

# MARITIME COST SEGREGATION



# Maritime Cost Segregation

## WHAT IS COST SEGREGATION?

COST SEGREGATION is a process through which particular portions of a vessel (owned or leased) can be reclassified for depreciation purposes. Specifically, as allowed by recent court cases and authoritative pronouncements, certain portions of vessels and maritime related assets can be depreciated over shorter periods of time than the traditional periods.

While the total deduction years does not change, the timing of the deductions does. Various components of a vessel, such as engines, ventilation, stevedoring, and loading and unloading equipment may be segregated. This means they can be written off more quickly – which can mean a substantial increase in cash flow.

## COST SEGREGATION STUDIES: THE KEY TO SAVINGS

A Cost Segregation Study (CSS) is a tool used to realize the benefits of Cost Segregation under the tax law. Thus, a CSS is the process of producing various analyses and reports (prepared by qualified engineers, appraisers and financial advisors) that provide the support and basis for accelerating periods of depreciation.

Benefits of a cost segregation study include:

- Increased cash flow
- Increased depreciation in earlier years
- Taxpayers can receive an extra 50% depreciation deduction on certain new “qualifying” assets
- Allows for future write-offs when structural components are replaced
- Creates losses so you can carry-back if needed and carry-forward when applicable
- Amended tax returns do not need to be filed as the IRS has an automatic change procedure that allows taxpayers to file forms with their current tax returns and realize the benefit in one year
- The cost of the analysis is relatively inexpensive compared to the ultimate savings

## WHAT IS ELIGIBLE?

Types of properties that may benefit from a Cost Segregation Study include, but are not limited to:

- Apartment buildings
- Auto dealerships, service centers
- Casinos
- Banks
- Daycare centers

- Distribution centers
- Gas stations
- Hospitals
- Hotels
- Manufacturing facilities
- Marinas
- Nursing homes
- Office buildings
- Restaurants
- Retail stores & plazas
- Ships, ocean cargo vessels
- Truck terminals
- Warehouses

## MARCUM MARITIME COST SEGREGATION GROUP

As a top-ranking accounting and consulting firm, Marcum offers over 60 years of experience and the support of over 1,100 employees. With its broad expertise, the Firm has established the Marcum's Maritime Cost Segregation Group as a team of professionals who specifically focus on helping clients realize the benefits related to cost segregation.

The Group is uniquely positioned to guide vessel owners, lessees and maritime industry executives through the recent tax rulings that have opened the door to significant savings.

### Example

#### WITHOUT A COST SEGREGATION STUDY

A vessel acquired for \$38,000,000, depreciated over a 18-year life, will have an annual tax deduction of approximately \$2,100,000. Over a four-year period, the total deduction would amount to approximately \$8,400,000.

#### WITH A COST SEGREGATION STUDY

With a Cost Segregation Study, qualified components of a vessel would be reclassified from 18 years to 3-, 5-, 7-, and 15-year lives resulting in a revised depreciation deduction of \$10,519,780 over the same four years.

Over the life of a vessel, the cash flow savings as a result of a CSS would be approximately \$608,000. The savings is computed by applying a 44% tax rate over the additional accelerated depreciation utilizing in this case, an 6% discount rate.