

Cost Segregation in 2 Pages: Everything You Need to Know

A quick reference for property owners and their CPAs. What cost segregation is, who it's for, and how much it saves.

WHAT IS COST SEGREGATION

Reclassify components. Accelerate deductions.

Standard depreciation spreads your deduction over 27.5 years (residential) or 39 years (commercial). A cost segregation study identifies building components — electrical, plumbing, finishes, landscaping, paving — that qualify for 5, 7, or 15-year recovery periods. With 100% bonus depreciation restored for 2025+, most of that reclassified amount is deductible in Year 1.

ESTIMATED YEAR 1 TAX SAVINGS · \$500K RENTAL PROPERTY

\$37,000 – \$52,000

At 37% federal rate · 100% bonus depreciation (OBBBA, 2025+)

ESTIMATED SAVINGS BY PROPERTY TYPE

\$500K property (after 20% land exclusion = \$400K depreciable basis)

PROPERTY TYPE	RECLASSIFIED %	YEAR 1 DEDUCTION	TAX SAVINGS
Single-Family Rental	18–25%	\$72K–\$100K	\$27K–\$37K
Short-Term Rental	25–35%	\$100K–\$140K	\$37K–\$52K
Multifamily	20–30%	\$80K–\$120K	\$30K–\$44K
Office	22–32%	\$88K–\$128K	\$33K–\$47K
Retail / Restaurant	22–35%	\$88K–\$140K	\$33K–\$52K
Industrial	15–28%	\$60K–\$112K	\$22K–\$41K

Based on \$400K depreciable basis (20% land), 37% bracket, 100% bonus depreciation. Actual results vary by property age, quality, and location.

WHY YOUR CPA DIDN'T BRING THIS UP

It's not a blind spot — it's a separate discipline

- Cost segregation requires a separate **engineering-based analysis** — it's not something CPAs produce in-house.
- It's almost always client-initiated. Your CPA works *with* the study once you order it — they file the depreciation on your return.
- **Ask your CPA:** "Have you worked with a cost seg report before?" Most have — they just don't initiate it.

BONUS DEPRECIATION

100% restored under OBBBA (2025+)

OBBBA (July 2025) permanently restored 100% first-year bonus depreciation on reclassified 5/7/15-year property.

YEAR	2021-2022	2023	2024	2025+
Bonus Rate	100%	80%	60%	100%
Status	Original TCJA	Phase-down	Phase-down	Permanent (OBBBA)

For lookback studies, the bonus rate is based on the year the property was placed in service.

HOW IT WORKS

1. Order online (from \$795)
2. Get 35+ pg report (<1 hr)
3. CPA files Form 4562 or 3115

Already own a rental property? Your CPA files Form 3115 to catch up on missed deductions in a single year — no amended returns needed.

COMMON MYTHS — DEBUNKED

Four things people get wrong about cost seg

MYTH	VERDICT	REALITY
“Only for new construction”	FALSE	Works for any property, any age. Lookback via Form 3115.
“Too expensive for small properties”	FALSE	Studies from \$795. Most owners see 10-60x ROI.
“High IRS audit risk”	FALSE	Follows IRS ATG methodology. No elevated audit risk.
“You need to amend prior returns”	FALSE	Form 3115 is a prospective change. No amended returns needed.

QUICK ROI ESTIMATE

Building Value × 25% × Tax Rate = Year 1 Savings

\$500,000 × 25% × 37% =

~\$46,250

See your estimated Year 1 tax savings in 60 seconds

costsegsmart.com — no email or signup required

Studies from \$795