COST SEGREGATION, ON ONE PAGE

What it is, what it produces, what it costs, and what it does not do.

The idea

Your building sits on your depreciation schedule as a single asset recovering over 39 years for commercial property or 27.5 for residential rental. Physically it is hundreds of assets with different lives. An engineering-based cost segregation study identifies each component, prices it, and puts it on the recovery period the Code actually assigns it — typically 5, 7 or 15 years for a meaningful share of the basis.

Why it is worth more now than it was two years ago

Bonus depreciation under section 168(k) is 100% and permanent for qualified property acquired and placed in service after 19 January 2025. Bonus reaches property with a recovery period of 20 years or less — which a building is not, but which the 5-year finishes and 15-year parking lot inside it are. The study is what creates the eligible basis.

Typical reclassification by property type

PROPERTY TYPE	BASIS RECLASSIFIED
Restaurant	26 – 42%
Grocery / c-store	26 – 40%
Hotel	24 – 38%
Medical / dental	24 – 36%
Self-storage	24 – 36%
Retail center	20 – 32%
Short-term rental	20 – 32%
Apartment / multifamily	20 – 30%
Office	16 – 26%
Single-family rental	14 – 24%
Warehouse / industrial	12 – 24%

An example

A $3,000,000 commercial building generates about $64,000 of first-year depreciation without a study. With a study reclassifying 25% and 100% bonus applying, the first-year deduction is roughly $806,000 — about $260,000 of tax deferred into year one at a 35% combined rate.

If you have owned it for years

You do not amend anything. A look-back study recomputes depreciation from the placed-in-service date and brings the entire difference forward as a section 481(a) catch-up on your current return via Form 3115. The only hard limit is that you must still own the property.

What it does not do

— It does not create deductions you were not entitled to — it accelerates them.

— Section 1245 components recapture as ordinary income on a taxable sale; the building portion produces unrecaptured section 1250 gain capped at 25%.

— It does not help this year if passive activity rules suspend the loss. That depends on material participation, real estate professional status or other passive income.

— It is not a substitute for advice. Nothing here accounts for your entity, your state or your plans.

What it costs

Residential studies from $1,850, commercial from $4,900, Form 3115 look-backs from $1,200, portfolios quoted individually. Fixed fees, never a percentage of savings. The feasibility review that tells you the expected benefit is free.