How Cost Segregation Works

A plain-English guide to what a cost segregation study is, why it holds up, and how it fits with your CPA.

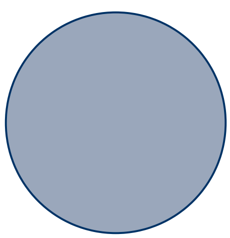
Engineering, Not Accounting

Cost segregation is not a tax trick. It is an engineering study. A trained team reviews your building's construction and acquisition records, and sometimes the building itself, to identify which components are not really "39-year building": flooring, fixtures, cabinetry, electrical and plumbing runs tied to specific equipment, site work. Those components legally depreciate on 5-year, 7-year, and 15-year schedules instead. The study reclassifies them and quantifies the dollars. Your CPA files the result.

The Mechanism, In One Picture

James's cabin, before and after our study.

THE STANDARD WAY



100% depreciated over 39 years.
One slow lump.

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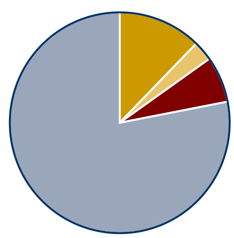
WITH OUR STUDY



5-year (furnishings, fixtures)	**$38,000**
7-year (furniture)	**$9,000**
15-year (site work, deck)	**$21,000**
39-year (remainder)	$242,000

Pulled forward into the early years: $68,000 · about 22% of the building

(Client example. Individual results vary. Allocation illustrative.)

Settled Law, Not a Loophole

Component depreciation has been sanctioned since 1997, when the IRS lost *Hospital Corporation of America v. Commissioner* in the U.S. Tax Court. The court held that individual building components can be depreciated according to their own useful lives instead of the building's blanket 39-year schedule. The IRS responded by publishing its own Cost Segregation Audit Techniques Guide: a document that describes, step by step, how a compliant study should be performed. We build every study inside that framework.

Hospital Corporation of America v. Commissioner, U.S. Tax Court, 1997. Audit Techniques Guide published by the IRS.

Why Now

This year, 100 percent bonus depreciation applies to qualifying property. The accelerated portion a study identifies is not spread across 5, 7, or 15 years. It is deductible in full, in year one, on the return you are about to file. That has not been true for several years, and it will not stay true indefinitely.

Already Own The Building? Ask About Form 3115

If you purchased or built in a prior year and never had a study done, you have not missed the window. A Form 3115 change in accounting method claims the entire catch-up, the deductions you should have taken in earlier years, on this year's return. No amended filings. Your CPA files the 3115 alongside your current return, and the catch-up flows through in one year.

Your CPA Stays In Charge

We are not a CPA firm and we do not file your return. We deliver the engineered study. Your CPA is the one who files it. We work directly with your accountant on the technical detail whenever they want us to, and most prefer it that way. You are handing your CPA a tool they did not have before.

What It Costs

Studies start at $1,295 and scale with the size and complexity of the building. The fee is fixed and quoted in writing before any work begins.

MINIMUM 30:1 OR FREE

Every study carries our minimum 30:1 guarantee. Our study identifies **at least 30 times its fee** in first-year accelerated deductions, or the study is free. We decline buildings that will not clear it, before you pay us anything.

Common Questions

Is this only for large commercial buildings?

No. We work with commercial buildings and short-term rentals of many sizes. What matters is whether your building clears our 30:1 bar, not how large your portfolio is.

What about depreciation recapture when I sell?

A fair question. Accelerating depreciation can increase what is recaptured at sale. For most owners, the value of cash today, especially with the option to defer through a 1031 exchange, outweighs that cost. Not for everyone. Your CPA should model your specific situation before you commit.

How long does this take?

Your preliminary estimate comes first, and quickly. Once you approve, the engineered study is typically delivered within days.

