EPISODE 606

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:24] WS: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, our guest is Frank Guidici. Thanks for being on the show, Frank.

[0:00:33] FG: A pleasure to be invited. Thank you so much, Whitney, for all that you do.

[0:00:36] WS: Frank is a value-add junkie and relationship builder. I like that. Well, you got to be a relationship builder for your own business, right? He's amateur at multifamily investor and soon to be first time dad to a baby boy arriving late August 2020.

Frank, congratulations on that front. That's very exciting. But grateful to have you on the show. I know you have an expertise that we all need to be familiar with it, and we're going to talk maybe about a little different part of that type of business that all of us also, if you're in this space, you need to be aware of. Frank's going to bring out some things that are going to be very valuable I think.

But why don't you get us started, Frank, what we're going to talk about today a little bit around cost segregation but maybe some different things that we haven't talked about on the show before? But tell us who you are, Frank, and maybe where you're located first.

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[0:01:21] FG: Perfect. Perfect. Again, I appreciate the time. Obviously, I'm a big fan of your podcast and greatly appreciative of being able to have a slice of your fame. I am the Business Development Director for Bedford Cost Segregation. I focus on the Northeast region, and previous to being in the cost segregation industry I spent about 14 years in the construction management industry. I was a civil engineer out of college and basically spent 14 years traveling the country and doing some pretty high profile projects until I made kind of a fluke move to get in the cost segregation because I wanted to get into the business development world and, again, focus on that building relationships and bringing value-add to people. I will say, I do feel like this whole COVID-19 is allowing the millennials to win, forcing us all to meet and build relationships sitting in our homes. But I do think that it is valuable to still do that face-to-face and build that connection.

That's just a little bit about me. Again, Whitney, like we discussed, many of your viewers, listeners, they're all well aware of cost segregation. I'm not going to go into detail about what it is and how it works. Most of your viewers already know all about that. Like you have kind of expressed, I want to touch upon some common misnomers that still exist about the cost seg industry.

[0:02:43] WS: Yeah. Let's just jump right in. Like you said, a lot of the listeners are familiar with that. We talked about it numerous times now. If you're not, I would encourage you to go back and listen to another show in highlighting cost segregations. It's a very important part of our business. That's another part of this business. It's important to know numerous things and maybe some misnomers or ways to even find that cost segregation expert that Frank's going to highlight for us.

But go ahead, Frank. What are some of those common misnomers that we need to keep in mind?

[0:03:11] FG: The number one that I find is people have this mindset that if you don't have a cost segregation study performed in the year in which the property was placed in service. When I say placed in service, that typically means when somebody takes title after acquisition. They take title of the property or they build it new and they get their certificate of occupancy. That's kind of the in-service state, right? When does that property start to generate income? You'll hear me use the word commercial property a couple of times, and I don't want people to get mixed up. Commercial property is any real estate that generates income. It's not just property of a commercial use. Commercial property can be commercial use or residential use. So I just want to clear that up.

But, again, the number one misnomer is that if you don't have that cost segregation study performed in that year that you file it on your depreciation schedule for your taxes, then you've missed out. The simple truth is. This is the one thing I ask people to keep in mind when it comes to cost segregation. The general rule of thumb is whether you built it brand new, ground up construction, or you acquired it, or you significantly renovated a building in your portfolio over the past 15 years, so dating back to the early 2000s. Anyone of those three options; significant renovation, acquisition, new build construction. Over the past 15 years, you have the ability. You are a potential candidate to have a cost segregation study done.

The IRS allows us to be retroactive, so we can literally go back into someone's portfolio of properties, commercial real estate that they put into service in the early 2000s. We can do this study in the present day, right here, 2020, and we can catch up on the missed depreciation deductions they hadn't been claiming over the past 15 years, and they can claim them in the current tax year, so probably a good tidbit. For people who haven't filed their 2019 taxes, they have the ability to have a study performed right now, May of 2020, and they can utilize the results of that study with their 2019 tax return and benefit from those missed depreciation deductions they haven't been claiming over the past 15 years.

[0:05:33] WS: I think a lot of people get into real estate, and they may own property for years and they don't even know this is something they should do. It’s not in their wheelhouse yet.

[0:05:41] FG: That’s a great point, Whitney, and a lot of them will realize that the loophole was created for cost segregation as part of Reagan's Tax Reform Act of 1986. Technically, cost segregation has been happening for properties that were placed in service January 1st, 1987 all the way to present day. But it really wasn't until the fall of 2004 that the IRS released the audit technique guideline for cost segregation, which is when this industry really blew up. I mean, in fall of 2004, when the IRS released their kind of stamp of approval on the cost segregation industry, that’s when you started seeing cost seg providers pop up left and right.

Again, general rule of thumb, 15 years you still have the ability to have a cost segregation study performed and to receive that cash flow, because that's what it's doing. Cost segregation is a tax deferral strategy. It's time value of money. The more deductions you have now to offset income in the present tax year is more cash flow in your pocket. It's less money you're paying Uncle Sam. It's more money in your pocket that you can invest elsewhere.

[0:06:49] WS: That sounds good to me. I wanted to highlight one thing. I know you highlighted it, just the definition of the commercial real estate when you're talking about it right now. But I wanted to clarify. Somebody has, say, a portfolio of 10 single-family homes. Can they also do a cost seg as opposed to somebody that has, say, a triplex or a 50-unit?

[0:07:06] FG: Absolutely, yup. Again, where it gets a little tricky is people who own vacation homes and they Airbnb the vacation home for a certain amount of time throughout the year and they try to have a cost segregation study done on the months that it's actually being rented. I don't want to get into the weeds. That gets a little hairy. But for the most part, if it's a property that's not a personal residence and you're using it to basically generate income, whether it's of a residential use or a commercial use, you have the ability to perform cost segregation.

[0:07:40] WS: All right. What's another misnomer that we should be aware of?

[0:07:44] FG: Yeah. The other big one is, "Well, geez, Frank. If I do a cost seg study on a property that dates back to the early 2000s, I'm going to have to amend all my tax returns, going back 15 years." False. The IRS does not require you to amend all your previous years' tax returns. There's a form called a Form 3115, and that's a change in accounting methods that gets filed with your current year taxes. That basically alerts the IRS that you are taking a particular property or multiple properties within your portfolio, and you are changing the depreciable cycle of those properties. Therefore, I know I'm getting technical, but a score 481(a) needs to be made up for. That's that cash flow that I was talking about, the catch up depreciation that you've been missing out on over the past 15 years. You get to catch up on that 481(a) adjustment which is populated within this Form 3115 change in accounting methods.

Again, you're not required to amend all your previous tax returns. It's one form that needs to be filled out. Now, what I will tell people is I keep saying a form which makes people think it's a singular page. That's false. This is about a 15-page document, 12 to 15- page document on each property, and it does come at an extra additional charge. Many cost seg providers are able to provide this Form 3115. Sometimes, CPAs are able to do it as well, but there's a special tax software that's required to be able to produce this.

The only caveat to doing a cost seg study on a property that was placed in service over a year ago is you have to file that Form 3115, but that's a heck of a lot better than having to amend all your previous years' tax returns.

[0:09:33] WS: For sure. No doubt about it. Any other misnomers that we need to know about?

[0:09:38] FG: You know what? I'm going to just touch upon two more and I'll be quick, because there's two other important topics I also want to touch upon. The other misnomer is that my CPA does this for me. This is how I describe it to people. If it's a CPA who's progressive and one of the Big 4, Big 8, whatever you want to call it, yes, those types of CPAs have independent departments within their overall firm that specialize in cost segregation. But many CPAs don't have those capabilities or in-house services, because it does require a staff with engineering principles and construction principles to be able to generate these studies in order for them to be defensible to the IRS in case of an audit.

What I tell people is, yes, your CPA does do what I call a low hanging fruit cost segregation study. If you took your building and you flipped it upside down, all the stuff that would fall to the ceiling is what your CPA traditionally does. That's what they segregate. It's called the FFE, furnishings, fixtures, and equipment. If you own multifamilies, many times a CPA will segregate the appliances, right? You've got the stove or the oven and the refrigerator and the dishwasher. All that stuff, low hanging fruit we call it.

But if you really want to take advantage of cost segregation, you need to have a professional provide it, and this is where I'll insert the company pitch, Bedford Cost Segregation. This is what we do. If you really want to take advantage of cost segregation, there's much more than just appliances in a given commercial real estate that can benefit from cost segregation. This is where a lot of CPAs draw the line in the sand that they cannot provide that type of backup or justification. Again, leave it to the professionals to go in and do electrical loading analyses. There's a bunch of stuff that can also be peeled out and really benefit from cash flow.

Then lastly, a lot of people have this mindset that when they're doing a renovation project, this stuff that they are disposing of to make way for the new improvements. You're redoing your bathroom. You're redoing your kitchen. You're sprucing up your commercial real estate. Inevitably, whenever you're doing renovations, you're disposing of older assets. So people don't realize that when they're stripping those assets out of their commercial real estate and they're putting it into the dumpster which is heading to the landfill, they are literally shoveling cash into that dumpster. There is something called partial asset disposition that you can have incorporated into your cost segregation study that you're able to claim the depreciable value still left in assets that you're demolishing as part of your renovation project.

I'm not going to get into the weeds. There's a bunch of caveats that have to be met to be able to qualify for this partial asset disposition, but it's something that you have to talk to a cost seg professional about. It's very important. There could be valuable losses that you're shoveling into the dumpster and not claiming on your tax returns.

[0:12:41] WS: I appreciate you bringing that up. We've done that, but I feel like that's another one of those things that if you don't even know it's an option, you don't even know to ask about it. You don't know to find an expert. You don't even know that I should be asking any question about it. It's hard to know what you don't know, right? I love asking people, what else should I be asking you? What are some other things that we could be utilizing that we haven't yet or asking other operators? That's usually where I've learned a lot of these things but great tips there.

What about the CARES Act opportunities?

[0:13:07] FG: Yes. Everybody loves the Tax Cuts and Jobs Act, right? They loved it for the 100% bonus depreciation. They loved it for being able to utilize the bonus depreciation on acquired commercial real estate. That was a huge perk. But there were a couple of things about the Tax Cuts and Jobs Act that did limit investors and developers and people in the commercial real estate field, and one of those was the net operating loss rules, NOLs. Individuals and corporations, C-corps were now limited to only being able to take net operating losses and carry them forward, and you could only utilize 80% of your net operating losses to offset income in that next year.

Before the Tax Cuts and Jobs Act was released, people had the ability to carry back those losses to previous years' taxes to offset income and generate additional cash flow from taxes paid in years prior. When the Tax Cuts and Jobs Act came out in December of 2017, it changed the rules. But the CARES Act, as part of this Coronavirus Aid and Relief Act, basically they temporarily reversed the net operating loss rules that were changed as part of the Tax Cuts and Jobs Act. So now, individuals and C-corps and trusts – Again, there's a bunch of caveats as to who can take advantage of it. But if you're someone who can take advantage of net operating losses, the new rules under the CARES Act that was passed in March, this past March of 2020, basically you're now allowed to take any net operating losses generated in tax year '18, '19, or '20 and utilize those net operating losses to offset taxes paid five years previous. If you have losses in 2019, you can use those to offset taxes from 2014.

It opened up a great opportunity for the commercial real estate world to now, instead of being forced to carry their losses forward, they can carry them back five years to offset taxes paid over that five-year span and generate that additional cash flow. I don't want to get too much into the CARES Act because bottom line is I'm not a CPA. Probably a good disclaimer, you should always consult your tax professional. Bedford obviously has a tax team on staff and a technical team that we know our stuff for sure. But we always want to make sure that clients consult with their CPAs and we want to be one of their other trusted partners.

[0:15:41] WS: I was going to ask. Should we expect our CPA to know that or should we have to reach out to another expert in that field was asked to be expected are CPA to know that or should we have to reach out to another expert in that field?

[0:15:47] FG: I mean, listen. As you know, Whitney, CPAs are absolutely pulling their hair out right now with the SBA loans and the PPP loans, and a lot of them probably haven't even gotten up to speed on all the things that were modified again by the CARES Act. They were just wrapping their head around the Tax Cuts and Jobs Act. Now, all of a sudden, they have to wrap their head around the CARES Act.

While most CPAs are well aware of this five-year carryback of net operating losses, it's still a good talking point to have with your CPA. Ultimately, it's your CPA who's going to let you know whether or not you would be someone who's eligible and could take advantage of that new five-year carryback of net operating losses. But the point being is cost segregation is a mechanism to generate net operating losses. If you're looking for a way to take advantage of that new CARES Act, cost segregation is a great mechanism to look into.

[0:16:45] WS: I want to get into the last point or the last thing about vetting your cost segregation provider before we run out of time. Frank, let's jump right in there. I'd love for you to highlight some things because I know they're not all created equal. I vetted numerous providers before we actually started using one and I've had lots reach out, obviously wanting to work with us. But I love to hear from you how you vet them and some things we should keep in mind.

[0:17:08] FG: Yeah. You know what? Bedford has – It's a one-page questionnaire. 10 questions that we ask all commercial real estate owners to ask those questions to help vet the competition. Because ultimately, at the end of the day, you are absolutely right. Just like CPAs, cost seg providers are not all created equal, and ultimately you're going to get what you pay for.

Bottom line is this. When the audit technique guidelines was released in 2004 by the IRS, a lot of cost seg providers started popping up everywhere across the country. The more "legitimate" cost seg providers in the country realized that there were a lot of competition that was not up to snuff and was not educated on the audit techniques guideline and the principles that need to be upheld when performing a cost segregation study. So the American Society of Cost Segregation Professionals was formed. Bedford's Managing Partner, Greg Bryant, was actually the first President of the American Society of Cost Segregation Professionals and still plays a pivotal role in the Association.

But bottom line is this. It was the American Society of Cost Segregation Professionals that really saw the need. As a means to really help foster proper education and certification of cost segregation professionals, the ASCSP has what's called a CCSP designation, a certified cost segregation professional. It's the only rigorous cost seg certification in the country that combines knowledge of technical issues, tax issues, legal issues, ethics standards, and there's a strict level of prior work experience to be able to achieve this designation.

What I will tell you, Whitney, is that to date, there are only 43 individuals across the entire United States that have this CCSP designation. Think about the number of cost seg providers out there. There's got to be 50+ cost seg providers that exist out there and there's only 43 individuals in the entire United States that hold the CSSP certification, and Bedford employs eight of them. Now, do the math.

Bottom line is this and it’s a quick story. We were recently approached by a prospective client who had a cost seg study performed by a national provider. There are marketing machine. Everybody thinks they’re best in business because they're extremely marketing savvy. They use LinkedIn to the best of their ability. God bless them. But at the end of the day, they do not have a single CCSP on staff. Bedford's technical team reviewed the study that was performed just three months ago, and it really opened our eyes to the fact that there are truly providers out there that are basically just rolling the dice that their studies will never be audited by the IRS, because this particular study, the way that they perform their electrical loading analysis, was completely made up. If this client had ever been audited or there’s still time obviously, it was only performed a few months ago, it will be declined. That client will undergo penalties, and they’ll have to give back depreciation and so on and so forth.

At the end of the day, I really tried to stress. If you’re going to have this study done, don't be penny wise and pound foolish. Invest time in understanding who your cost seg provider is. Make sure they have staff that is properly trained and certified like Bedford. We have PE Stamp engineers. We have CCSPs on staff that review every study before it's published. It's just extremely important, Whitney, because at the end of the day, you want to be protected in case the IRS ever comes knocking. You want to work with a firm who prides themselves on their reputation in the industry.

Sadly, CPAs and clients don't know how to digest a cost seg study to determine whether or not it's valid. A lot of times, the devil is in the details. These other cost seg providers realize that.

[0:21:20] WS: Before we have to go, what's a couple questions though that you could help the listener with? Maybe they just ask if there's somebody on staff that has a certification or not, but what are a couple questions maybe including that that they could ask that provider that they are interviewing?

[0:21:34] FG: Yeah. Like I said, the most important is that CCSP designation, right? To kind of boil it all down, that's number one. So really the other question is it's how long has your firm been performing cost segregation studies? How many cost segregation studies has your firm completed? Does your firm employ degreed or professional engineers with specific cost segregation experience? Does your firm employ tax experts with specific cost segregation experience? Does your provider carry professional liability insurance for cost segregation? Does your defend its work in the event of an audit?

There's a whole slew of questions. Again, Bedford has that questionnaire that just really simply breaks them all down, but I really try to focus in on that certified cost segregation professional qualification.

[0:22:22] WS: Nice. Now, I appreciate you elaborating on that. I'm not sure that anybody else has talked about that certification before. That's great information. Is there a website or does that association have a website that we can see all those people?

[0:22:33] FG: Yeah, absolutely. I should point out, Whitney, because I don't want to mislead people. The IRS does not require that a cost study needs to be stamped by a certified cost segregation professional, a CCSP. That's not a requirement, so I don't want to mislead people. However, if you want to ensure that your study is going to be 100% audit defensible, and it's done right with quality and care and accuracy by professionals, and you care about that. Some people don't care about that. Some people just want bottom line dollar and they'll roll the dice that they never get audited. Quite honestly, I don't condone that type of mindset but I understand it. This is really almost like an insurance policy stamp, but it's making sure that it's done right.

Really, quite simply, I just tell people, use the Google machine. Go right to Google and type in the ASCSP, American Society of Cost Segregation Professionals, and we have our own website. You can actually go in there and you can type in a company or a person's name to see if they hold the CCSP designation. We have all those individuals in a database on that website.

[0:23:46] WS: Nice. I appreciate you sharing that. I'll be interested to look at that myself. Just a couple of quick questions before we run out of time, Frank. What's been the number one thing that's contributed to your success?

[0:23:57] FG: You know what? It goes back to what I originally mentioned, Whitney. It's relationships. It's people valuing having a cost seg provider who's going to help them plan and forecast for future properties and ask the right questions so that we can make sure we maximize their depreciation deductions. If it's a piece of property that has no chance of being renovated over the course of ownership, then you don't need as much detail in your study as a property that is going to be renovated and could actually benefit from a partial asset disposition detailed analysis.

There's questions that need to be asked to understand and point people in the right direction, and it's knowing your cost seg provider trusting them and including them as an advisor. A trusted advisor for you going forward to make sure that you're set up to know the right questions to ask and to know the best timing of when to have a cost seg study performed. Again, it's just all about relationships. I love providing value-add to people. I want to see people be successful and flourish but I want to see them be successful and flourish correctly and legally. Legally is important, right? But you'd be surprised how many people toss caution to the wind. At the end of the day, I want to help people do things right and to the letter of the law.

[0:25:15] WS: Frank, how do you like to give back?

[0:25:17] FG: We're a pet family. In fact, I have this virtual background because I want to make sure that the cats didn't do a flyby. But my wife and I do a lot with the Humane Society and donate a lot and help out and so on and so forth. All our pets are rescued. That's how we give back from I guess a charitable way.

Professionally, I give everything I have to my clients, because ultimately at the end of the day, I'm in this for the long run and I want to be a trusted resource to my clients and know that I have their back and looking out for their best benefit going forward.

[0:25:49] WS: Great. Well, Frank, I'm grateful for your time. You've provided a lot of value I know to the listeners and myself. It's great. I mean, just great things to talk about, and we didn't even get into really what cost seg is, the nuts and bolts of it literally. But ultimately, the things that we need to know. You brought up so many great points that are going to help us find that provider and different things that we need to know. Or maybe we can do a cost seg and we didn't even know it. I appreciate you highlighting those things.

But tell the listeners how they can get in touch with you and learn more about you.

[0:26:17] FG: Yeah, absolutely. Our company is Bedford Cost Segregation Research and Development and Energy. Yes, we have three different specialties, and you can find us at www.bedfordteam.com. That's our company website. Again, www.bedfordteam.com. My name is Frank Guidici. I'm one of the business development directors and I'll send you some information you can flash on the screen with my email and phone number. But basically, you could find me on our website as well, and my contact information is there. I'm more than happy to answer any questions that maybe I triggered some thoughts and inquiries. You can reach me offline. Just go to our company website and track me down on there, and I would love to take the time to introduce myself and help with some answers to questions.

[END OF INTERVIEW]

[0:27:06] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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