How To Write Off $1.5M In Year One Buying A Gas Station (Legal Tax Strategy)

20 MIN · YOUTUBE · HTTPS://WWW.YOUTUBE.COM/WATCH?V=TBNVJHG53YE
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SUMMARY

The video discusses a little-known tax code provision that can significantly benefit real estate investors, particularly those considering gas stations as an investment. By qualifying as a retail motor fuel outlet, gas stations can take advantage of a shorter depreciation schedule, allowing for substantial tax deductions in the first year of ownership.

- *Gas stations can qualify for a 15-year depreciation schedule instead of the standard 39 years if they meet specific IRS criteria.*
- *The three tests for qualification include the revenue test (more than 50% of revenue from fuel sales), the floor space test (more than 50% of space dedicated to fuel), and the square footage test (convenience store must be 1,400 square feet or less).*
- *A $2 million gas station acquisition can yield approximately $1.5 million in first-year tax deductions through cost segregation and bonus depreciation.*
- *Investors in a 37% tax bracket could potentially receive $567,000 back in tax savings from this strategy.*
- *Selling a property with significant depreciation may lead to recapture taxes, where depreciation is taxed at ordinary income rates or a flat 25% for the building.*
- *Strategies to mitigate recapture taxes include 1031 exchanges and estate planning to step up basis at death.*
- *Additional tax benefits may include the Qualified Business Income deduction and Section 179 expensing for equipment upgrades.*
- *Understanding these tax strategies can provide significant advantages for real estate investors, especially those focusing on gas station properties.*

Hey, there's something in tax code. Most real estate
investors have never heard of. And today
I'm going to be showing you the numbers. And I'm not just saying
that to be dramatic. I'm saying it
because I've been doing this for a long time, and I've sat across the table
from thousands of investors. And when I bring this up,
I consistently get the same reaction. And that is, wait,
that's actually in the tax code. Well, guess what it is.

And if you've never looked at gas stations
as an investment vehicle, today's video might change
how you think about that because the IRS, believe it
or not, build something into the tax code that makes buying the right type of gas

station one of the most powerful tax plays in real estate,
and almost nobody is talking about it. Well, here's what I'm going to do. We're going to be going through exactly what it is,
what the tax code actually says.

And then I'm going to show you the numbers
on a $2 million acquisition. So you can see what this looks like
in the real world. All right. Let's get started. Okay. So you already know
how depreciation works, right? If you watch my other videos
I talk about this. And in those videos we were talking about
bonus depreciation cost segregation. And so here's the thing. Just for a recap. When you buy, let's say
commercial real estate asset, the IRS lets you recover the cost over
time.

Now commercials
different than residential. So with commercial you get to write off
a little bit of that asset, right. Over 39 years. Okay. That is what we call the recovery period. Now that's a long time. And here's what that means practically. So if you buy a $2 million building, in
fact, let's just look at this right here. So let's assume that here's the building
that I purchased right here. And I buy this for $2 million. Now, as I said,
you get to write this off over 39 years.

So let's say you strip out the cost of the land
because you can never depreciate land. The only thing you get to depreciate is the structures
are the structures on the land. So in this example,
let's say the land here is worth 300 k. So that leaves our total value here
for depreciation purposes at 1.7 million. Now what does that mean on a straight line
depreciation basis. Okay. So what it means is that you take
39 years, you divide it into 1.7.

And that's going to net you approximately $43,000 in tax deductions or depreciation. Now that's not exciting right. It's not. I get it.
But here's where it gets interesting. You see the tax code has a special classification
called a retail motor fuel outlet. And if your property qualifies then
the building that is the structure itself. This thing right here, instead of writing that off under a 39 year depreciation schedule.

Get this. You get to do it in 15 years. Yeah. You just cut the recovery period in half in that one change
by reclassifying that property from 39 years to 15 years unlock
something huge. So let's actually talk
about what qualifies. And then I'm going to walk you

through the numbers on this. And I guarantee you
when you hear this for the first time, you're going to be blown away
about what this can do for you.

So what actually qualifies now you can't go and find, hey,
let's say I see this property right here. Here's this big retail outlet,
and there's one pump outside of the retail outlet
that's not going to work here. Okay. Every gas station, not every gas station,
is treated automatically the same. See, the IRS actually has
a specific definition for what constitutes a a gas station that's going to qualify
as 15 year property. Now what does that mean.

Well it comes down to this.
There's a three part test. You have to qualify
under one of these three rules. So here's test number one. So the first test is
what we're going to call the revenue test. And this one's really straightforward. In fact most of these
are so with the revenue test. If more than 50% of the gross revenue
that comes into your station, okay, comes from the sale of petroleum
products like fuel. So if the pump revenue is the majority
of what this location generates, then you clear this test, right?

And you're considering,
hey, this is an operating gas station and they're not making their money
primarily off the candy bars and the beer and the sodas and cigarettes that they sell, their actually making it
from petroleum products. Now, if it doesn't qualify under the first test,
then you have a second test. And so test number two
is what we call the floor space test. Okay. Now what is the floor space test. Well more than 50% of your floor
space is dedicated to guess what fuel or petroleum sales.

Okay, so you think about the layout
of a gas station. All right. So here's my gas station property. And I've got a big canopy here. And underneath
that canopy
or a bunch of pumps. And then I have a little store over here. Well, the layout, if more than 50% of
this is devoted to gas, petroleum. All right. The underground storage system,
all that. Okay. Then because of that physical footprint,
let's say we got storage over there.

Then you would satisfy this test. Because all of this that I just showed you is more than the little convenience
store
that we have right here. So that's what we're looking at
with the floor space test. Now, the third test that you have,

if you if you need to qualify under
is what is called the square footage test. Okay. Square foot test. And what you're going to do there is you're going to look
at the convenience store building itself.

So we look at this convenience store
building that you have right here. And if the square feet, foot, feet,
whatever of this building, right, is 1400 square feet or less, then you will satisfy step
or test number three. So if you're looking at a small old school
style gas station with a compact store, this is going to be
your automatic qualifier, right? But you think is you have to meet
at least one of these tests in order to automatically qualify.

In most operating gas stations
with a convenience store, hit the revenue test,
but your tax advisor needs to evaluate the specific property, and you're
definitely going to want to document it. Because if you ever get audited,
you want the analysis in the file before you claim this deduction
I'm about to share with you. Okay. So this is where the numbers start to stack up
and where it gets really interesting. All right. So let me just show you
what we're referring to.

So we go back to this
the drawing board here. And so we buy that property
for $2 million. Now assume that it met
one of those three tests. So we acquire the gas station. Now the 2 million gives us clean numbers,
of course, to work with. So what we want to do here is, again,
we have to take out the land. So I'm going to take the land
off the table. So I'm going to take the land out of here,
but take the 300 K off.

So that leaves us with a total amount,
just like we did last time of $1.7 million. So this is what we're going to depreciate,
okay. On this thing. Now the first thing we're going to do
is we're going to do a cost segregation study. And this is where, you know,
a specialized engineer is going to go through the property and reclassify
the components from 30 year, 39 year bucket into the shorter
lived buckets. Okay. Normally when we talk about cost
segregation studies, we have five year and 15 year on residential,
seven and 15 year on commercial.

Now the gas station,
there's going to be a lot to work with. In fact, we're going to have
some personal property there. So we're going to get five year as well. So when you think about personal property,
what am I talking about? Well, in a gas station,
some of the five year property is going to be the equipment in the store itself that your,
the cash registers things of that nature. So let's assume
that if we look at the cash register, the refrigeration units, the equipment
that wouldn't stay with the building if you were to move,
and let's assume that all of that equals $425,000.

So this is what we're going to do. We're going to classify $425,000
in five year property right here. Okay. Now, now what we need to do
is look at land improvements okay. So this is going to be 15 year property
that we're going to look at. So what are we looking at there. We're going to look at the pump islands
right where the gas pumps are. We're going to look at the canopy. We're going to look at the signage,
the parking lot, the electrical, all that runs through this area.

Okay. That's another let's say,
I don't know, $340,000. Okay. 15 year property. This is how a cost segregation
study works. They look at all of this stuff
and they start breaking it down. All right. So now we're getting up there. We have just over $765,000. Okay. So here's a piece
where it gets really interesting. This is what makes this type
of real estate deal different from every other one out there. You see the convenience store
building itself, that structure, because we've qualified it
as a retail motor fuel outlet.

It goes into the 15 year bucket as well,
not the 39 year bucket. All right. So that means it's eligible
for bonus depreciation two. And let's say we set that property
at $765,000 right there. That is the C store. That's the convenience store. Now look where we're sitting
with this overall investment. We've made all but $170,000 of this okay. That is the difference
between all of these added up.

And the 1.7 million is about $170,000 left
there. That is going to be straight
line 39 year property. Okay. So what is that going to equal. Well 170,000 is going to get us about $4,359 4359 depreciation. Now what about this stuff down here. Well that's
where this all starts to add up okay. Because all of this totals $1,534,000
and some change right there.

Okay. So that right there
on a $2 million purchase, that is your year one deduction. Now why do I say it's a year
one deduction okay. It's because you get to use
bonus depreciation. So what you've done here with the gas
station is just what you've done with your rental real estate
or your commercial property. You've broken it down into five, seven and 15 your components
with a cost seg study. And then you get to bring in bonus
depreciation and you get to write it off all in year one. So what does that mean?

Let's put you in a 37% tax bracket
for a moment. Okay. So we're going back here. We have $1.5 million roughly. If you're in a 37% tax bracket,
what does that translate into dollars
actually back in your pocket okay. If you do that at 37%, that means dollars back into your pocket
is going to be $567,000. That is a huge number.

Now, when I look at that number,
what it tells me is that that was my down payment in order to purchase this
property, I getting all that money back. Compare that to what you would get
without the right structure. With a standard 39 year,
no bonus, no cost seg right? The year one deduction that I showed you
initially was only $43,000. Something like that. Okay. Look at the difference okay. This is the difference
between working with people who understand the tax code
and where the opportunities lie okay.

That is a huge savings. It's going to go back in your pocket
almost a half over half $1 million. And hey guys this is not a rounding error. This is a structurally
structural advantage that's built directly
into the Internal Revenue Code that most investors never use,
because no one told them it existed. Okay, now I know
some of you are watching this right now, and you're thinking, I'm going to go out
and find myself a gas station.

And this is a great deduction,
but I got to be straight with you as well. Okay. We want to talk about transparency here
as far as what this means to you okay. On the back end because I just showed you
the good part about this. But most people don't understand what the back end is
because no one's ever straight with them. They always talk about, hey, you can do
you do bonus depreciation, okay? They always want to talk to you
about the upside.

Now it's great to take that aggressive

first year position on this. But when you go to sell and that's why
I want you to be aware of this. Because I've talked to people over
and on and say, hey, I'm going to go do this
strategy Clint. I'm going to claim my deduction. Then I'm going to dump it
because I don't want to run a gas station. Well, the problem is, if you take that approach,
the IRS is going to want their money back.

So whenever you depreciate property,
like I just showed you, when you go to sell,
you have to recapture that depreciation. All right. That means it's going to be taxable
to you. It's not a surprise. It's a known consequence of this strategy. So you want to plan for it. If you do it's going to be manageable. So here's what I want you to understand. So when you go to sell a property
that you've depreciated like this, there essentially two buckets to think about.

The first bucket that we look at over here
when we go to sell. Let me just put the two buckets here. This is the personal property bucket. I'm just going to put personal there okay. And land improvements. And that's the five and 15 year stuff
that we talked about okay. That would normally would have been
depreciated as section 1245 property. But when you sell the gain attributable
to prior depreciation on those assets
gets recaptured at ordinary income rates.

So that means this big deduction
that we brought in in year one. Well when we go back to sell all that
gets recaptured at a flat 37% okay. Now the second bucket is for the building
itself, the the 15 year retail motor fuel outlet. Because the building is section
1250 property, then that's going to be captured
at a flat 25%. So this one is ordinary income. And this one over here is a flat 25%.

So this is going to be the building etc.. It's going to be taxed at a flat 25%. And the reason is, is because there's two different types of property. The buildings consider 1250 property
and this one is considered 1245 property when you go to resell. So you're going to be paying taxes
or recapturing that when you sell the property. So what do you do about it? Well, first a few options. The most common tool for real estate
investors.

You probably know about this if you've been investing in real estate,
the way we can avoid this is you do this. You do a 1031 exchange, right? You defer to recapture by rolling
the proceeds into a new property. So you never pay tax. You keep the capital compounding for you,
and then the estate planning tools can potentially step up your basis at death and eliminate
the whole recapture entirely. That's why you see a lot of real estate

investors say, well, I'm never going to pay tax on this
because I'll just keep 1031 the property and then when I pass away,
I have a living trust.

And then that living trust
will take these assets that I've acquired through 1031 exchanges over time. And then they're going
to go to my beneficiaries. And when they go to my beneficiaries,
let's say that there's zero tax basis here. That means
I've depreciated it down to nothing. But when my child gets it,
if this buildings were $10 million at that point in time in their hands,
their tax basis is ten mil. So they have a building that it's worth 10 million with a ten mil tax basis.

So if they were to sell it tomorrow,
they would have zero capital gains. And so this is a strategy
that's been employed by a lot of real estate investors. And I'm just going to hold on
to the property when it's time to sell. Just do a 1031 exchange. Now if you need cash of course
out of the property. What do you do? You borrow the money out. So the point is this
even if you eventually pay recapture, remember you had the use of that
half million dollars in tax savings for years
while you're holding the property.

So if you're sitting here
watching my video right now and you're thinking, well,
this just sucks. Why would I do this? Take a tax deduction
now if I sell it in the future. Right. I have to recapture that that money
and pay taxes on it. If I don't do a 1031 exchange because I'd rather have the deduction
today and have use of that money right now, and take that money and reinvest it
and grow it. That's the mindset.

You need to understand
why people want to do this. That is a huge financial advantage. It's just not a deferral on paper. Okay, two more quick additions for
I wrap up, okay. If you own this entity
or own this property through a pass through entity, an LLC or a partnership,
and the gas station is treated as an operating business,
you're also going to be able to layer on the qualified business
income deduction, what we call Q by I mean this stuff just starts stacking up,
guys, when you're running gas stations.

So under current law,
that's up to 20% deduction on your qualified business income

from the operations side in and of itself. So for an active gas station
with a convenience store you have huge potential there
with this QB. So you get the deduction to buy it. And then going forwards
as you're operating it, let's say I make $100,000 an income. Will you take off $20,000. You're only taxable and 80. That's that's a simple way of explaining
how the work and then the equipment
inside the gas stations, maybe you got to buy some
tangible personal property to upgrade it.

That's section 179 expensing. So you can write that off okay. And you can get that completely deducted
right away. You see these are all layers. Each one that you do add something. And when you stack them on a qualifying
gas station the qualifying picture or the total picture is unlike anything that is available in real estate
from a tax standpoint. So if you're thinking
about making your next investment and you see a gas station out there
for purchase, I would highly recommend you consider this okay,
as long as it has a qualifying and convenience store next to it,
because that's where we're really going to start moving
into these great tax benefits.

I mean, 15 year classification
on the building bonus, depreciation, cost segregation, QB section 179 and equipment. We're talking about writing off 1.51.7 of a $2 million acquisition
in the first year. And the thing is, it's not a loophole.
It's not aggressive. In fact, this is the tax code, and
it's doing exactly what Congress intended. The problem is, most investors
never find out exist until they've already bought the wrong asset.

I've been talking to a lot of high
net worth professionals, high income earners
now that are starting to look seriously at gas stations as a way to generate
massive tax deductions for them. Now, this topic here
of of cost segregation and bonus depreciation and tax breaks,
it's one of the topics we go really deep on our tax and asset
protection event. Because understanding understanding
this concept is one thing. But actually seeing how you structure it
like I've been showing you and running it at the same time
and making the right entity.

Elections and planning around back
end recapture, that's where the magic comes in. And that's why structure

implementation is so important. And that's what we're going to cover
at our tax and asset protection workshops. Okay. If you've never been to our Tap event I'm
going to drop a link in the description below. It's a free one day event. We teach them on Saturdays. And this is the kind of content that we get into because this is
where the real money is for investors.

It's not just finding good deals. And I've always said this that entities
and deals can help you do more. If you understand where the wealth can be
harnessed from the tax code. So if you found this useful, hit
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