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White Paper: Depreciation and Tax Considerations for EnviroSep “Equipment Centers” vs. Traditional Site Constructed “Buildings”

Current tax laws allow very favorable depreciation on all EnviroSep equipment centers, which are prefabricated, UL-Listed, portable insulated enclosures.

According to the document from the Department of the Treasury, Internal Revenue Service, Publication 946, “How to Depreciate Property”, page 35 states that nonresidential real property (such as industrial buildings) have a recovery period (GDS) of 39 years. Conventional construction, by its nature, becomes a permanent structural addition to a building, and thus it is classified as “real property” with the longer 39-year depreciable life.

On the other hand, Table B-2 on page 101 lists two categories that EnviroSep equipment centers are typically classified under: (1) Asset Class 34.0 “Manufacture of Fabricated Metal Products” or (2) Asset Class 35.0 “Manufacture of Electrical and Non-Electrical Machinery and Other Mechanical Products”. These categories have a depreciation period of 7 years, which allows EnviroSep equipment centers to feature a shorter 7-year depreciable life.

In summary, EnviroSep equipment centers qualify for a 7-year depreciation period while conventional permanent construction is depreciated over 39 years. Since a shorter time period accelerates the depreciation of EnviroSep equipment centers, this results in faster recovery of total costs.

EXAMPLE: Assume the cost of a new electrical shelter is \$1,000,000. At the end of 7 years, the prefabricated EnviroSep equipment is fully depreciated and has reduced taxable income by the original \$1,000,000 cost. Conversely, the permanent construction has depreciated less than 18% its original value and reduced taxable income by only \$179,500. Assuming a 34% tax rate, the EnviroSep “modular” solution provides \$279,000 in real dollar tax savings during the first 7 years!

CONSTRUCTION METHOD	COST	7-YEAR		
		DEPRECIATION DEDUCTION	TAX RATE	7-YEAR TAX REDUCTION
EnviroSep’ Modular systems	\$1,000,000	\$1,000,000	34%	\$340,000
Permanent Construction	\$1,000,000	\$179,500	34%	\$61,000
<i>7 Year Tax Savings</i>				<i>\$279,000</i>

Note: Since Tax laws are constantly being modified, we suggest that you consult with your company accountant to determine the application of these provisions.