Information:

- Tax Depreciation Schedules or Fixed Assets Schedule
- Inventory of Furniture, Fixtures and Equipment

 Land Value Allocated: _____
 Site Survey
 Available Construction Drawings



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STRATEGIES
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