



PREPARED BY INNOVATE REAL ESTATE

The Property Owner's Tax Savings Blueprint

How Commercial Real Estate Owners Are Legally Saving
\$50K–\$500K+ Per Building Using Strategies Most CPAs Never Discuss

Tax · Energy · Wealth

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INTRODUCTION

Your Building is Hiding a Fortune

If you own commercial real estate and rely solely on your CPA's standard depreciation schedule, you are almost certainly overpaying federal taxes by **20% to 40%** every single year. The tax code rewards property owners who know where to look — but most accountants are trained in compliance, not in the engineering-driven strategies that unlock real cash.

The difference between straight-line depreciation and a fully engineered tax strategy is not a rounding error. It's often the equivalent of an additional down payment on your next building — money that is already legally yours if you know how to claim it.

THE OPPORTUNITY

The average cost segregation study identifies \$100,000–\$500,000+ in accelerated depreciation for a \$1M+ commercial property — deductions that can be claimed in the first year rather than spread over 39.

What You'll Learn Inside

- The five tax strategies we stack to generate the largest possible first-year deduction.
- How to qualify — and how much each strategy is realistically worth on a typical property.
- Why most CPAs only know one or two of these — and how to correct that on your return.
- Real-world examples showing how the strategies compound when combined.



STRATEGY #1

Cost Segregation

What It Is

An engineering-based analysis that reclassifies building components from the default 39-year commercial depreciation schedule into much shorter **5-, 7-, and 15-year categories**. Rather than depreciating an entire building evenly over four decades, engineers segment out the components that the IRS allows you to accelerate.

How It Works

A licensed engineering team inspects the property — on site and through construction documents — and systematically identifies every component that qualifies for a shorter recovery period: interior finishes, specialty electrical, dedicated plumbing, decorative millwork, site improvements, parking, landscaping, and more. Each item is documented, valued, and defended in an IRS-ready report.

Who Qualifies

Any owner of commercial property valued at **\$750K or more** — whether the building was purchased, constructed, or substantially renovated. This includes office, industrial, multifamily, retail, medical, hospitality, and self-storage assets.

REAL-WORLD EXAMPLE

A \$2M office building → approximately \$380K in first-year tax deductions → roughly \$95K+ in cash tax savings at a 25% effective tax rate.

Retroactive application. If you've owned the building for years and never ran a study, you can still capture every missed deduction in the current tax year through an automatic IRS method change (Form 3115) — **no amended returns required.**



STRATEGY #2

Tangible Property Regulations

Repair vs. Capitalize — Knowing the Difference is Worth Six Figures

What It Is

A set of IRS regulations (the Tangible Property Regulations, or TPRs) that determine whether a given building expense must be **capitalized** and depreciated slowly, or can be **immediately deducted** as a repair in the year incurred. The regulations include the Routine Maintenance Safe Harbor, the Small Taxpayer Safe Harbor, and the De Minimis Safe Harbor.

Why It Matters

Most property owners — and their CPAs — default to capitalizing any meaningful building expense. That's expensive. A correctly applied TPR analysis often reveals that significant portions of so-called improvements are in fact repairs, and are **fully deductible in the year they occur** rather than stretched over 39.

Common Items to Re-Examine

- Roof work — repairs versus full replacement.
- HVAC component swaps (not entire system replacement).
- Plumbing and electrical repairs below the unit-of-property threshold.
- Partial asset dispositions when components are removed.

REAL-WORLD EXAMPLE

A \$150K roof repair → potentially fully deductible in Year 1 instead of depreciated over 39 years. At a 30% tax rate, that's the difference between \$45K of cash back now versus roughly \$1,150 per year for decades.

263A UNICAP Exemption

What It Is

Section 263A of the Internal Revenue Code — the Uniform Capitalization rules — requires many businesses to capitalize certain indirect costs (labor, overhead, storage, handling) into inventory or into self-constructed property. These capitalized costs then get recovered slowly over time instead of being deducted today.

The Exemption Most Businesses Miss

Thanks to the Tax Cuts and Jobs Act, businesses with **average annual gross receipts under the inflation-indexed small-business threshold (currently around \$30M)** are exempt from UNICAP. Yet many qualifying companies are still capitalizing these costs on autopilot, because no one ever reviewed the election.

Who Benefits Most

- Real estate developers and homebuilders with construction in progress.
- Manufacturers and product companies carrying inventory.
- Growing operators that crossed into UNICAP years ago and never revisited the election.

THE SAVINGS

Claiming the exemption allows immediate expensing of costs that were previously being capitalized — often producing a large one-time catch-up deduction in the year of the accounting method change.





STRATEGY #4

179D Energy Efficient Deduction

What It Is

Section 179D is a federal tax deduction of **up to \$5.65 per square foot** for energy-efficient improvements to commercial buildings — specifically to HVAC and hot water systems, interior lighting, and the building envelope (walls, roof, windows, insulation).

The IRA Expansion

The Inflation Reduction Act of 2022 **dramatically expanded 179D**. The maximum deduction more than tripled from the prior \$1.80/sq ft cap, the qualification bar was lowered, and the deduction is now available annually rather than once per building lifetime. For qualifying building owners, this is the single largest energy-related tax incentive in U.S. history.

Who Qualifies

- Commercial building owners who install qualifying HVAC, lighting, or envelope improvements.
- Designers of buildings owned by tax-exempt entities (government, nonprofits, tribal, REITs).
- Owners completing new construction, major renovations, or retrofits that meet ASHRAE targets.

REAL-WORLD EXAMPLE

A 50,000 sq ft building with qualifying improvements → up to \$282,500 in deductions in a single tax year.



STRATEGY #5

R&D Tax Credits for Real Estate

What It Is

The federal Research & Development tax credit (IRC §41) is widely associated with pharma and tech companies — and most real estate developers and construction firms never consider it. That's a mistake. A surprising number of routine design and construction activities meet the **four-part test** for qualified research.

Qualifying Activities in Real Estate

- Design of new building types, layouts, or structural systems.
- Development of custom HVAC, mechanical, or energy-management systems.
- Engineering work to solve site-specific technical or environmental challenges.
- Green building methods, sustainable materials, and prototype testing.
- Software, BIM, and modeling tools developed in-house by the firm.

The Credit — and Why It's Better Than a Deduction

Unlike a deduction (which reduces taxable income), the R&D credit is a **dollar-for-dollar reduction of tax owed**. The credit is typically worth **6% to 8% of qualifying expenses**, and qualified small businesses can apply up to \$500K per year against payroll taxes if income tax liability is insufficient.

THE CREDIT ADVANTAGE

A \$500K R&D credit claim reduces your tax bill dollar-for-dollar — not just your taxable income. That's fundamentally more powerful than any deduction.

THE COMPOUNDING EFFECT

Stacking Strategies

Any one of these strategies — on its own — can deliver a meaningful tax benefit. But the real leverage comes from **stacking them on the same property in the same year**. Each strategy addresses a different section of the tax code, which means they work in parallel, not in conflict.

Strategy	What It Targets	1st-Year Benefit
Cost Segregation	Accelerated depreciation (5/7/15-yr)	\$125,000
Tangible Prop. Regs	Reclassify repairs as expenses	\$45,000
179D Energy Ded.	Energy-efficient improvements	\$85,000
R&D Tax Credits	Design & engineering activities	\$35,000
TOTAL STACKED	First-year deductions + credits	\$290,000

Illustrative example for a \$3M commercial property. Actual results vary by property type, use, construction details, and ownership structure.

THE INNOVATE DIFFERENCE

Most CPAs only know about one or two of these strategies. We implement all five — and we coordinate them so every dollar of deduction compounds correctly with the others.





ABOUT US

Why Innovate Real Estate

3×

INC 500 RECIPIENT

\$100M+

IN TAX SAVINGS DELIVERED

16+

YEARS EXPERIENCE

We don't just do cost segregation. **We engineer complete tax strategies.** Every engagement is led by credentialed engineers, tax attorneys, and CPAs working together — so your deductions are defensible, your documentation is audit-ready, and no strategy is left on the table.

Leadership

Rob Schell · Principal, Tax Energy & Financial Advisor

Rob leads the firm's energy and financial advisory practice, architecting multi-strategy tax engagements for owners of commercial and industrial real estate. He combines deep technical knowledge of 179D, cost segregation, and R&D credits with a hands-on approach to building long-term client wealth — not just one-off deductions.

Lauren Burgess · Principal

Lauren oversees client strategy and the firm's engineering operations. She ensures every study is delivered with rigor, documentation, and the full IRS-ready defense package — and that clients understand exactly how each dollar of savings was earned.

Emily Everts · Chief Operating Officer

Emily runs day-to-day operations, project delivery, and client success — keeping every engagement on schedule and every deliverable polished.

Ready to Start Saving?

Schedule Your Free Strategic Consultation

We'll analyze your portfolio and identify every available strategy to reduce your tax burden — at no cost, and no obligation.

BOOK YOUR FREE CONSULTATION

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