



Cost Segregation: Finding Money Hidden in the Walls of Your Clubhouse

By: William A. Ochsenhirt, III

As a golf course owner, increasing your cash flow in these troubled times is difficult. Cutting costs can help but did you know that your largest savings may be hiding in the walls of your clubhouse? A Cost Segregation Study, when prepared properly, benefits every profit-oriented golf course owner.

Never heard of a Cost Segregation Study - did you really think that the IRS would promote ways to reduce your tax bill? Cost Segregation Studies have been accepted by the IRS since 1997 and are commonly used in many industries. However, most owners and their accountants fail to understand this tax-saving tool.

Quite simply, a Cost Segregation Study takes your real property and uses an engineering-based approach to split it into four pieces – 5-year property, 7-year property, 15-year property, and 39-year property. The effect of this allocation can result in huge tax savings

For many owners, 20 to 40 percent of their building (i.e., clubhouse) cost can be segregated into five, seven, or 15-year life. We recently completed a study for an owner who invested \$7,000,000 in improvements to their club. This alert owner had a Cost

Segregation Study prepared that resulted in increased cash flow of over \$150,000 in the current tax year and a total tax savings of \$1,100,000 during the next several years!

Do you have an existing building versus one under construction? No problem. Cost segregation applies to both. Any depreciable real property bought or placed in service after 1986 is eligible for a Cost Segregation Study. Another key feature is being able to catch up in one year for missed depreciation in prior years. For example, assume you bought a golf course and clubhouse eight years ago and never completed a Cost Segregation Study. The IRS allows you to prepare the Cost Segregation Study now and then compare the amount of depreciation you should have been taking to what your accountant has actually deducted. The difference, which is probably very significant, can be deducted in full in 2010.

A 1999 IRS Revenue Procedure (as amended) allows real estate owners to automatically go back to closed tax years and “catch up” the entire omitted depreciation in the current tax year, without amending tax returns

Who performs your Cost Segregation Study is extremely important. You or your accountant should not prepare the study. The IRS has specific guidelines regarding what is a “qualifying study”, including that the engineers have specific knowledge of golf course and clubhouse operations. Cost Segregation Services, Inc. (“CSSI”), a qualified engineering-based firm, has completed over 6,000 studies across the country and is the industry leader.

To determine if a cost segregation study is appropriate for you, ask yourself the following questions: Have you purchased, constructed or renovated any property since January 1986? Is the cost of the building (land excluded) at least \$400,000? If you answered “yes” to either of these questions, you need to immediately begin using this tax-saving tool.

Bill Ochsenhirt, a former CPA and an associate with CSSI, has been an owner and operator of private country clubs for 21 years. Bill can be contacted at bill@cssi-associate.com or (205) 980-5267.

Golf Course Owner’s Cost Savings Example		
Property Type	Building Cost	Tax Savings
Main Clubhouse	\$5,600,000	\$775,000
Tennis Clubhouse	\$1,400,000	\$325,000
TOTALS	\$7,000,000	\$1,100,000