



## Auto Dealerships See Tax Benefits From Renovation

Many automobile dealerships implement significant renovations as the industry morphs due to technology changes and as manufacturers rebrand. The goal of the renovations are to improve top line sales.

Top line goals can effectively be achieved more quickly by capitalizing on the tax benefits associated with the renovations; for instance, it's not uncommon for \$1M in renovations to conservatively equate to a \$60,000 tax related improvement in the bottom line. Given a 10% profit margin, that equates to a \$600,000 increase in top line results.

### **What Tax Benefits?**

Tax benefits associated with construction costs can be procured through an Engineering Based Cost Segregation Study. This Study applies tax compliant depreciation time-lines to certain non-structural components. For instance, instead of depreciating carpeting over 39 years as if it were a structural item, it would be depreciated in five years. Many other non-structural building components can be depreciated in 5, 7 and 15 years versus 39 years.

Furthermore, the tax benefits of properly depreciating current renovations can apply to the entire existing facility, including past renovations. So, here are the benefits of reducing Federal and State taxable income by safely 'accelerating' depreciation on certain building components with a rigorous Study:

- New renovation, purchase or construction will result in increased cash flow in the first 6 years.
- Owned for 5 or more years qualifies for all unrealized depreciation carried forward into the current tax year.

From our experience, it's not uncommon to document as much as \$200,000 in accelerated depreciation per \$1M worth of building; assuming a 35% tax rate, the resultant reduction in taxable income would translate to a \$70,000 bottom line improvement.

A typically between \$10,000 and \$20,000 per building, and can depend on property size, construction quality, location, availability of accurate construction documents, other.

On the other hand, a GMG project fee for a Study is contingent upon finding savings. We simply ask for a modest percentage of the overall windfall. The car dealer pays nothing unless savings are realized.