**EPISODE 758**

[INTRODUCTION]

**[0:00:00.0] 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]

**[0:00:24.4] WS:** This is your daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Terry Judge, thanks for being on the show, Terry.

**[0:00:32.2] TJ:** Hey Whitney, great to be on.

**[0:00:33.7] WS:** Terry is the founder and CEO of Core Solutions Group LLC. Terry has an extensive entrepreneurial background with over 25 years in business ownership and is one of the early adopters of engineering-based cost segregation studies as well as other highly specialized tax credits and incentives.

He has a passion for educating people in the commercial and multi-family space on how to maximize cashflow and take full advantage of their ever-changing tax code. Today, Terry and his firm Core are blessed to work with so many of the op accounting, real estate firms as well as the brand new investor who just purchased their first multi-family investment property.

Terry, thank you again for your time, being on the show today, grateful for your expertise and being willing to share with us. Give us a little more about what Core Solutions Group does. What your focus is and let's jump into just, what cost seg is and then some other things maybe the investor doesn't know about.

**[0:01:34.7] TJ:** Yeah, that’s awesome. Whitney, I started the company almost 15 years ago, obviously the white hair getting all these tax talk and tax code, we found this strategy 15 years ago, kind of fell in my lap. My background was more engineering than tax accounting but ended up partnering with a gentleman from the old Arthur Anderson days, if you remember that.

He was an expert in the area of cost segregation in the he exposed it to me and I just was blown away by it so I nearly called my CPA, I said, "Sam, what do you know about this?" And he said, "Well, it’s legal," I said, "That’s good, do you do it? Do you do it in-house?" And he says, "No." I went down this path, I started talking and asking CPAs, you know, about cost seg and nobody really understood it, nobody in the community, this was again, back in 2006.

Very few CPA firms, some of the bigger – the big four, the big eight, were offering it to their big Fortune 500 companies but I noticed that middle America may never even heard of this, it has kind of a funky name, right? Cost segregation for about 15 years going forward, I just got real passionate about it and I just saw this major gap in the tax code, there was just this major gap between the real estate investor, the CPA community and the IRS.

The IRS does a horrible job that educating about a loophole or a strategy and there’s just two pathways, you know, at the end of the day, there’s two pathways at an investor can go down, one is the straight-line method, right? In the tax code, that is just – if we bought a multi-family property, it’s going to depreciate over 27 and a half years and that’s great, you can still get some write-offs within that.

And then there’s another way in the tax code that is the accelerated method and that is called cost segregation. It has been in the tax code since 1969 and then it went away in '86, nobody knew about it in '69, nobody really knew about it when it went away, so it wasn’t that big of a deal except the big boys. And then it came back in the beginning of the 90s under this cost segregation, the IRS actually lost two major tax cases and Walgreens end up suing the IRS and they lost and the US tax code.

It came back but when it came back, still crickets, nobody knew about it. And finally, 2004, they published the IRS Technique and Guidelines and so we got involved in the business in 2006. So we had some basis to kind of follow and we just started educating CPA firms and I started speaking around the country and that's really how we kind of got involved in it but again, I was not a CPA. Now I know a little bit more about the tax code than I want to admit but it is ever confusing and what's so powerful about it today is that it's the gift that keeps on giving for whatever reason and for whatever party people are on, whatever side of the party you're on, it just keeps getting better and better and it just keeps giving in.

Now there's – I always tell people that are coming in, buying their first multi-family property, do this as far as – bring this in upfront, don't do this after the fact, cost segregation should be just as important as your banker, your tax attorney, your CPA, having cross segregation person with you to come to the table to help you plan out the improved cashflow on that property because it truly is. Especially if you're syndicating and you've got passive investors, they are going to want that depreciation on their K1s.

**[0:05:21.1] WS:** Could you just elaborate, you know, in a few sentences there, I mean, just for the listener, I think most of the listeners have heard of cost seg and probably understand lightly what that is but just in case, could you just give us a sentence or two on just what cost segregation is?

**[0:05:35.8] TJ:** Basically, it is a form of accelerated depreciation, so the IRS allows a building to be broken apart into components, there's actually nine components and instead of buying asset, let's say for a million dollars and, you know, we're going to back out, let's say 20% for land, that building would depreciate, everything from exterior to interior is going to depreciate over 27 and a half years.

That's the straight line method so the cost segregation method allows you to break apart the component by component, there's hundreds of components, can now be broken out of what we call real property, moved in to personal property under section 1245 and that allows these assets such as wiring, plumbing, irrigation, swimming pools retaining walls, the interior build up, non-load bearing walls. All of the cost of essentially makes up the cost of the building to be written off, now we're five years as supposed to 27 and a half years, okay? Therefore, you can take the time value of money, the old saying is a dollar today is worth a dollar down the road and why the heck would you let the IRS hold on to your money for 27 and a half years, if you can get it in the first five where you can use that depreciation of offset your income. Therefore, creating more cash flow for you and your investors.

**[0:06:58.5] WS:** I was going to say, what does that do for the investor? That's important for the passive investor to know, but it's also important for the operator, the future operator that's listening to know as well.

**[0:07:08.1] TJ:** My gosh, yeah, I mean, it's just cash is king and you're going to be able to take that depreciation against income. Now and in future years because it has a 20 year carry for it so it creates an open checkbook against ordinary income. And if you're at the high tax bracket, you'll save 35%, that's huge to mitigate that. Use that money now or that's going to be net-net money in your pockets if you're not paying uncle Sam to grow the empire to buy more buildings and to leverage the beautiful thing of depreciation.

**[0:07:40.4] WS:** Nice, okay. Well let's jump in to some other parts of it, you know, I know CARES Act, the bonus depreciation, things like that that those terms are said quite often now but it's like sometimes it's kind of confusing, right? You hear those terms and it's like what in the world do those mean, and let's just dive in a little bit.

**[0:07:59.1] TJ:** Bonus depreciation kicked in on any property purchased after September 27th, 2017, there's a little bit of confusion on when it actually kicked in. So any building, September 27th, 2017 automatically qualifies for 100% bonus depreciation and real simply, Whitney, when you buy a building, you have different components, even when we're doing a cost segregation study, you have your interior improvements and all the interior of a building is five years typically.

Five and seven years and then also, on all your land improvements, you're going to get a 15-year life, okay? That's great but we carve all that out and that's the world of cost seg. In comes 100% first year bonus depreciation and just to keep it real simple, you now, instead of waiting 15 years or five years, for those assets to be depreciated, the IRS now gives us a little caveat or a little bonus and now, you can now move that 15 year and five year life into your first year.

The first year that the property goes into service, you're going to be able to utilize if you can utilize in all great, 100% of that depreciation in year one. Very powerful. Give you an example, you know, if you and I buy a building for a million dollars, that first year depreciation, instead of getting about 27,500 dollars, because you get 27,500 dollars and now with bonus, you're going to be able to jump that up to about 275,000 dollars in your first year on that one million dollar purchase.

Imagine that. If you have a down payment of let's say, 250 grand to get into that property, you're pretty much you're riding that investment off in year one and now you're off to the races and that has a 20 year carry forward, it's extremely powerful to be able to take all that depreciation in year one and you still have the 20 year carry forward.

**[0:09:57.5] WS:** What happens after that, if we do it at 100% the first year, what happens year two through five?

**[0:10:04.2] TJ:** You are using most of that depreciation in year one but if you don't use it, it's going to spill over into the future years, so that's great. There is a net present value tied to the money that you're taking in the early life of the building.

If we can write off 30%, if we can put 30% of that purchase price into shorter life, you still have 27 and a half year property that we cannot write off, that still has to remain in long term and you still get your small depreciation off of those assets that we cannot accelerate, okay? But there is a point of, you know, the annual depreciation schedules because you've taken so much of it upfront than you do, you're not going to get it down the road. You're just, we're just – it's a shell game, we're just moving it into the early life, as opposed to waiting as I mentioned. Still a big win-win.

**[0:11:00.1] WS:** Yeah. You know, maybe you can speak to also just cost seg for the W2 job earner, you know, that investor or maybe whether they're active versus passive and offsetting income?

**[0:11:13.2] TJ:** Yeah, this is just another powerful mechanism for tax planning, for people that are still working corporate and they're looking to become a full-time real estate investor. So if you have X amount of hours per year that you're putting in, you're either considered an active investor or a passive investor so passive investor would be somebody that's just investing let's say, into a syndication and they're getting some depreciation and getting a nice ROI.

For those of you that are active investors, maybe your wife or your spouse has W2 income or you still can be an active investor and still have W2 income or you have income coming in from other properties, you can use a cost segregation study to offset income from other income sources. So you can use it to offset W2 income, if you're a high net worth — you're a high earner but you're getting crushed with your W2, and/or, other properties that you're investing in and that you have tax liability because maybe you've used all that depreciation in that particular year, or in comes your new property that we cost seg and you get all these extra to use to offset other income.

Which is a game changer if you think about it because now you might be able to quit that job much sooner because you're getting so much more, you'd be able to keep so much more of your income. That is just amazing that that exists. Only for a real estate investor, that's just, it's the best thing in the world.

**[0:12:41.5] WS:** How long does it typically take to complete the study and when do investors receive that benefit, you know for property closed in — let's say you know in December, the beginning of December are they still going to receive benefits for that year depending on when the study is done, things like that?

**[0:13:00.0] TJ:** Yeah, so the very best time to do the studies right when the building goes in the service, it always depends on first it takes us about 30 days from start to finish to do a study. There is certain documentation that's requiring you know step one we do a benefit analysis at no cost, you know, we can just pin point the savings. You can get that all plugged in. So somebody that owns a property might just say you know how much depreciation are we really going to get.

We only paid 500 grand for the building, is it worth for us to move forward? And then that therefore takes us, like I said about 30 days, we do visit the properties. So there is a process that we follow from start to finish. But depending upon if you are filing extensions or you are going to be closing out your year on time, that's just all about planning and a lot of times we'll approach a project — let's say like you said, Whitney, maybe a project. They just bought a building. Maybe they need some depreciation let's say in 2020 but the renovations and the build outs won't be completed until 2021. And we will do a phase one, which we call that the 'as built', which is basically the original building and my client will say, "Terry, carve this thing out. We need some depreciation, we need some write offs for 2020."

And then so we'll do that. We'll just go in as the building is, maybe there are certain things that are being removed from the building. We are going to be replacing roof, lighting, parking lot all of that stuff that's pretty common and then we can pick up the renovations on the back side and then they can just – we can add it to the current cost seg or we do a mini cost seg on the back it just depends on how big the renovation projects are and what tax year you're going to need that for. So it just a little planning on the timing of all of it with that.

**[0:14:47.5] WS:** Yeah. So I mean for instance, you know if a project closes late in the year, I mean like coming up right now and I know there is investors who are doing tax planning and they are wanting to invest in another deal or two before the end of the year, are they still going to have time to have any benefit from a cost segregation study in this year or say on the K1 they are going to receive next March?

**[0:15:10.2] TJ:** So you're saying that based on the timing like what we are just talking about like toward the end of the year, can they still get — are they still receiving the benefit for the same tax year? Yeah, absolutely. Yeah they can still again, it just depends on when they are filing. Are they on time, are they extending. But yeah, they can still get them because especially actually towards the end of the year. You know a few blocks even if they are going to file on time. You know we got April 15th so we have plenty of time if somebody buys a building towards the end of the year right now to make that happen so everyone gets their — everyone is happy and when the K1 come up.

**[0:15:47.3] WS:** Awesome. What about and just so the listener knows, I know this show is coming out after the election and so you know more now about some of those things that we do when we were recording this today but I'd like to just get Terry's opinion about what he sees potentially happening, you know depending on if the election goes one way or the other?

**[0:16:06.0] TJ:** Yeah, if anybody is watching the debate last night, they're going to know that they are still going to be some serious divisiveness even depending upon who wins or who loses. It is pretty much at that point we just do what we do and I am not going to go there for in terms of political, but I will say that if Trump remains in office, depreciation, cost segregation, bonus depreciation, everything that's in the tax law currently will continue to go. Everything will be great.

If Joe Biden wins, he's already been on record that he wants to squash some of the loopholes for the rich as he calls it and he's already mentioned 1031 exchanges will be gone or he wants to eliminate 1031 exchanges. I think the accelerated depreciation would be next. How fast he does that, there is a lot of wealthy democrats that own a lot of real estate that love cost segregation. The reason why Trump pays $750 in taxes whether that is true or false is because he leverages the tax code and cost segregation.

So you know, it is one of the most powerful tax strategies on the planet or at least in the United States, for people to use and I am just encouraging my clients to — if you have buildings and you haven't done any cost seg studies on your buildings, I would encourage you to get them done because we don't know how this is going to – we don't know how this is all going to play out. Nobody really does.

**[0:17:31.5] WS:** What's the hardest part of completing the cost seg study or working with the operator? Has it been times where it is like, "Well you know we need to get this done." But it just isn't happening for whatever reason? Are just mistakes maybe an operator makes you know that keeps it from getting done or maybe they just – they fail to get it completed?

**[0:17:46.7] TJ:** First from a standpoint of just getting them engage, maybe they're hyped up on it and they want it before but they just failed to get us certain information. They failed to tell us that this is what they bought it with a 1031 exchange until after the fact. Because when you buy a building with a 1031 exchange and by the way, they go hand and glove but there is a timing and there's a planning around that that we find out later.

They didn't want us to talk to their CPA for whatever reason again because they think their CPA is going to just bill and bill and bill them and therefore we find out things after the fact that we have already done 90% of the work and then we got to go and change with the come and change in reporting. So just getting the due diligence upfront on both sides setting the right expectations on both sides is critical and we do that. So there is no – we spend a lot of time upfront before we even take a retainer. That way everything works smoothly. We have a kick off process. We want to get the CPA involved early on in the process and therefore, you know they – most of them, almost a 100% of the time they go very, very smoothly.

**[0:18:49.5] WS:** You know Terry, you know I believe anyone that is successful in business especially in real estate has a high level of self-discipline. How did you gain such a high level of self-discipline?

**[0:18:59.3] TJ:** You know I think it's critical and if you don't you'll struggle. I think you have to be consistent in your daily method of operation, whether that is getting up, you know mine is gratitude. I like to consume. I am not a big book reader anymore, I like the audiobooks. I love podcasts. I am trying to do my walks at night. You know the gyms has been closed. It's been a little weird that is throwing me off. I got the belly now and you know I try to do my little dumbbells in the living room.

So gyms finally just opened in Detroit at 25% so we are trying to get my head back straight and get back but you know I think just being consistent and being accountable. God, the older — I fought this, Whitney, for so long and now I realize that every step of the business to get to the next level whether it is my golf swing, whether it is my business, whether it is my relationships, being held accountable, now having coaches in certain areas. I always fought it because I thought I could just do it myself and I can't but the accountability piece, to get to the next level in business and in life is you have to be held accountable.

**[0:20:06.1] WS:** So coaches have been a big influence in that?

**[0:20:08.9] TJ:** One hundred percent.

**[0:20:10.3] WS:** Are there any daily habits that you have that you're disciplined about that have helped you achieve success?

**[0:20:15.5] TJ:** Well, like I said I think just getting up, having visual goals, you know having them written down and having them plastered around in your office, I think the universe is powerful. So when you can see it, touch it, feel it in your every day in the morning like mine. You know I do gratitude, kind of relook at my goals, what are my top 20 things that I have to get done today and I just do daily and weekly goals. I have the big thing here at the end of the month.

So I don't try to push it off too far like do 90 day goals. I try to do monthly goals and then break them down. It is amazing though when you are in that mindset and I fail. I don't do it, I slip, I get off track, I lose focus and right now I am feeling burnt out. I feel like I need a vacation, I got to get away because I mean I'm just in it, in it, in it. So got to recharge the batteries as well and make sure I am on track but yeah, I think just the daily — just being aware of what I am trying to achieve and then being accountable.

Being appreciative as I go. And the other thing too is now I am getting older in life. It is not what you make anymore, it is really what you put away and what you save and what you invest in and like I told you, I am getting it down in investing in multi-family. So I am super excited about that next phase of my life. I want to be like you man when I get older.

**[0:21:32.9] WS:** Well, what's a way you've recently improved your business that we could apply to ours?

**[0:21:36.7] TJ:** Well, you are already far ahead so I'm just now I feel like I am a little behind in the online world. I am really working on that and setting up. So I am going to be launching my podcast very, very soon. Just trying to get my online presence — I think my self-brand if the listeners are not doing that, I think that is something that they should start to think about, everybody has kind of their secret sauce or message that they can share with the world.

And I think if you could build that — your personal brand around that, people want to hear from you even though I always – I have a hard time getting on video. It is just for some reason there's a block there. So that is one of my business coaches working with me, you know on that. So I would just say as far as if you don't have a coach, really look into getting a coach in some of your areas and be vulnerable.

**[0:22:25.6] WS:** Maybe we've already mentioned it but I like to ask anyway, the number one thing that's contributed to your success?

**[0:22:30.6] TJ:** Consistency, just showing up you know every day even if it gets tough.

**[0:22:35.4] WS:** And how do you like to give back?

**[0:22:36.7] TJ:** I love giving back man, I belong to a couple of charities here locally. One is called Dream Centers. We just held an event, we had a fight through the COVID thing, it was kind of weird. You know we were going to cancel it and we get in and we fought through and we set up a venue that was kind of outdoors and we raised a bunch of money for the Dream Centers, which is helping people — the homeless and we have a city that just got devastated over the last 20 years and it is just smack dab in one of the wealthiest counties. So literally right next door in open county here in Detroit, I love being able to help them and give support to that organization.

**[0:23:10.7] WS:** Nice. Well Terry, I am grateful for how you give back in that way and how you are giving back to us today also. And just going through the basics of what a cost segregation study is but also how that can help the investor in big ways and what that does for us and maybe the potential effects of the election as well. I am grateful for your time and just sharing your expertise in this business. Tell the listeners how they can get in touch with you and learn more about you?

**[0:23:33.9] TJ:** Oh great yeah. So first of all Whitney, thanks for having me on the show. I really enjoy getting to know you as well. But they can get a hold of me on any of the social media feeds. LinkedIn they can reach out to me on LinkedIn and then also let me just provide my I guess my email would be good. So it's tjudge@coreadvisers.net not dot com but dot net. That's how they can get a hold of me.

**[0:24:02.0] WS:** Awesome Terry, that's a wrap. Thank you very much.

[END OF INTERVIEW]

**[0:24:05.1] 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.

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[OUTRO]

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