

the Cutting Edge

A Publication Connecting Ericksen, Krentel & LaPorte to You - Our Clients, Friends, and Staff Members

Increase Cash Flow and Reduce Taxes

Cost Segregation Studies By Kevin Neyrey, CPA, Partner



Cost segregation is a tax strategy that allows companies and individuals to increase their cash flow by maximizing

depreciation deductions for tax purposes. A cost segregation study analyzes the costs incurred to acquire, construct or improve business real estate such as office buildings, manufacturing plants, hotels and retail outlets.

A **Cost Segregation Study** will identify and price non-structural elements and exterior improvements, making it possible for property owners to maximize their depreciation deductions by reclassifying some of their building costs to personal property and exterior improvements. Also, indirect construction costs such as construction period interest, general conditions, architecture, and engineering fees are allocated on a pro-rata basis to assets identified as non-structural.

By maximizing their depreciation deductions, building owners increase their cash flow by paying less income tax during the early years of a building's depreciable life. The owner is also eligible to play "catch up" for depreciation errors made in prior years.

Under today's guidelines, a commercial building is depreciated for tax purposes over 39 years (27½ years for residential real estate). Upon segregation of tangible personal property and exterior improvements from a building's cost, companies realize the benefits of deducting accelerated depreciation on assets otherwise lumped together with a building's cost. Depending on the type of industry, 20-50% of building costs can be segregated into 5, 7, or 15 year lives instead of a 39-year life.

What Qualifies?

Examples of tangible personal property include: process heating and ventilating systems; wall coverings; electrical and plumbing costs that relate directly to the processing equipment; flooring; moveable wall partitions and appliances. Examples of exterior improvements include sidewalks, drainage, parking lots, landscaping, roads, site utilities, fencing and outdoor lighting.

The optimal time to commence a cost segregation study is prior to the start of actual construction. Eligibility, however, extends to buildings and facilities constructed before 1986, but acquired in a taxable transaction after 1986 and building renovations and additions completed after 1986.

A detailed review of the project drawings by an experienced cost segregation tax analyst is the key to a successful project. On-site inspections of completed projects in conjunction with cost estimating methods are also utilized to determine which assets qualify for accelerated depreciation. Ericksen, Krentel & LaPorte's knowledge of cost segregation studies and a close relationship with national consultants provide the expertise needed to maximize the benefits of cost segregation.

For more information on cost segregation studies or for a free estimate of your reduced taxes and increased cash flow, please contact Kevin Neyrey at (504) 486-7275 or kneyrey@ericksenkrentel.com.

2003 Tax Law Changes Increase Benefits

Recent tax law changes provide for additional bonus depreciation on newly acquired personal property in addition to the regular depreciation deduction. The bonus depreciation is not allowed on real property acquisitions. Cost segregation studies will identify items that would otherwise be classified as personal property qualifying for the bonus depreciation. The bonus depreciation will significantly enhance the cash flow benefits provided by cost segregation.

Technology Tid-Bits



Stay Current with **AUTOMATIC UPDATES**

Because new threats surface daily, Microsoft is constantly releasing critical updates for their operating systems. Instead of checking for updates manually, let the operating system do it for you. Whether you're using Windows 98 SE, XP, or 2000, you can allow your computer to regularly check for updates on a scheduled basis.

Go to **Control Panel**, select the **System** shortcut and click on the **Automatic Updates** tab. Make sure **Keep My Computer Up to Date** is checked. You can specify how and when new updates get downloaded and installed. The recommended setting is **Download the updates automatically and notify me when they are ready to be installed**.

For more information on technology consulting services, contact Craig Dufrene at 486-7275 or cdufrene@ericksenkrentel.com.

How to Score a Financial *Slam Dunk* for You and Your Family

When it comes down to the reality of mapping out the details of your personal estate distribution plan, you can choose the "track and field" approach or the "basketball" method. Both will get you to the finish line, but the basketball model will put you ahead of the game.

In the track and field game plan, one financial advisor recommends you get a will. This advisor might refer you to one or more attorneys to do the work, but then drop out of the planning process. This is a lot like a team relay race — one advisor starts the race, but hands you off to the next in line as his leg of the project is finished. The next advisor performs his specialty and then passes you along to advisor number three, and so on. The problem with this system is that none of the advisors are individually versed in all the possible techniques, concepts or products you might need for a complete plan, so you don't get the best possible result for your efforts or the best value for your money. In addition, there is no feedback from the other professionals regarding the final plan.

Wouldn't it be better to work like a basketball team? This way the whole team is on the floor (around the table) at the same time and can pass the thoughts, concepts and techniques back and forth. As play continues, the coach (you), can give directions, call the plays, see and hear the whole game from the perspective of viewing all the players at once to better manage the final result. Also, your professionals will get to know one another, so they can do a better job for you when your plan takes over. You won't have to deal with an unknown person in some firm's back office. If you

don't have eyeball contact with



your planners, how can they really know you or help you determine your real dreams, desires and intentions and then write it down in proper legal language? You will want help finding ways to be both equal with and fair to your family members; however, there are some personal assets you want to keep in the family that are not easy to divide.

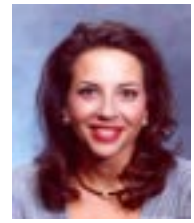
There are a variety of techniques your planners will know that will allow you to reach your desired goals. Deciding which technique to use depends on the type of property you own and the team's knowledge of you.

Who are the possible players on your team? A state certified estate planning attorney or an Estate Planning Law Specialist (EPLS); a CPA (Certified Public Accountant) practicing in the estate planning area; a CLU (Chartered Life Underwriter); a CFP (Certified Financial Planner); a ChFC (Chartered Financial Consultant); a Trust Officer; and an Accredited Estate Planner (AEP) are among the professionals you should consider. How many of these pros do you need on your team? That depends on the size, type and value of your property as well as the makeup of your family. Your team members can help you determine this number.

Ericksen, Krentel and LaPorte has qualified individuals that can captain your estate planning team, including Kevin Neyrey who is an Accredited Estate Planner with over twenty years of estate and gift tax experience.

Giving Financial Gifts to Your Loved Ones

Choosing the right venue for your finances



by Gina Ruttley, CPA
Supervisor

Now that Tax Season is over, many of us assess our finances and focus on planning for the future of our family members. As a grandparent or parent you may choose to give a financial gift to your loved ones. Whether you are putting money aside to fund a college education or to simply teach sound money skills, there are several ways to give financial gifts.

Uniform Gifts to Minor Act. One option you may want to inquire about is the Uniform Gifts to Minor Act. This allows you to give up to \$11,000 to each minor child or grandchild (\$22,000 if giving by both taxpayer and spouse) in 2004 without paying gift taxes. Best of all, it is very easy to setup. Just open up an account with a bank or investment broker. Your contributions can be cash or noncash and you can choose how to invest the money. Although you do not have to pay gift taxes, the income earned on the account is subject to income taxes. For a child under 14, the first \$750 of the investment income is tax-free, the next \$750 is taxed at their income tax rate, and anything over is taxed at their parent's income tax rate. A child under 14 can report interest and dividends on their parent's individual income tax return. No separate return is required unless there is a sale of stocks or bonds. For children 14 and over, the first \$750 is tax-free and the remaining is taxed at their individual tax rate, and a separate income tax return will be required. A drawback to this plan is the lack of control once the child is of majority age, which in Louisiana is 18. If the child takes possession of the funds, there is no confirmation that it will be used for the intended purposes.

Gift in Trust. Another option you may want to consider is a gift in trust. A gift in trust allows you to give up to \$11,000 to each child or grandchild (\$22,000 if given by both taxpayer and spouse) in 2004 without paying gift taxes if certain requirements are met. To be eligible for the annual exclusion of gift tax, the gifts must be considered of current interest. With a gift in trust there are controls in place through the writing of the trust document. The grantor can set whatever restriction on the age and requirement of the distribution to the child beneficiary. Therefore, you have more control in monitoring when and where your child or grandchild utilizes their financial gift. One other feature of a gift in trust is the flexibility to be able to distribute the income of the trust to the child beneficiary, or to allow the trust to accumulate

"All states now offer programs that allow people to prepay a student's tuition or contribute to a higher education savings account."

the income inside the trust. Best of all, your contributions can be in the form of cash or noncash investments. There are a few things to consider if you decide upon doing a gift in trust. First, there is an annual requirement for the filing of a trust return. You should also consider that the income could be taxed at a higher rate inside a trust than to an individual.

Qualified Tuition Programs/ 529 Plans. All states now offer programs that allow people to prepay a student's tuition or contribute to a higher education savings account. These programs are called Qualified Tuition Programs (QTP), or 529 plans. You can make a maximum contribution of \$55,000 in one

year (\$110,000 if giving by both taxpayer and spouse) in 2004 without paying gift taxes by electing to spread the contribution over 5 years. If the beneficiary decides that he or she does not want to go to college, you can roll over the amount to another family member. You can also roll benefits from one state QTP to another state QTP for the same beneficiary, but only once per year. One drawback to a QTP is that you can not choose the investments in the account. Investment options are pre-selected by each state plan. Plus, contributions must be made in cash to qualify. QTP taxable distributions (the income earned in the account) that are not used for qualified higher education expenses are generally includable income and subject to an additional 10% tax.

Coverdell Educational Account. Another avenue you may want to explore when giving monetary gifts primarily for educational expenses is a Coverdell Education Savings Account (ESA). Formerly known as an educational IRA, ESAs are tax-exempt trusts that can be used for elementary, secondary and higher education expenses. This means that earnings are tax free to the extent that they are used for certain qualified education expenses. ESAs are similar to QTPs in that you can change the beneficiary to another family member, should the beneficiary decide not to continue school. Taxable distributions not used for qualified higher education expenses are also subject to an income tax and additional 10% tax. With an ESA, you can only contribute \$2,000 in cash per year per beneficiary up until the age of 18, with the exception for children with special needs.

For more information on financial gifts contact Gina Ruttley at 486-7275 or gruttley@ericksenkrentel.com.



Welcome Streetcars!

Visiting us has never been easier—or more fun. The new red RTA streetcars stop at the corner of North Hennessy and Canal, only a few steps from the front door of our offices at 4227 Canal Street in New Orleans. Ericksen, Krentel & LaPorte L.L.P. welcomes the streetcars back to our Mid-City neighborhood after a forty-year absence.

Client Profile

Eckstein Marine Service

Eckstein Marine Services

A full-service Marine company operating for 26 years in the lower Mississippi and the Intracoastal Waterway.

President/Owner:
Randy Eckstein

Senior Vice-President :
Patrick McDaniel

Location:
5135 Storey St
New Orleans, LA 70123

For more information about Eckstein Marine Services call:
(504) 733-5845

or fax:
(504) 733-7637

Clients in the News!
If you have news to share, or would like us to profile your company, call Kathy Stoudt, our Marketing Coordinator, at (504) 486-7275.

Focus has been the key to the success of growth-oriented Eckstein Marine Service, L.L.C. The Harahan-based company operates a linehaul service along the Gulf Intracoastal Waterway, mainly between Corpus Christie, Texas and the New Orleans/Baton Rouge area.

Owner Randy Eckstein first came to New Orleans, Louisiana in 1973. With five years of experience in the marine industry behind him, he incorporated Eckstein Marine Service in 1978, starting his business with a single towboat. Growth, however, has been steady. In 26 years, his fleet has grown to 28 vessels with another two 2000 HP under construction at Quality Shipyard in Houma, Louisiana.

Barge owners charter Eckstein boats to move their equipment through the Intracoastal Waterway and the lower Mississippi River. (Although they are called "towboats" technically the vessels *push* barges rather than pull.) The marine service will also run "tramp boats" which can haul as many as six barges from different companies to the same destination.

Business comes from all corners of the United States, with roughly 85% of their trade in the petrochemical sector and 15% in dry goods.

Customers of Eckstein Marine are impressed with the outstanding service they receive, due in part to the rigid maintenance and engine replacement schedule which has all but eliminated breakdowns on the long hauls.

Eckstein Marine Service is a full service marine company. It employs 200 people, 26 shore side, and 175 crewmembers. In addition to President Randy Eckstein, management includes Senior Vice-President Pat McDaniel.

Eckstein credits their continued success to the various professions in the New Orleans area that have been of service to them, which include litigation, banking and accounting. In the words of Randy Eckstein: "Operations are my background, so it was important to surround my company with reliable experts. That's why Ericksen, Krentel & LaPorte has been by my side throughout my years of operation."