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TO: All editors
FROM: Joe McElroy, 630-355-3151
RE: Thinking about real estate at tax time

First the good news: instead of the traditional April 15, the deadline for filing federal income tax returns this year was pushed back to Monday, April 18 because Friday, April 15 was a holiday in Washington, DC.

Not so good news: hundreds of thousands of small business owners—people who would never dream of renting a home instead of buying, largely for tax reasons—went through another tax season without realizing they are wasting serious money by renting their work space instead of purchasing.

As is the case with housing, interest payments made by a business on its building mortgage are tax deductible. But that's just the beginning of the benefits to owners, who also can depreciated their entire building over 39 years, or choose rapid depreciation for specific items.

And, thanks to the 2010 Jobs Act, owners can declare expenses of up to \$500,000 of building improvements like office space. These benefits can also be rolled forward, according to Tom Burgess, CEO of Burgess Commercial Real Estate, based in Aurora.

"We're in the business of changing outcomes for our clients, and one of the most powerful ways of doing that is to help them buy their own building," said Burgess, whose company owns three business parks.

Business owners understand margins and the tax implications of business decisions but often don't factor real estate into the equation. Instead, they simply keep paying rent instead of buying a space for their company, which is made easier today because of the proliferation of office condo developments.

"Real estate owned by a business is easier to get in and out of," according to Craig D. Hasenbalg, partner with Dickson and Hasenbalg, an Aurora-based law firm. Determining the value of a business is easier if the real estate is owner rather than leased, he said.

"If the business owners contemplate adding investors, or if the business might be sold, the buyer or investors can readily assign a value to the real estate held on the balance sheets, typically with an appraisal," he said.

"The value of a lease is often harder to assess."

But there is another similarity between housing and commercial real estate: over the past few years, both markets have tanked. But Burgess says housing has fallen farther than commercial real estate, which offers more flexibility.

If your business hits a slump, you can sub-lease part or all of your space to a tenant, a more difficult option by far with a house.

Of course, there are no guarantees. "You have to be willing to make some educated risks," Hasenbalg said.

As Burgess put it, "Nobody has a crystal ball, and but over time you should be able to solve the problem, plus you still own the property," Burgess said.

"It's still a lot better than having nothing but a stack of rent receipts."

Both Burgess and Hasenbalg agree that it's also important to encourage your accountant and attorney to communicate with each other regarding taxes and real estate. As Hasenbalg said, "Certainly, your professional services experts are all on your team, but you're still the quarterback.

"And it's your ball."

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