

What Your CPA Needs to Know About Cost Segregation

Forward this to your CPA — everything they need to file your accelerated depreciation.

Based on IRS Audit Techniques Guide (2022) and U.S. Tax Court precedent.

OVERVIEW

What is cost segregation?

A cost segregation study reclassifies building components from 27.5-year (residential) or 39-year (commercial) straight-line depreciation into shorter MACRS recovery periods: 5-year, 7-year, and 15-year property. This is not an aggressive strategy — it follows IRS guidelines established in the Audit Techniques Guide.

With 100% bonus depreciation restored under OBBBA (2025+), reclassified components can be fully deducted in Year 1. Most residential properties see 25%–35% of depreciable basis reclassified to shorter lives.

FILING

How to claim accelerated depreciation

SCENARIO	FORM	NOTES
Current-year property	Form 4562	File with the tax return for the placed-in-service year
Prior-year property (first time filing cost seg)	Form 3115 (automatic consent)	Change in accounting method — no IRS approval needed (Rev. Proc. 2024-23)
Lookback / catch-up (switching from straight-line)	Form 3115, Section 481(a)	Same mechanism — 481(a) adjustment captures all missed accelerated depreciation in one year

Form 3115 filed under automatic consent procedures of Rev. Proc. 2024-23. No amended returns required for prior-year properties.

BONUS DEPRECIATION

100% restored for 2025+

The One Big Beautiful Bill Act (signed July 2025) permanently restored 100% first-year bonus depreciation for qualified property. For lookback studies, the bonus rate is based on the placed-in-service year:

YEAR	2023	2024	2025+
Bonus Rate	80%	60%	100%

Lookback studies use the bonus rate from the year the property was placed in service.

REPORT INCLUDES

What you receive

- Component-level depreciation schedules with MACRS class
- Land allocation with methodology documentation
- 5-year, 7-year, and 15-year asset breakdown
- Executive summary with total reclassified basis
- Engineering methodology & data sources section
- Section 1250 recapture analysis
- Ready for Form 4562 or Form 3115 filing

VERIFY BEFORE FILING

CPA review checklist

- Section 1250 recapture implications reviewed
- Land allocation reasonable for market area
- Component classifications match property type
- Total accelerated % consistent with property class
- Bonus depreciation eligibility confirmed for PIS year

\$500K PROPERTY · YEAR 1 TAX SAVINGS

\$37,000 – \$52,000

At **37% rate** · 100% bonus (2025+)
Scales ~linearly: \$1M property → \$60K–\$100K

Questions about a client's property? We're here to help.

Your client can estimate savings at costsegsmart.com

Studies from \$795