

GranthamPoole¹'s cost segregation service growing

Construction Mississippi

A Special Publication of the Mississippi Business Journal Fall 2003, page 16

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JACKSON < When GranthamPoole, Certified Public Accountants, began offering cost segregation in the late 1990s, the firm ran into the challenges faced when pioneering a new concept. However, the strategy that allows personal property to be separated from real estate and depreciated at an accelerated rate, thus improving cash flow, has become more and more popular with property owners, and GranthamPoole has added more and more clients in Mississippi and beyond.

"When cost segregation was first introduced, many thought it was too good to be true < even some accountants," said John R. McCallum, CPA, associate at GranthamPoole. "Many firms offered cost segregation, but most used an out-of-state accounting firm to handle the account. GranthamPoole was one of the first, perhaps the first, to offer cost segregation in-house." Cost segregation is a relatively new happening on the tax scene. McCallum said in 1999, after losing a multitude of court cases, the Internal Revenue Service recognized that certain costs should be classified as personal property, despite the fact that the costs were incurred as part of a construction contract or building purchase. Also, the IRS accepted cost segregation studies as a legitimate method to differentiate between structural building costs and other costs that receive more favorable tax treatment.

For example, a restaurant will have two separate sewer systems, one for the patron's restrooms and general use and one specifically designed to serve the kitchen. The kitchen system includes a grease trap for treating the wastewater before it is released into the sewer system. The system serving the restrooms is considered real estate < restaurants must offer restrooms < which is generally depreciated over 39 years. However, the kitchen system is considered personal property, or specialty equipment, and may be depreciated in as little as five years. "These lights in this room are a good example," said McCallum, who joined GranthamPoole in 1998 after earning his undergraduate degree from the University of Southern Mississippi and his certificate of accounting from Mississippi College. "The florescent lights are considered real estate. They are a necessity. However, these accent lights are here to spotlight the artwork, for aesthetics, and are considered personal property. Thus, the accent lights could be depreciated at an accelerated rate, but not the florescent lights."

The IRS also allows owners to "catch up" on missed depreciation for assets that were placed in service as far back as Jan. 1, 1987, with no amended returns to file. And the pot was further sweetened post-9/11 with President George W. Bush's economic stimulus efforts. Passed in 2002, owners could take advantage of a 30% "bonus depreciation" on certain portions of his investment. In 2003, that amount was increased to 50%. (The bonus depreciation is only available on new construction, and sunsets in 2004.) McCallum said, though attractive to most, cost segregation is not for every building owner. For businesses that are running in the red or are at break-even, the tax benefit is not feasible. Also, passive owners who cannot bring the tax benefit down to their personal return do not find the service advantageous. For others though, the savings can be substantial. Every \$100 that is reclassified to a shorter life produces approximately \$22 in a present value tax benefit.

"Many building owners, when they realize what cost segregation can mean to their bottom line, get really excited," McCallum said. "The tax savings can total hundreds of thousands of dollars."

GranthamPoole established Construction Economics, LLC, in 1999 to provide cost segregation studies to building owners. Jeff Davis, who earned his undergraduate degree in industrial construction management from Colorado State University and an MBA from Syracuse University, was brought on board to provide construction expertise. Davis worked as a construction planning engineer in upstate New York and vice president of operations at Dunn and Harrell Construction Company, LLC, of Jackson before coming to Construction Economics and GranthamPoole. Since then, Construction Economics has performed more than 200 cost segregation studies on commercial properties ranging from 2,500-square-foot fast food restaurants to 260,000-square-foot manufacturing facilities. Clients are counted all over Mississippi and the Southeast and as far away as Ohio and Texas. The roots of GranthamPoole go back to the early 1970s when Tom Grantham and Jim Poole worked together at a Jackson CPA firm. After forming their own firms, the two men merged their practices in 1999, and today is one of Mississippi's largest CPA firms with a staff of 52. It offers a wide range of services from fraud prevention/detection, buying and selling a business and business succession planning to expert witness services, payroll services and litigation support. GranthamPoole's clients include health care, small businesses, law firms, non-profit organizations, governmental entities and more.

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