COST SEG SMART

Cost Segregation Study
Short-Term Rental Property

62 Lakey Mountain Rd
Black Mountain, NC 28711

Purchase Price	Depreciable Basis
$550,000	**$445,830**
Accelerated Asset Reclassification	Report Number
$112,949	**CSS-20260501-08732**

Prepared for: Sample Report — Asheville STR Investor

Study Date: May 01, 2026

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Engineering Cost Segregation Report

CSS-WP-010

Dear Sample Report — Asheville STR Investor,

Cost Seg Smart was engaged to perform an engineering cost segregation study for the property located at 62 Lakey Mountain Rd, Black Mountain, NC 28711.

Our procedures involved an engineering cost analysis using construction cost manuals, IRS asset classification guidance, and property characteristics derived from public records and taxpayer-provided information. This study was conducted in accordance with the IRS Cost Segregation Audit Techniques Guide (ATG).

The study identified a total of $112,949 in accelerated depreciation, with a breakdown of $81,850 classified as 5-year property and $28,974 as 15-year property. The applicable bonus depreciation rate for assets placed in service in 2025 is 100%.

The study was conducted based on information provided by the taxpayer, and the results are subject to the accuracy of this data. The findings are contingent upon the taxpayer's specific circumstances and the accuracy of the information provided.

The scope of this study was limited to the identification and classification of assets for depreciation purposes and does not constitute a valuation. We recommend that the findings be reviewed with a qualified tax advisor to ensure proper application.

Report No.: CSS-20260501-08732

Sincerely,

Cost Seg Smart costsegsmart.com

If your CPA has questions about this report, they can reach us directly at support@costsegsmart.com.

1. Executive Summary

Short-Term Rental Property

CSS-WP-100

The study identified $112,949 of assets eligible for accelerated depreciation — 25.3% of the property's depreciable basis.

The property located at 62 Lakey Mountain Rd, Black Mountain, NC is classified as Residential Rental Property under IRC §168(e)(2) with a default recovery period of 27.5 years. The purpose of this study is to identify components eligible for accelerated depreciation, consistent with IRS guidelines. As a short-term rental, the property is subject to material participation considerations under IRC §469, and the analysis includes a detailed review of furniture, fixtures, and equipment (FF&E;) which are integral to the operation of such properties. The study identified 25.3% of the property's depreciable basis as eligible for accelerated depreciation.

Scope of Work

This cost segregation study identifies property components eligible for accelerated depreciation under MACRS (IRC §168). The analysis applies an engineering cost approach using construction cost data, public records, and taxpayer-provided information, consistent with the IRS Cost Segregation Audit Techniques Guide (ATG).

All cost allocations represent estimates derived from construction cost data, property characteristics, and applicable tax guidance. This study does not constitute tax, legal, or accounting advice and should be reviewed by a qualified tax advisor prior to filing.

Reclassification Results

Our analysis identified **$112,949** (25.3% of depreciable basis) in building systems eligible for reclassification into shorter MACRS recovery periods.

This study identified **$112,949** of building components eligible for shorter MACRS recovery periods, which may generate a first-year deduction of up to **$112,949** assuming full expensing of eligible assets under IRC §168(k), subject to the taxpayer's individual tax circumstances.

Tax Timing Impact

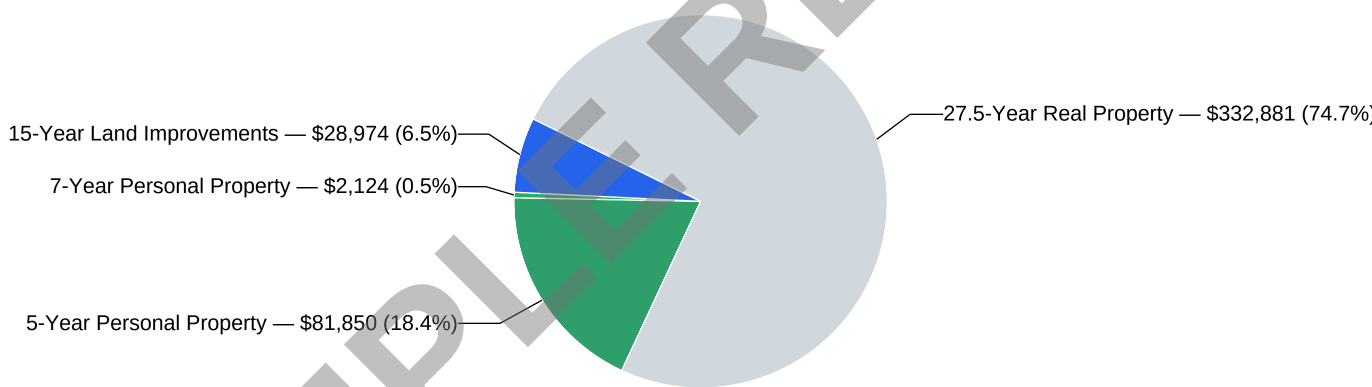
This analysis assumes full expensing of eligible assets based on applicable bonus depreciation provisions. The placed-in-service year is 2025, and under current law, the applicable bonus depreciation rate depends on applicable law for the placed-in-service year as per IRC §168(k). This rate is subject to change based on future legislative amendments.

Engineering Analysis Summary

Based on the wood frame residential construction typical of 2008-era builds in the Black Mountain, NC market, our analysis identified component-level allocations consistent with properties of this age, construction class, and quality tier. This short-term rental property includes hospitality-grade furnishings, fixtures, and equipment (FF&E;) classified as 5-year personal property under Rev. Proc. 87-56. FF&E; items identified include furniture, electronics, linens, kitchen smallwares, and decorative items subject to accelerated recovery periods.

Metric	Value
Purchase Price	$550,000
Land Value (Non-Depreciable)	$104,170
Total Depreciable Basis	**$445,830**
5-Year Personal Property	$81,850 (18.4%)
15-Year Land Improvements	$28,974 (6.5%)
27.5-Year Real Property	$332,881 (74.7%)
Total Accelerated Asset Reclassification	**$112,949 (25.3%)**

Depreciable Basis Allocation by MACRS Class



Estimated First-Year Tax Savings (Full Expensing Assumed)

Tax Bracket	First-Year Deduction	Estimated Tax Savings
24%	$112,949	$27,108
32%	$112,949	$36,144
37%	$112,949	$41,791

Replacement Cost New (RCN) estimates were developed using industry construction cost databases and calibrated to the subject property's market-implied improvement value. The resulting cost allocation is reconciled to the taxpayer's depreciable basis of **$445,830** so that all component-level costs collectively equal the recorded acquisition price less land value, consistent with cost approach methodology described in the IRS Cost Segregation Audit Techniques Guide (ATG). Modeled construction costs closely align with the transaction price, consistent with typical construction cost patterns for this property type and market.

Industry Benchmarks

This study identified 25.3% accelerated depreciation, which falls within the commonly observed range of 25%-40% for comparable short-term rental properties of similar age and construction class.

This allocation profile is consistent with short-term rental properties of comparable size and vintage in the Black Mountain market.

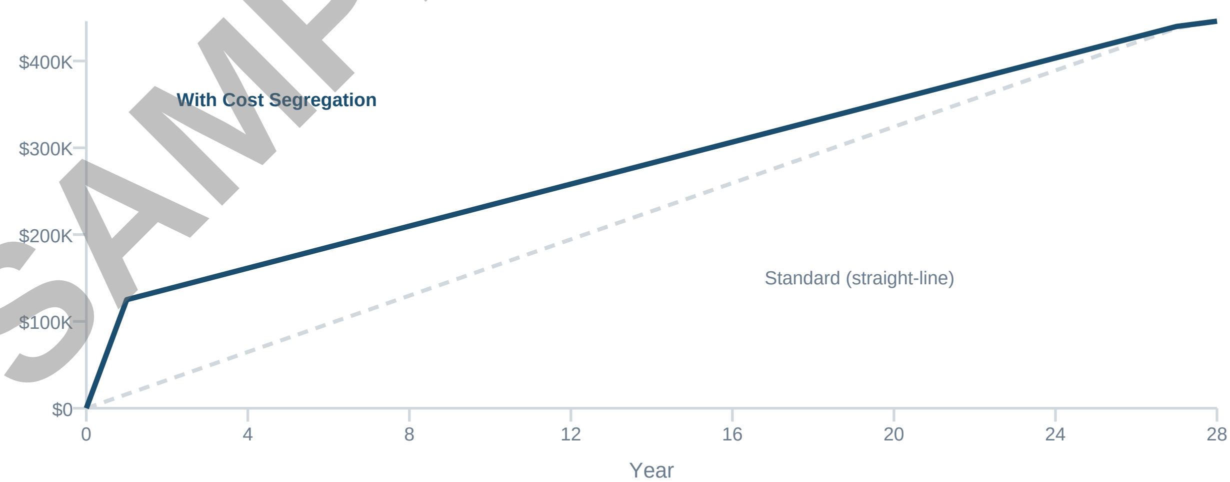
Year 1 Tax Impact Analysis

The following analysis compares first-year depreciation under standard straight-line treatment versus accelerated depreciation with cost segregation and applicable bonus depreciation provisions.

Scenario	Total Year 1 Depreciation (All Classes)
Without Cost Segregation	$16,212 (straight-line: basis / 27.5)
With Cost Segregation	**$125,053** (accelerated + remaining straight-line)
Additional First-Year Benefit	**$108,841**

Year 1 Depreciation Comparison

Cumulative Depreciation Over Time



Cost segregation accelerates depreciation into earlier years without changing total lifetime depreciation. The benefit derives from the time value of deductions.

This analysis accelerates **$108,841** of additional deductions into Year 1. Total lifetime depreciation remains unchanged; the benefit derives from timing.

IRS Cost Segregation ATG Compliance

The following scorecard maps each IRS Audit Techniques Guide requirement to how this study satisfies it:

IRS ATG Requirement	How This Study Meets It
Preparation by qualified individual	Engineering cost approach applied using standardized cost data and classification rules
Component identification	52 components individually identified and classified
Cost estimation method	Engineering cost approach using construction cost data
Legal authority citations	IRC §§1245, 1250; Rev. Proc. 87-56; case law (Whiteco, Hospital Corp.)
Reconciliation to basis	All allocations reconcile to depreciable basis ($0 variance)
Asset classification rationale	Written engineering rationale for each component category
Depreciation schedules	MACRS schedules provided for all recovery periods

This study is designed to align with the documentation standards described in the IRS Cost Segregation Audit Techniques Guide.

Allocation Bridge

Purchase Price to MACRS Classification

The following table presents a reconciliation of the total acquisition cost of the subject property to its classification under the Modified Accelerated Cost Recovery System (MACRS). This bridge illustrates how the depreciable basis is allocated across asset classes based on the analysis described in this report.

Step	Amount	Notes
Purchase Price	$550,000	Total acquisition cost
Less: Land Value	($104,170)	Non-depreciable
Depreciable Basis	**$445,830**	**Basis subject to depreciation**
5-Year Personal Property	$81,850	Interior finishes, fixtures, removable components
7-Year Property	$2,124	Equipment and specialized fixtures
15-Year Land Improvements	$28,974	Site improvements, landscaping, hardscape
27.5-Year Real Property	$332,881	Structural building components

Total Allocated	**$445,830**	**Reconciles to depreciable basis**

All component allocations reconcile exactly to the total depreciable basis of the property.

Allocation Summary by Class

Asset Class	Amount	% of Basis
5-Year Property	$81,850	18.4%
7-Year Property	$2,124	0.5%
15-Year Property	$28,974	6.5%
27.5-Year Property	$332,881	74.7%
Total	**$445,830**	**100.0%**

Where the Depreciation Comes From

In comparable short-term rental properties, personal property and land improvement allocations commonly range from approximately 25% to 40% of depreciable basis, depending on finish quality, renovation scope, and property characteristics. This study identified 25.3% accelerated depreciation.

CPA Quick-Reference Summary

Property Facts

Property Address	62 Lakey Mountain Rd, Black Mountain, NC 28711
Property Type	Short-Term Rental
Year Built	2008
Purchase Price	$550,000
Land Value (Non-Depreciable)	$104,170
Depreciable Basis	**$445,830**
Placed in Service	2025-06-15

Basis Allocation Summary

Asset Class	Amount	% of Basis
5-Year Personal Property	$81,850	18.4%
7-Year Personal Property	$2,124	0.5%
15-Year Land Improvements	$28,974	6.5%
27.5-Year Real Property	$332,881	74.7%
Total Accelerated Property	**$112,949**	**25.3%**

Estimated Year-1 Depreciation (100% Bonus)

Asset Class	Accelerated Basis	Bonus Rate	Year-1 Deduction
5-Year Property	$81,850	100%	$81,850
7-Year Property	$2,124	100%	$2,124
15-Year Property	$28,974	100%	$28,974
Total Year-1 Deduction			**$112,949**

Estimated Tax Savings

Tax Bracket	Estimated Tax Savings

24%	$27,108
32%	$36,144
37%	$41,791

Typical accelerated depreciation ranges for short-term rental properties constructed between 1980 and 2020 are approximately 25%–40% of depreciable basis. The **25.3%** allocation identified in this study falls within the expected range for properties of this type and construction class.

Method Summary

• Engineering cost approach using construction cost data and public records

• Allocation based on IRS Cost Segregation Audit Techniques Guide (ATG)

• Asset classifications supported by IRC §168, Rev. Proc. 87-56, and relevant case law

CPA Filing Sheet

Property: 62 Lakey Mountain Rd, Black Mountain, NC 28711

Placed in Service: 2025-06-15

Total Depreciable Basis: $445,830

Accelerated Asset Schedule

Asset Class	Amount	Recovery Period	Convention	Bonus Eligible
Personal Property	$81,850	5 years	Half-year	Yes (100%)
Personal Property (7-yr)	$2,124	7 years	Half-year	Yes (100%)
Land Improvements	$28,974	15 years	Half-year	Yes (100%)
Building (27.5-yr)	$332,881	27.5 years	Mid-month	No

Depreciation Software Entry Instructions

Enter the following assets in your depreciation software (Lacerte, ProSeries, Drake, UltraTax, or equivalent):

Asset 1 — Personal Property (5-Year)
Basis: $81,850
Life: 5 years | Method: 200% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 2 — Personal Property (7-Year)
Basis: $2,124
Life: 7 years | Method: 200% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 3 — Land Improvements (15-Year)
Basis: $28,974
Life: 15 years | Method: 150% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 4 — Building (27.5-Year)
Basis: $332,881
Life: 27.5 years | Method: Straight-line | Convention: Mid-month
Bonus Depreciation: Not eligible

Note: These entries reflect the reclassification identified in this study. The taxpayer should file Form 3115 (Change in Accounting Method) if the property was placed in service in a prior tax year. Consult with your tax advisor regarding the appropriate filing method.

2. Property Summary

CSS-WP-200

Property Detail	Information
Owner	Sample Report — Asheville STR Investor
Property Address	62 Lakey Mountain Rd, Black Mountain, NC 28711
Property Type	Short-Term Rental
Date of Acquisition	2025-06-15
Placed in Service	2025-06-15
Purchase Price	$550,000
Building Area	1,700 SF
Year Built	2008
Bedrooms / Bathrooms	3 BR / 2 BA
Construction Type	Wood Frame Residential
Property Features	Standard

Property Classification

This property is classified as **Residential Rental Property** under IRC Section 168(e)(2)(A). The default recovery period for the building structure is **27.5 years** under the General Depreciation System (GDS) of MACRS. Through cost segregation, certain components are reclassified to shorter recovery periods as permitted by the Internal Revenue Code.

Property Observation & Classification Support

Publicly available imagery and property data were reviewed to support identification of site improvements and non-structural components. These observations are used as supporting visual evidence in conjunction with cost modeling, public records, and taxpayer-provided information to inform component identification and classification decisions.

Aerial view (based on available imagery) — visible site improvements include landscaped areas, hardscape, and paved surfaces. These features support classification of land improvements depreciated over 15 years under IRC §168(e)(4).

Observed Features — Tax Treatment Mapping

The following table maps observable property features to their tax classification as identified in this study. Classifications are based on the component's function, construction, and relationship to the building structure.

Observable Feature	Classification	Recovery	Rationale
Bedroom Furniture (Beds, Dressers, Nightstands)	Personal property	5-year	Non-structural, removable; not permanently affixed to building
Living Area Furniture (Sofas, Tables, Chairs)	Personal property	5-year	Non-structural, removable; not permanently affixed to building
Carpet & Pad	Personal property	5-year	Non-structural, removable; not permanently affixed to building
Wood Deck/Porch	Land improvement	15-year	Site improvement; not integral to building structure
Concrete Paving & Walks	Land improvement	15-year	Site improvement; not integral to building structure
Landscaping	Land improvement	15-year	Site improvement; not integral to building structure

Framing	Real property	27.5-year	Structural building component; inherently permanent

Interpretation: Observable site and exterior features support the presence of non-structural components that are separable from the building and appropriately classified as shorter-life property. These observations corroborate modeled allocations derived from cost estimation methods. Visual observations are consistent with the component allocations presented in Section 4 of this report.

These observations are based on publicly available imagery and are used to support reasonable cost allocations. They do not constitute a physical inspection.

3. Cost Allocation Summary

CSS-WP-210

$112,949 of the property's $445,830 depreciable basis was reclassified into shorter recovery periods.

The following table summarizes the allocation of the property's depreciable basis among the various MACRS recovery period categories. Components have been classified based on their function, construction, and relationship to the building per IRS guidelines.

Asset Category	IRS Recovery Period	Allocated Cost	% of Basis
Personal Property	5-Year MACRS	$81,850	18.4%
Personal Property	7-Year MACRS	$2,124	0.5%
Land Improvements	15-Year MACRS	$28,974	6.5%
Real Property (Building)	27.5-Year Straight Line	$332,881	74.7%
Total Depreciable Basis		**$445,830**	**100.0%**
Total Accelerated (Reclassified)		**$112,949**	**25.3%**

This study identifies shorter-life personal property and land improvements eligible for accelerated depreciation from the property's total depreciable basis. Modeled replacement cost components are reconciled to actual basis so that total allocated costs tie to the taxpayer's transaction price less land. Detailed component support appears in Sections 4 and 5; cost derivation methodology is documented in Appendix A.

Key Accelerated Components

The following table summarizes the principal components reclassified to shorter recovery periods. Items below 1% of total accelerated basis are grouped into category subtotals.

Component	Allocated Cost	MACRS Class
Bedroom Furniture (Beds, Dressers, Nightstands)	$13,279	5-Year
Living Area Furniture (Sofas, Tables, Chairs)	$11,162	5-Year
Carpet & Pad	$8,637	5-Year
Appliances	$7,850	5-Year
Televisions & Electronics	$5,476	5-Year
Vinyl/Laminate Flooring	$4,544	5-Year
Light Fixtures	$4,104	5-Year
Outdoor Furniture & Accessories	$3,352	5-Year
Linens, Bedding & Towels	$3,123	5-Year
Removable Kitchen Fixtures	$2,744	5-Year
Kitchen Smallwares & Cookware	$2,108	5-Year
Dining Furniture	$2,005	5-Year
Window Treatments	$1,924	5-Year
Removable Laminate Surfaces	$1,635	5-Year
Bathroom Accessories & Fixtures	$1,576	5-Year
Ceiling Fans	$1,273	5-Year
Closet Shelving	$1,190	5-Year
Other 5-Year Components (7 items)	$5,868	5-Year
Subtotal — 5-Year	**$81,850**	
Decorative Items & Artwork	$2,124	7-Year
Subtotal — 7-Year	**$2,124**	
Wood Deck/Porch	$5,506	15-Year
Concrete Paving & Walks	$5,294	15-Year
Landscaping	$4,961	15-Year
Fencing	$4,254	15-Year
Asphalt Paving	$2,654	15-Year

Storm Drainage & Grading	$1,770	15-Year
Irrigation System	$1,554	15-Year
Retaining Walls	$1,388	15-Year
Exterior Lighting	$1,338	15-Year
Other 15-Year Components (1 items)	$256	15-Year
Subtotal — 15-Year	**$28,974**	
Total Accelerated (Reclassified)	**$112,949**	

Property Characterization (IRC §1245 / §1250)

Asset Category	IRC Section	Recapture Treatment	Amount
5-Year Personal Property	§1245	Ordinary income recapture	$81,850
7-Year Personal Property	§1245	Ordinary income recapture	$2,124
15-Year Land Improvements	§1250	25% unrecaptured §1250 gain	$28,974
27.5-Year Real Property	§1250	25% unrecaptured §1250 gain	$332,881

Tax Impact Analysis

Tax Scenario	Amount
Year 1 Depreciation WITHOUT Cost Segregation	$16,212
Year 1 Depreciation WITH Cost Segregation + 100% Bonus	**$125,053**
Additional First-Year Deduction	**$108,841**
Estimated Federal Tax Reduction (37% marginal rate)	**$40,271**
Estimated Federal Tax Reduction (32% marginal rate)	$34,829
Estimated Federal Tax Reduction (24% marginal rate)	$26,122

Note: The reclassified asset total ($112,949) differs from the additional first-year deduction ($108,841) because these assets would have received $4,107 in standard straight-line depreciation regardless of cost segregation.

First-Year Depreciation Comparison

Cost segregation increases first-year depreciation by $108,841, concentrating the majority of tax benefits in Year 1 through bonus depreciation.

4. Detailed Component Breakdown

CSS-WP-220

35 components reclassified into accelerated categories; 17 structural components itemized at their default recovery period.

The following tables provide a detailed breakdown of all building components identified in this study, organized by MACRS recovery period. Each component has been individually assessed based on its function, construction type, and applicable IRS asset classification. Direct asset costs and indirect cost allocations are shown separately for full transparency.

5-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Method	Asset Cost	Indirect	Total Basis
Carpet & Pad	Interior floor coverings, non-structural	Reg 1.48-1 $2.5/SF x 0.9 geo	Cost estimate	$6,153	$1,538	$8,637
Vinyl/Laminate Flooring	Non-structural finish flooring	Reg 1.48-1 $1.4/SF x 0.9 geo	Cost estimate	$3,237	$809	$4,544
Removable Kitchen Fixtures	Non-permanent kitchen installations	Reg 1.48-1 $0.9/SF x 0.9 geo	Cost estimate	$1,955	$489	$2,744
Bathroom Accessories & Fixtures	Removable bathroom fittings	Reg 1.48-1 $0.55/SF x 0.9 geo	Cost estimate	$1,122	$281	$1,576
Removable Laminate Surfaces	Non-permanent decorative surfaces	Reg 1.48-1 $0.45/SF x 0.9 geo	Cost estimate	$1,165	$291	$1,635
Appliances	Freestanding kitchen equipment	00.11 $2.3/SF x 0.9 geo	Cost estimate	$5,592	$1,398	$7,850
Window Treatments	Non-permanent window coverings	Reg 1.48-1 $0.6/SF x 0.9 geo	Cost estimate	$1,371	$343	$1,924
Door Hardware & Accessories	Non-structural door components	Reg 1.48-1 $0.35/SF x 0.9 geo	Cost estimate	$751	$188	$1,054
Light Fixtures	Decorative and specialty lighting	00.11 $1.45/SF x 0.9 geo	Cost estimate	$2,923	$731	$4,104
Ceiling Fans	Removable ventilation fixtures	00.11 $0.35/SF x 0.9 geo	Cost estimate	$907	$227	$1,273
Removable Plumbing Trim	Non-structural plumbing accessories	Reg 1.48-1 $0.3/SF x 0.9 geo	Cost estimate	$721	$180	$1,012
Smoke/CO Detectors	Life safety detection devices	00.11 $0.1/SF x 0.9 geo	Cost estimate	$229	$57	$321

Closet Shelving	Removable storage systems	Reg 1.48-1 $0.4/SF x 0.9 geo	Cost estimate	$848	$212	$1,190
Decorative Millwork	Non-structural decorative elements	Reg 1.48-1 $0.25/SF x 0.9 geo	Cost estimate	$672	$168	$944
Specialty Electrical	Dedicated circuits and specialty wiring	00.12 $0.3/SF x 0.9 geo	Cost estimate	$768	$192	$1,078
Bathroom Hardware	Removable bathroom accessories	Reg 1.48-1 $0.25/SF x 0.9 geo	Cost estimate	$593	$148	$833
Kitchen Hood & Ventilation	Kitchen exhaust equipment	00.11 $0.2/SF x 0.9 geo	Cost estimate	$446	$111	$626
Bedroom Furniture (Beds, Dressers, Nightstands)	Personal property — shorter recovery	00.11 $3.8/SF x 0.9 geo	Cost estimate	$9,459	$2,365	$13,279
Living Area Furniture (Sofas, Tables, Chairs)	Personal property — shorter recovery	00.11 $3.4/SF x 0.9 geo	Cost estimate	$7,951	$1,988	$11,162
Dining Furniture	Personal property — shorter recovery	00.11 $0.65/SF x 0.9 geo	Cost estimate	$1,428	$357	$2,005
Televisions & Electronics	Personal property — shorter recovery	00.11 $1.4/SF x 0.9 geo	Cost estimate	$3,901	$975	$5,476
Linens, Bedding & Towels	Personal property — shorter recovery	00.11 $0.85/SF x 0.9 geo	Cost estimate	$2,225	$556	$3,123
Kitchen Smallwares & Cookware	Personal property — shorter recovery	00.11 $0.65/SF x 0.9 geo	Cost estimate	$1,502	$375	$2,108
Outdoor Furniture & Accessories	Personal property — shorter recovery	00.11 $1.1/SF x 0.9 geo	Cost estimate	$2,388	$597	$3,352
Subtotal				**$58,308**	**$14,577**	**$81,850**

7-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Method	Asset Cost	Indirect	Total Basis
Decorative Items & Artwork	Equipment — shorter recovery	00.11 $0.8/SF x 0.9 geo	Cost estimate	$1,513	$378	$2,124
Subtotal				**$1,513**	**$378**	**$2,124**

15-Year Land Improvements (IRC Section 1250)

Component	Description	Classification	Method	Asset Cost	Indirect	Total Basis
Concrete Paving & Walks	Exterior hardscape improvements	00.3 $2.15/SF x 0.9 geo	Cost estimate	$3,771	$943	$5,294
Asphalt Paving	Exterior paved surfaces	00.3 $0.85/SF x 0.9 geo	Cost estimate	$1,891	$473	$2,654
Fencing	Exterior boundary improvements	00.3 $1.45/SF x 0.9 geo	Cost estimate	$3,030	$758	$4,254
Landscaping	Exterior plantings and grading	00.3 $1.8/SF x 0.9 geo	Cost estimate	$3,534	$883	$4,961
Irrigation System	Landscape watering infrastructure	00.3 $0.6/SF x 0.9 geo	Cost estimate	$1,107	$277	$1,554
Exterior Lighting	Outdoor illumination fixtures	00.3 $0.55/SF x 0.9 geo	Cost estimate	$953	$238	$1,338
Retaining Walls	Site grade management structure	00.3 $0.45/SF x 0.9 geo	Cost estimate	$989	$247	$1,388
Wood Deck/Porch	Exterior recreational structure	00.3 $1.9/SF x 0.9 geo	Cost estimate	$3,923	$981	$5,506
Storm Drainage & Grading	Site water management	00.3 $0.65/SF x 0.9 geo	Cost estimate	$1,261	$315	$1,770
Mailbox & Site Accessories	Exterior site amenities	00.3 $0.1/SF x 0.9 geo	Cost estimate	$182	$46	$256
Subtotal				**$20,640**	**$5,160**	**$28,974**

27.5-Year Real Property (IRC Section 1250)

The following components constitute the structural building envelope and core building systems that remain classified as residential rental property under IRC §168(e)(2)(A). These components — including foundation, framing, roofing, exterior envelope, core HVAC, plumbing, and electrical distribution — are inherently permanent and integral to the building's operation. They are depreciated over 27.5 years using the straight-line method.

Component	Description	Classification	Method	Asset Cost	Indirect	Total Basis
Foundation	Structural building foundation	N/A $12.75/SF x 0.9 geo	Cost estimate	$19,351	$4,838	$27,164
Framing	Structural wood/steel framing	N/A $21.5/SF x 0.9 geo	Cost estimate	$41,381	$10,345	$58,088
Roofing	Structural roof system	N/A $10.1/SF x 0.9 geo	Cost estimate	$18,263	$4,566	$25,637

Exterior Walls & Siding	Building envelope	N/A $11.25/SF x 0.9 geo	Cost estimate	$19,111	$4,778	$26,827
Windows & Exterior Doors	Building envelope openings	N/A $7.75/SF x 0.9 geo	Cost estimate	$12,369	$3,092	$17,363
Insulation	Thermal building envelope	N/A $4.2/SF x 0.9 geo	Cost estimate	$6,297	$1,574	$8,840
Drywall & Finishing	Interior wall surfaces	N/A $9.7/SF x 0.9 geo	Cost estimate	$19,110	$4,778	$26,826
Interior Paint	Interior wall finishes	N/A $3.3/SF x 0.9 geo	Cost estimate	$6,108	$1,527	$8,574
Kitchen Cabinets (Built-in)	Permanently affixed cabinetry	N/A $3.55/SF x 0.9 geo	Cost estimate	$6,173	$1,543	$8,665
Bathroom Vanities (Built-in)	Permanently affixed vanities	N/A $1.0/SF x 0.9 geo	Cost estimate	$1,634	$408	$2,293
Interior Doors	Structural interior partitions	N/A $1.25/SF x 0.9 geo	Cost estimate	$2,499	$625	$3,508
Tile Flooring	Permanent floor surfaces	N/A $5.05/SF x 0.9 geo	Cost estimate	$9,829	$2,457	$13,798
Plumbing Systems	Core building plumbing	N/A $14.6/SF x 0.9 geo	Cost estimate	$26,702	$6,676	$37,483
Electrical Systems	Core building electrical	N/A $12.65/SF x 0.9 geo	Cost estimate	$21,736	$5,434	$30,511
HVAC Systems	Central heating and cooling	N/A $10.75/SF x 0.9 geo	Cost estimate	$17,353	$4,338	$24,359
Fire Sprinkler System	Life safety suppression system	N/A $2.25/SF x 0.9 geo	Cost estimate	$4,606	$1,152	$6,466
Permanently Affixed Countertops	Built-in surface installations	N/A $2.4/SF x 0.9 geo	Cost estimate	$4,615	$1,154	$6,478
Subtotal				**$237,135**	**$59,284**	**$332,881**

4b. Indirect Cost Allocation

Construction costs include both direct costs (labor and materials for individual components) and indirect costs (overhead expenses necessary for the overall construction project). Indirect costs are allocated proportionally across all building components based on their direct cost share, consistent with the IRS Cost Segregation Audit Techniques Guide (ATG) methodology.

Indirect Cost Category	% of Direct Costs	Allocated Amount
Architectural & Engineering Fees	4.0%	$12,704
General Conditions & Supervision	5.5%	$17,468
Equipment Rentals & Tools	3.5%	$11,116
Permits & Inspections	2.0%	$6,352
Insurance & Bonding	2.5%	$7,940
Contractor Overhead & Profit	5.0%	$15,880
Miscellaneous Indirects	2.5%	$7,940
Total Indirect Costs	**25.0%**	**$79,399**

Total direct costs: $317,597. Indirect cost rate applied: 25.0% of direct costs. Indirect costs are allocated pro-rata to each component based on its share of total direct costs, consistent with IRS ATG guidance on indirect cost allocation for cost segregation studies.

4c. Reconciliation of Costs

The IRS Cost Segregation Audit Techniques Guide requires that estimated costs be reconciled back to actual costs or purchase price. The following reconciliation demonstrates that all allocated costs sum to the property's actual depreciable basis, with no unexplained variance.

A. Basis Determination

Item	Amount	Notes
Purchase Price / Total Project Cost	$550,000	Per closing statement
Less: Land Value (18.9%)	($104,170)	Land allocation per statistical
Depreciable Basis	**$445,830**	**= Total Project Cost - Land**

B. Cost Segregation Allocation

Asset Category	Recovery Period	Allocated Cost
Non-Depreciable Land	N/A	$104,170
Personal Property	5-Year MACRS	$81,850
Personal Property	7-Year MACRS	$2,124
Land Improvements	15-Year MACRS	$28,974
Real Property (Building)	27.5-Year Straight Line	$332,881
Total		**$550,000**

C. Reconciliation Verification

Reconciliation Item	Amount
A. Total Project Cost (Purchase Price)	$550,000
B. Total Allocated per Cost Segregation Study	$550,000
Variance (A - B)	**$0**

All allocated costs reconcile to the property's total project cost to the penny. No unexplained variance exists between the purchase price and the sum of all cost segregation allocations (land + depreciable components).

5. Engineering Rationale by Category

CSS-WP-230

The following narratives describe the engineering basis for reclassifying specific building components from the default recovery period to accelerated MACRS classes. Each classification is supported by IRS guidance, Treasury Regulations, and relevant Tax Court precedent.

Floor Coverings

Floor coverings such as carpet and vinyl/laminate flooring are classified as 5-year property based on their nature as tangible personal property under Treas. Reg. §1.48-1(e)(1). These materials typically have a replacement cycle of 5-10 years, consistent with the Whiteco six-factor test, which considers the inherent mobility and lack of permanent attachment to the structure.

Cabinetry

Removable cabinetry is classified as 5-year property due to its method of attachment and lack of functional interdependence with the building structure. This classification is supported by the Whiteco six-factor test, which evaluates the permanence of installation and the potential for removal without damage to the property.

Electrical

Decorative and specialized electrical components are classified as 5-year property, distinct from core building electrical systems. This classification aligns with Rev. Proc. 87-56 Asset Classes 00.11 and 00.12, which differentiate between general building systems and those serving specific tenant needs.

Plumbing Fixtures

Removable plumbing accessories are classified as 5-year property, separate from the building's plumbing infrastructure, which is classified as 27.5-year property. This distinction is based on the nature of the accessories as tangible personal property, which can be removed or replaced without affecting the building's structural integrity.

Site Work

Site improvements such as concrete paving, asphalt paving, and landscaping are classified as 15-year property under IRC §168(e)(4). These improvements are considered land improvements, which are distinct from the building structure and have a longer useful life than personal property.

Appliances

Appliances are classified as 5-year personal property based on their freestanding nature, as opposed to built-in fixtures. This classification is consistent with IRS ATG guidance, which distinguishes between items that are integral to the building and those that are not.

Finishes

Finish materials such as removable laminate surfaces and decorative millwork are classified as 5-year property due to their nature as removable and decorative elements. This classification distinguishes them from permanently affixed surfaces, which are integral to the building structure and classified as 27.5-year property.

FF&E;

In the context of a short-term rental, FF&E; such as bedroom and living area furniture are classified as 5-year property. This classification is supported by Rev. Proc. 87-56 Asset Class 00.11, which identifies furnishings consistent with typical short-term rental use as tangible personal property distinct from structural improvements.

FF&E; Substantiation Note: The FF&E; values in this study are estimated using per-square-foot cost models calibrated to hospitality-industry furnishing standards, not from a physical inventory or purchase receipts. If the taxpayer maintains itemized FF&E; purchase records, invoices, or a furnished-unit inventory list, those actual costs should be substituted for the estimates in this report. Actual cost documentation strengthens the defensibility of FF&E; allocations under IRS examination. The taxpayer's CPA should review FF&E; totals against available records before filing.

6. MACRS Depreciation Schedules

CSS-WP-300

With 100% bonus depreciation, the estimated first-year depreciation deduction on reclassified assets is $112,949.

The following schedules show the annual depreciation deductions under MACRS for each asset category. The 5-year and 15-year property schedules assume full expensing of eligible assets under IRC §168(k), based on applicable bonus depreciation rates for the placed-in-service year.

5-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$81,850	$81,850	$0
2	$0	$81,850	$0
3	$0	$81,850	$0
4	$0	$81,850	$0
5	$0	$81,850	$0
6	$0	$81,850	$0

7-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$2,124	$2,124	$0
2	$0	$2,124	$0
3	$0	$2,124	$0
4	$0	$2,124	$0
5	$0	$2,124	$0
6	$0	$2,124	$0
7	$0	$2,124	$0
8	$0	$2,124	$0

15-Year Land Improvements (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$28,974	$28,974	$0

2	$0	$28,974	$0
3	$0	$28,974	$0
4	$0	$28,974	$0
5	$0	$28,974	$0
6	$0	$28,974	$0
7	$0	$28,974	$0
8	$0	$28,974	$0
9	$0	$28,974	$0
10	$0	$28,974	$0
11	$0	$28,974	$0
12	$0	$28,974	$0
13	$0	$28,974	$0
14	$0	$28,974	$0
15	$0	$28,974	$0
16	$0	$28,974	$0

27.5-Year Real Property (Straight-Line)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$6,052	$6,052	$326,829
2	$12,105	$18,157	$314,724
3	$12,105	$30,262	$302,619
4	$12,105	$42,367	$290,515
5	$12,105	$54,471	$278,410
6	$12,105	$66,576	$266,305
7	$12,105	$78,681	$254,200
8	$12,105	$90,786	$242,095
9	$12,105	$102,891	$229,991
10	$12,105	$114,995	$217,886
11	$12,105	$127,100	$205,781
12	$12,105	$139,205	$193,676
13	$12,105	$151,310	$181,572
14	$12,105	$163,414	$169,467

15	$12,105	$175,519	$157,362
16	$12,105	$187,624	$145,257
17	$12,105	$199,729	$133,153
18	$12,105	$211,834	$121,048
19	$12,105	$223,938	$108,943
20	$12,105	$236,043	$96,838
21	$12,105	$248,148	$84,733
22	$12,105	$260,253	$72,629
23	$12,105	$272,357	$60,524
24	$12,105	$284,462	$48,419
25	$12,105	$296,567	$36,314
26	$12,105	$308,672	$24,210
27	$12,105	$320,777	$12,105
28	$6,052	$326,829	$6,052

8. Depreciation Recapture Considerations

CSS-WP-320

Cost segregation accelerates when deductions are taken, not how much — total lifetime depreciation remains the same.

Depreciation recapture considerations for this property include IRC §1245, which addresses ordinary income recapture for personal property, and §1250, which pertains to 25% unrecaptured gain for real property. Cost segregation accelerates depreciation timing but does not create additional depreciation. The economic benefit derives from the time value of money, and property-specific recapture planning should be discussed with a CPA.

Recapture Categories

Category	Amount	Recapture Type	Max Rate
5-Year Property & 7-Year Property	$83,975	IRC §1245 — Ordinary Income	37%
15-Year Property	$28,974	IRC §1250 — Unrecaptured Gain	25%
27.5-Year Property	$332,881	IRC §1250 — Unrecaptured Gain	25%

Key Considerations

Depreciation recapture applies only to the extent of actual gain realized upon sale. If the property is sold at or below adjusted basis, no recapture tax is owed. Section 1245 property (5-year and 7-year personal property) is recaptured as ordinary income up to the amount of depreciation claimed. Section 1250 property (15-year land improvements and 27.5-year real property) is subject to a maximum 25% rate on unrecaptured depreciation under IRC §1(h)(1)(E).

The economic benefit of cost segregation derives from the time value of money: deductions taken earlier are worth more than deductions taken later, even after accounting for recapture at disposition. The NPV analysis in Section 7 quantifies this timing benefit. Actual recapture liability depends on the sale price, adjusted basis, and the taxpayer's marginal rate at the time of sale. We recommend consulting your CPA for property-specific recapture planning.

Sensitivity Considerations

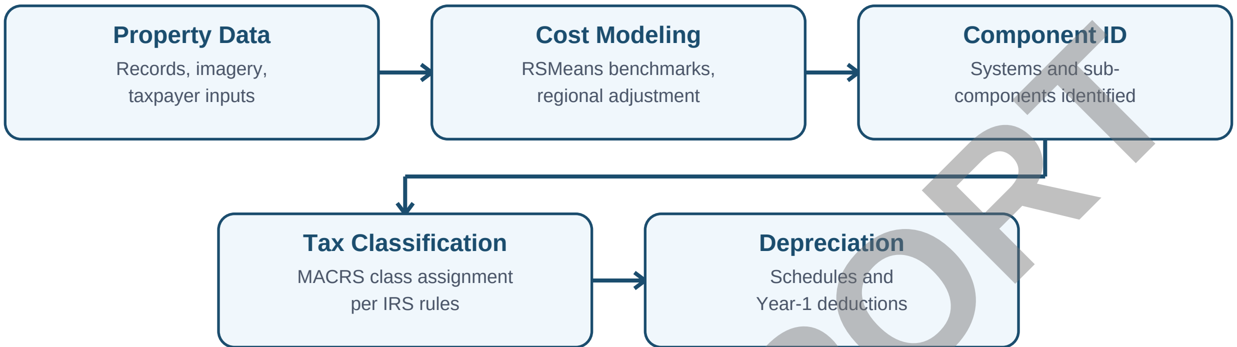
The following factors may materially affect component classification and allocation results. This section is provided to assist the taxpayer and their tax advisor in evaluating the study results in context.

Factor	Potential Impact
Detailed contractor invoices available	May refine or increase 5-year personal property allocations based on actual costs
Major renovations or improvements	Increases short-life property share; renovated components may qualify for accelerated treatment
Higher-end or custom finishes	Shifts allocation toward personal property; premium finishes increase 5-year component values
Limited FF&E; documentation	May reduce supportability of personal property allocations under examination
Property condition differs from age-based assumptions	Significant deferred maintenance or recent upgrades may shift allocation proportions
Furnished vs unfurnished status	FF&E; allocations assume hospitality-grade furnishing; unfurnished units would reduce 5-year property

The allocations presented represent a reasonable estimate based on available data and standard cost segregation practices. Taxpayers with additional documentation (invoices, contractor records, renovation receipts) may provide this information for potential refinement of specific component allocations.

9. Methodology & Basis of Analysis

CSS-WP-400



This study applies an engineering cost approach consistent with IRS Cost Segregation Audit Techniques Guide methodology.

Cost estimates were developed using construction cost data, public records, and taxpayer-provided information, consistent with IRS cost segregation guidance.

Cost Approach Methodology

This cost segregation study employs an engineering cost approach using construction cost data, public records, and taxpayer-provided information, consistent with the principles outlined in the IRS Cost Segregation Audit Techniques Guide (revised 2022), Chapter 7.3 (Detailed Engineering Cost Approach). This methodology is the same general approach used by national engineering and accounting firms performing cost segregation studies.

No physical site inspection was conducted for this study. Property observations were derived from remote data sources as described below. The IRS Cost Segregation Audit Techniques Guide does not require a physical site inspection; it requires a defensible engineering methodology and detailed documentation of cost derivations. This study satisfies those requirements through calibrated construction cost databases, verified property characteristics, and component-level cost allocation with source references.

Data Sources & Observation Methodology

Property observations were derived from aerial imagery, street-level photography, county assessor records, property listing data, taxpayer-provided inputs, and third-party API data sources. Engineering cost estimates were developed using industry-standard construction cost references (RSMeans, BLS Producer Price Index) and observed property characteristics derived from these sources. The IRS ATG recognizes that cost estimates may be developed from available records, construction cost databases, and property characteristics observable through public data.

Sources consulted include:

• County assessor and parcel records — assessed values, land/improvement ratios, property characteristics, and building descriptions

• Aerial and street-level imagery — building footprint, exterior materials, site improvements, and observable property condition

• Property listing and transaction data — features, finishes, renovation history, and comparable property characteristics

• Third-party property data APIs — building metadata, year built verification, square footage confirmation, and geospatial attributes

• Industry construction cost databases — national and regional cost benchmarks by building type, quality tier, and geographic location

• IRS classification guidance — Revenue Procedure 87-56, IRC §§168, 1245, 1250, and the Cost Segregation Audit Techniques Guide

Cost Allocation Summary by Category

The following table summarizes the primary categories of property components identified and the basis used to allocate costs.

Component Category	Recovery	Allocation Basis
Furniture, Fixtures & Equipment (FF&E;)	5 years	Hospitality-grade furnishings, electronics, linens, kitchen smallwares, and decorative items per Rev. Proc. 87-56 Asset Class 00.11
Interior Finishes & Fixtures	5 years	Removable cabinetry, decorative lighting, floor coverings, window treatments, appliances, and specialty electrical/plumbing components not structurally integrated
Land Improvements	15 years	Exterior improvements including driveways, walkways, landscaping, fencing, retaining walls, and site drainage per Rev. Proc. 87-56 asset class 00.3
Building Structure	27.5 years	Remaining structural building components — foundation, framing, roofing, exterior walls, core mechanical/electrical/plumbing systems

Component Extraction Framework

The study applies a systematic component extraction process: (1) identification of all building systems and sub-systems from property characteristics, public records, and taxpayer-provided information; (2) classification of each component under IRC §1245 (tangible personal property), IRC §1250 (real property and land improvements), and Revenue Procedure 87-56 asset classes; (3) estimation of Replacement Cost New (RCN) for each component using industry-standard cost databases adjusted by BLS PPI time index; (4) physical depreciation / remaining life is tracked per component for context (allocation is based on RCN); and (5) reconciliation of total component costs to the taxpayer's actual depreciable basis.

Cost Reference Databases

Component cost estimates are derived from and cross-referenced against the following industry-standard construction cost databases and references:

• Industry construction cost databases — national construction cost benchmarks by building type, quality tier, and geographic region

• Marshall Valuation Service (CoreLogic) — replacement cost estimation and depreciation schedules for commercial and residential property

• Bureau of Labor Statistics Producer Price Index (PPI) — construction cost time index applied to adjust base cost schedules from anchor date to current period

• IRS Cost Segregation Audit Techniques Guide — component percentage allocation guidelines and classification criteria (Chapters 6-8)

Regional cost adjustments are applied using public price-level indices to account for geographic variation in labor and material costs. Quality tier adjustments reflect the property's value per square foot relative to regional construction cost averages. A BLS Producer Price Index (PPI) time adjustment inflates base cost schedules from their anchor date to the current period. This report should be reviewed by the taxpayer's CPA or qualified tax professional prior to filing.

Replacement Cost New (RCN) Derivation Workflow

The following table summarizes the five-step derivation from base replacement cost to final allocated depreciable basis for this property:

Step	Description	Factor	Result
1	Modeled Replacement Cost New (all components)	$233.53/SF	$396,996
2	Market Reconciliation Factor	× 1.12	**$445,830**

Note: The final allocated basis equals the property's depreciable basis (purchase price less land value). Component-level RCN estimates are calibrated to the taxpayer's actual cost basis using cost approach normalization.

Replacement Cost New (RCN) estimates were developed using industry construction cost databases. Each component retains the same proportional share of total basis. The aggregate modeled cost is normalized to equal the taxpayer's actual depreciable basis, consistent with cost approach methodology described in the IRS Cost Segregation Audit Techniques Guide (ATG).

Land Value Allocation

The land allocation of 18.9% for the property at 62 Lakey Mountain Rd is determined using county assessor data and comparable sales analysis, consistent with typical land-to-improvement ratios for residential properties in Black Mountain, NC. This allocation reflects the property's price-per-square-foot relative to the local market, ensuring an accurate representation of land value.

This allocation is consistent with the cost approach methodology described in the IRS Cost Segregation Audit Techniques Guide (ATG), which permits the use of assessor data and market-derived inputs when direct land valuation data is not available.

Cost Estimation Sources & Databases

Component costs are derived from a proprietary cost database calibrated against industry-standard construction cost references including Marshall Valuation Service cost tables, RS Means Square Foot Cost Data, and publicly available construction cost indices published by the Bureau of Labor Statistics. Regional cost multipliers are based on RS Means City Cost Index data adjusted for local construction market conditions. Quality tier adjustments reflect property value per square foot relative to regional averages.

Square Footage Allocation & Reconciliation

Base component costs are estimated on a per-square-foot basis using the property's gross building area. This method is consistent with the residual cost approach recognized by the IRS Cost Segregation Audit Techniques Guide (Chapter 7.3), which identifies per-unit cost estimation as an acceptable methodology for cost segregation analyses. Component costs are calibrated against RSMeans Square Foot Cost Data and Marshall Valuation Service cost tables for the applicable building type and quality tier.

Metric	Value
Gross Building Area	1,700 SF
Purchase Price	$550,000
Land Value Allocation	$104,170 (18.9%)
Depreciable Basis	**$445,830**
Implied Cost per SF	**$262.25/SF**
Accelerated Reclassification per SF	$66.44/SF
27.5-Year Property per SF	$195.81/SF

Cost Calculation Methodology

For each building component, the following calculation methodology is applied:

Step 1 - Base Cost Estimation: Component costs are estimated on a per-square-foot basis using construction cost data appropriate for the property type, construction class, and quality tier.

Step 2 - Regional Adjustment: Base costs are adjusted using regional cost multipliers that reflect local construction costs relative to the national average.

Step 3 - Indirect Costs: A 25% indirect cost factor is applied to account for contractor overhead, profit, architectural and engineering fees, and other soft costs. Industry studies indicate residential indirect costs range between 20%–30%, consistent with RSMeans contractor markup benchmarks and IRS ATG guidelines for cost segregation.

Step 4 - Remaining Life Adjustment:

For a property built in 2008, the remaining useful life of components is adjusted for physical depreciation. At 18 years old, many components may exhibit moderate wear, which affects their cost allocation. This consideration ensures that the depreciation schedule accurately reflects the property's current condition.

Step 5 - Premium/Discount Reconciliation:

The reconciliation factor of 1.1230 indicates that the replacement cost closely approximates the depreciable basis of the property. This factor suggests that the cost segregation analysis aligns well with the property's market value and construction costs, providing a reliable basis for depreciation calculations.

Asset Classification Criteria

Each component is classified into the appropriate MACRS recovery period based on IRS guidelines, Revenue Rulings, and relevant Tax Court decisions. Classification criteria include the six-factor functional interdependence test established in *Whiteco Industries v. Commissioner* (65 T.C. 664):

(1) Whether the property is capable of being moved without damage to the building; **(2)** Whether the property is designed for permanent installation; **(3)** Whether there are permanent connections to utility systems; **(4)** Whether the property is designed for a specific purpose; **(5)** Whether removal would cause damage to the property or the building; **(6)** The weight and size of the property relative to the building.

Components meeting the functional test for personal property under Treas. Reg. 1.48-1(e)(1) are classified as 5-year or 7-year MACRS property per Rev. Proc. 87-56. Land improvements are classified under IRS Asset Class 00.3 (15-year recovery). Structural components integral to the building are classified as real property under IRC §1250 with a recovery period of 27.5 years (residential rental).

Placed-in-Service & Depreciation Eligibility

This property was placed in service on 2025-06-15 for purposes of IRC §167 and §168. Based on the placed-in-service year of 2025, eligible reclassified assets may qualify for bonus depreciation under IRC §168(k) under current federal tax law.

This property is classified as residential rental property under IRC §168(e)(2)(A), with structural components assigned a 27.5-year recovery period under MACRS. The property must be held for use in a trade or business or for the production of income (IRC §167(a)) and must be 'placed in service' — available and ready for its intended use. For short-term rental properties, the taxpayer must materially participate in the rental activity or qualify under the real estate professional exception to claim current-year depreciation deductions against ordinary income.

Legal Authority for Asset Classification

This cost segregation study was performed using an engineering cost approach consistent with the guidance outlined in the IRS Cost Segregation Audit Techniques Guide. Asset classifications were established based on the following authorities:

Authority	Description
IRC §168	Modified Accelerated Cost Recovery System (MACRS) — establishes recovery periods for tangible depreciable property
IRC §1245	Tangible personal property classification — property not inherently permanent or structural in nature
IRC §1250	Real property classification — structural components and land improvements
Rev. Proc. 87-56	Asset class recovery periods — assigns MACRS lives by asset class (e.g., 00.11 Office Furniture, 00.3 Land Improvements)
IRC §168(k)	Bonus depreciation — allows first-year deduction of qualifying property placed in service in the applicable tax year
Treas. Reg. §1.48-1(e)(1)	Defines the functional interdependence test for distinguishing personal property from structural components
IRS ATG (2022)	Cost Segregation Audit Techniques Guide — IRS reference for reviewing cost segregation studies, including methodology standards and quality elements

Assets classified as **5-year property** represent tangible personal property that is not structural in nature, including removable fixtures, appliances, cabinetry, decorative finishes, and specialty electrical and plumbing components.

Assets classified as **15-year property** represent land improvements such as landscaping, walkways, paving, fencing, and site drainage consistent with Rev. Proc. 87-56 asset class 00.3.

All remaining building components are depreciated as **27.5-year residential rental property** under MACRS.

This report is intended to support the taxpayer's depreciation treatment and may be provided to tax advisors or taxing authorities upon request.

11. Schedule for Fixed Asset Ledger Entry

CSS-WP-500

This schedule can be entered directly into your CPA's tax preparation software — no manual reclassification required.

The following schedule is provided for direct entry into the taxpayer's fixed asset ledger or tax preparation software. Each line item represents a reclassified asset with the applicable MACRS method, convention, recovery period, and allocated cost.

Asset Description	Method	Conv.	Life	PIS Date	Cost Basis
Bedroom Furniture (Beds, Dressers, Nightstands)	200DB	HY	5 yr	2025-06-15	$13,279
Living Area Furniture (Sofas, Tables, Chairs)	200DB	HY	5 yr	2025-06-15	$11,162
Carpet & Pad	200DB	HY	5 yr	2025-06-15	$8,637
Appliances	200DB	HY	5 yr	2025-06-15	$7,850
Televisions & Electronics	200DB	HY	5 yr	2025-06-15	$5,476
Vinyl/Laminate Flooring	200DB	HY	5 yr	2025-06-15	$4,544
Light Fixtures	200DB	HY	5 yr	2025-06-15	$4,104
Outdoor Furniture & Accessories	200DB	HY	5 yr	2025-06-15	$3,352
Linens, Bedding & Towels	200DB	HY	5 yr	2025-06-15	$3,123
Removable Kitchen Fixtures	200DB	HY	5 yr	2025-06-15	$2,744
Kitchen Smallwares & Cookware	200DB	HY	5 yr	2025-06-15	$2,108
Dining Furniture	200DB	HY	5 yr	2025-06-15	$2,005
Window Treatments	200DB	HY	5 yr	2025-06-15	$1,924
Removable Laminate Surfaces	200DB	HY	5 yr	2025-06-15	$1,635
Bathroom Accessories & Fixtures	200DB	HY	5 yr	2025-06-15	$1,576
Ceiling Fans	200DB	HY	5 yr	2025-06-15	$1,273
Closet Shelving	200DB	HY	5 yr	2025-06-15	$1,190
Specialty Electrical	200DB	HY	5 yr	2025-06-15	$1,078
Door Hardware & Accessories	200DB	HY	5 yr	2025-06-15	$1,054
Removable Plumbing Trim	200DB	HY	5 yr	2025-06-15	$1,012
Decorative Millwork	200DB	HY	5 yr	2025-06-15	$944

Bathroom Hardware	200DB	HY	5 yr	2025-06-15	$833
Kitchen Hood & Ventilation	200DB	HY	5 yr	2025-06-15	$626
Smoke/CO Detectors	200DB	HY	5 yr	2025-06-15	$321
Decorative Items & Artwork	200DB	HY	7 yr	2025-06-15	$2,124
Wood Deck/Porch	150DB	HY	15 yr	2025-06-15	$5,506
Concrete Paving & Walks	150DB	HY	15 yr	2025-06-15	$5,294
Landscaping	150DB	HY	15 yr	2025-06-15	$4,961
Fencing	150DB	HY	15 yr	2025-06-15	$4,254
Asphalt Paving	150DB	HY	15 yr	2025-06-15	$2,654
Storm Drainage & Grading	150DB	HY	15 yr	2025-06-15	$1,770
Irrigation System	150DB	HY	15 yr	2025-06-15	$1,554
Retaining Walls	150DB	HY	15 yr	2025-06-15	$1,388
Exterior Lighting	150DB	HY	15 yr	2025-06-15	$1,338
Mailbox & Site Accessories	150DB	HY	15 yr	2025-06-15	$256
Remaining 27.5-Year Real Property	SL	MM	27.5 yr	2025-06-15	**$332,881**
TOTAL DEPRECIABLE BASIS					**$445,830**

Legend: 200DB = 200% Declining Balance; 150DB = 150% Declining Balance; SL = Straight-Line; HY = Half-Year Convention; MM = Mid-Month Convention; PIS = Placed in Service.

Note: Assets with recovery periods of 20 years or less qualify for 100% bonus depreciation under IRC §168(k). Apply bonus depreciation before entering the remaining basis into MACRS schedules.

CPA Filing Note

Most CPAs incorporate the results of this study into the taxpayer's return by entering the asset schedule above directly into their depreciation software (Lacerte, ProSeries, Drake, UltraTax, or equivalent) and applying the bonus depreciation calculation to qualifying assets. For lookback studies where the property was placed in service in a prior year, the report includes Form 3115 catch-up calculations so the CPA can file a change of accounting method. If the taxpayer's CPA has questions about this report, they may contact us directly at support@costsegsmart.com.

CPA Review Considerations

The following items are provided for review by the taxpayer's CPA or tax advisor:

- **Form 3115 (Lookback Study):** This property was placed in service in 2025. To claim accelerated depreciation retroactively, the taxpayer should file Form 3115 (Application for Change in Accounting Method) with the current-year return. The Section 481(a) adjustment captures all prior-year missed depreciation in a single year.
- **Post-Acquisition Improvements:** Capital improvements placed in service after the original acquisition date should be evaluated separately for depreciation treatment. These may qualify for bonus depreciation or repair expense treatment under applicable regulations.
- **Passive Activity Limitations:** Accelerated depreciation deductions may be subject to passive activity loss rules under IRC §469. The taxpayer's ability to utilize these deductions depends on their participation level and other income sources.
- **State Tax Conformity:** State-level conformity to federal bonus depreciation rules should be reviewed for NC. Not all states conform to federal bonus depreciation provisions.
- **Bonus Depreciation:** The applicable bonus depreciation rate should be confirmed with the taxpayer's tax advisor based on the placed-in-service year and current federal tax law.

This study provides the asset classification framework; final tax treatment should be confirmed based on the taxpayer's specific filing position.

12. Conclusion

Based on the analysis performed, it is our opinion that the subject property at **62 Lakey Mountain Rd, Black Mountain, NC 28711** contains identifiable components that qualify for accelerated depreciation under applicable federal tax law.

Using an engineering cost approach, this study allocated **$112,949** of the property's **$445,830** depreciable basis to shorter recovery periods, including 5-year, 7-year, and 15-year property classifications, in accordance with the Internal Revenue Code and supporting authority. All allocations reconcile to the total depreciable basis of the property.

Under applicable bonus depreciation provisions (IRC §168(k)), the full **$112,949** in reclassified assets may be deductible in the year placed in service, subject to the taxpayer's individual tax circumstances.

The allocations presented represent a reasonable and supportable classification of property components, consistent with IRS guidance, applicable case law, and standard cost segregation practices.

This report is intended to assist the taxpayer and their tax advisor in calculating depreciation deductions, preparing federal income tax filings (including Form 4562), and supporting accounting positions related to asset classification. This report may be relied upon by the taxpayer and their tax advisor for tax reporting purposes. Final tax treatment should be determined in consultation with a qualified tax professional.

Audit Support. In the event of an IRS inquiry, Cost Seg Smart will provide supplementary documentation, cost derivation workpapers, and methodology explanations to support the classifications and allocations in this report at no additional cost.

Prepared by Cost Seg Smart
Study Date: May 01, 2026

A. Appendix A — Cost Derivation Summary

CSS-WP-510

The following table summarizes the cost derivation methodology applied to each major component category. Replacement Cost New (RCN) estimates are adjusted for regional factors, PPI time index, and market reconciliation to equal the property's actual depreciable basis. Physical depreciation / remaining life is tracked per component for context; allocation is based on RCN.

Category	RCN (Pre-Recon)	Avg RLF (Info)	Recon. Factor	Final Allocated Basis
5-Year Personal Property	$72,885	0.20	1.12	**$81,850**
7-Year Personal Property	$1,892	0.20	1.12	**$2,124**
15-Year Land Improvements	$25,800	0.40	1.12	**$28,974**
27.5-Year Real Property	$296,419	0.67	1.12	**$332,881**
Total Depreciable Basis	**$396,996**	—	1.12	**$445,830**

Location Cost Index: 0.90 (state level — Black Mountain, NC). Applied to modeled RCN to reflect local construction cost conditions.

Reconciliation: Component-level RCN estimates are normalized to the property's depreciable basis so that all allocated costs collectively equal the recorded acquisition price less land value. Remaining life factors (RLF) are shown for transparency but are not applied to component costs pre-reconciliation.

Land Allocation Analysis

The IRS Cost Segregation ATG (Chapter 4) requires that cost segregation studies clearly identify and support the land allocation. The following methods were considered in determining the land value for this property:

Method	Result	Description	Weight
A.1 County Tax Assessor Allocation	N/A	County assessor data not available for this property. When available, assessor allocations provide a recognized IRS-accepted benchmark per ATG Chapter 4.	Not Available
A.2 Statistical Market Analysis	18.9%	Metro-area land ratio analysis based on median land-to-value ratios for the Black Mountain, NC submarket, calibrated against comparable property sales data and construction cost indices.	Primary
A.3 Replacement Cost Residual	18.9%	Purchase price less estimated replacement cost of improvements (Marshall Valuation Service / RSMeans). The residual represents the implied land value under the cost approach.	Corroborating

A.4 Comparable Sales Analysis	—	Vacant land sales in the immediate submarket would provide direct market evidence. This method is referenced for completeness but was not independently performed for this study.	Not Performed
A.5 Purchase Agreement Allocation	—	If the purchase contract or HUD-1/ALTA settlement statement contains a land/improvement allocation, that buyer-seller negotiated split may be used. Not provided for this study.	Not Provided
A.6 Adopted Land Allocation	**18.9%**	Based on the statistical market analysis as the primary method, corroborated by replacement cost residual analysis. Land value of $104,170 (18.9% of purchase price) is adopted for this study.	**Adopted**

B. Appendix B — IRS ATG Quality Elements

CSS-WP-600

The IRS Cost Segregation Audit Techniques Guide identifies 13 principal elements of a quality cost segregation study. This report addresses each element as follows:

ATG Element	How Addressed
1. Preparation by individuals with expertise	Engineering-informed methodology using industry-standard cost databases and IRS classification criteria.
2. Detailed description of methodology	Section 9 — Methodology & Basis of Analysis describes the cost approach, data sources, and reconciliation process.
3. Use of appropriate documentation	Property details, construction data, regional cost factors, and county assessor records are incorporated.
4. Interviews & site inspection alternatives	Property photos and detailed intake questionnaire substitute for physical site inspection, consistent with ATG guidance for desk reviews.
5. Use of actual cost records	Where available, purchase records and assessor data supplement engineering cost estimates.
6. Determination of unit costs	Per-square-foot cost estimation using RSMeans and Marshall Valuation Service references.
7. Identification of section 1245 property	Components are individually classified under Treas. Reg. 1.48-1 and the Whiteco six-factor functional test.
8. Identification of section 1250 property	Land improvements classified under IRS Asset Class 00.3 with 15-year recovery per Rev. Proc. 87-56.
9. Identification of land/land improvements	Land allocation based on statistical metro-level data consistent with county assessor records.
10. Accuracy of computations	All allocations reconcile to depreciable basis. Depreciation schedules verified computationally.
11. Support for conclusions	Engineering narratives, IRS citations, and Whiteco functional analysis provided for each category.
12. Overall reasonableness	Acceleration percentages consistent with IRS audit benchmarks for property type and construction class.
13. Preparation or review by qualified professional	Report should be reviewed by the taxpayer's CPA or qualified tax professional prior to filing.

C. Appendix C — Revenue Procedure 87-56 & IRC Framework

CSS-WP-610

This cost segregation study is prepared in accordance with the following Internal Revenue Code sections, Treasury Regulations, and IRS guidance:

Reference	Application
IRC §167	Depreciation deduction for property used in trade/business or production of income.
IRC §168	Modified Accelerated Cost Recovery System (MACRS) — recovery periods by asset class.
IRC §168(e)(2)(A)	Residential rental property: 80%+ gross income from dwelling units. Recovery: 27.5 years.
IRC §168(e)(2)(B)	Nonresidential real property. Recovery: 39 years.
IRC §168(k)	Bonus depreciation — rates vary by placed-in-service year. Confirm applicable rate with tax advisor.
IRC §1245	Personal property: accelerated depreciation subject to ordinary income recapture.
IRC §1250	Real property: structural components subject to unrecaptured §1250 gain (25%).
Treas. Reg. §1.48-1(e)(1)	Tangible personal property: all tangible property except land, land improvements, buildings, and structural components.
Treas. Reg. §1.1250-1(e)(2)	Building: any structure enclosing a space within walls and covered by a roof.
Rev. Rul. 68-4	Criteria for structural component vs. tangible personal property classification.
Rev. Proc. 87-56	Class lives and recovery periods for depreciable assets under MACRS.
IRS ATG (Rev. 2022)	Cost Segregation Audit Techniques Guide — 13 elements of a quality study.

D. Appendix D — Case Law & IRS Rulings

CSS-WP-620

The following court decisions and IRS rulings establish the legal framework for component classification in cost segregation studies:

Case / Ruling	Citation	Significance
Hospital Corp. of America v. Commissioner	109 T.C. 21 (1997)	Established that items which are affixed to a building may still constitute personal property if they serve the taxpayer's business activity rather than the building itself.
Whiteco Industries v. Commissioner	65 T.C. 664 (1975)	Established the six-factor test for determining whether property is a structural component or tangible personal property: (1) manner of affixation, (2) whether designed to be permanently affixed, (3) damage upon removal, (4) function of the property, (5) relationship to building operation, (6) intent at installation.
Scott Paper Co. v. Commissioner	74 T.C. 137 (1980)	Reinforced that the 'intent at time of installation' is a relevant factor in determining whether property is personal or structural.
Morrison Inc. v. Commissioner	T.C. Memo 1986-129	Applied the Whiteco factors to restaurant properties, finding that decorative items, specialty lighting, and removable kitchen equipment qualify as personal property.
Meyers Parking System Inc. v. Commissioner	T.C. Memo 1991-18	Addressed the classification of site improvements and their treatment as land improvements with a 15-year recovery period.
IRS Cost Segregation ATG, Chapter 3	Rev. 2022	Provides detailed guidance on the engineering approach to cost segregation, including acceptable methodologies (detailed engineering, residual estimation, sampling/modeling) and the 13 principal elements of a quality study.

E. Appendix E — Audit Documentation & Support

This section provides guidance for audit documentation preparedness and documentation retention in support of the cost segregation reclassifications contained in this study.

Workpaper Retention

Cost Seg Smart maintains complete workpapers for this study, including component-level cost calculations, classification rationale, and reconciliation documentation. These workpapers are retained for the applicable IRS statute of limitations period (generally three years from the filing date, or six years if gross income is understated by more than 25%). The taxpayer should retain a copy of this report and all supporting documentation for the same period.

Component-Level Allocation Methodology

Each component in this study has been individually identified, classified, and costed using the detailed engineering cost approach. This methodology satisfies the IRS requirement for component-level analysis as described in the Cost Segregation Audit Techniques Guide (ATG), Chapter 4. The study provides:

• Individual component identification with IRS asset class assignment

• Cost estimation per component using industry-standard cost databases

• Classification rationale citing IRC sections, Treasury Regulations, and case law

• Reconciliation of modeled costs to actual taxpayer basis

• IRS asset class assignment with supporting legal citations for each classification

IRS ATG Compliance Affirmation

This cost segregation study has been prepared in compliance with the 13 principal elements of a quality cost segregation study as identified in the IRS Cost Segregation Audit Techniques Guide (ATG), Chapter 4.4. These elements include: preparation by an individual with appropriate expertise; use of appropriate documentation and methodology; identification of the property analyzed; description of the analytical approach; determination of all direct and indirect costs; identification and classification of each asset; an explanation of the legal analysis; and a clear summary of allocations and conclusions.

Recordkeeping Recommendations

To support audit defensibility, the taxpayer should maintain the following documentation in addition to this report:

• Purchase agreement and closing statement (HUD-1 / ALTA settlement statement)

• Property photographs documenting building systems and site improvements

• Construction plans, specifications, or renovation invoices (if available)

- County tax assessor records showing land and improvement values
- Any independent appraisal or environmental reports
- Insurance policy declarations page showing replacement cost estimates

For questions regarding audit documentation or support, contact Cost Seg Smart at support@costsegsmart.com.

NPV Analysis (Illustrative Only)

CSS-WP-310

This section is provided for illustrative purposes only and is not part of the cost segregation allocation. Actual tax outcomes depend on the taxpayer's specific circumstances, income, and applicable tax rates.

Accelerating deductions into earlier years increases their present value — a dollar of tax savings today is worth more than one spread over decades.

The NPV analysis methodology assumes a 5% discount rate and a 37% marginal tax rate. Accelerated deductions in earlier years are more valuable in present-value terms due to the time value of money. Actual savings depend on the taxpayer's specific rate and circumstances, highlighting the importance of tailored tax planning.

Cost segregation does not change the total depreciation allowed over the life of the property. It accelerates deductions into earlier years, increasing the present value of the associated tax savings.

Scenario	NPV of Tax Savings from Depreciation
Without Cost Segregation (Straight-Line)	$85,744
With Cost Segregation + Bonus Depreciation	**$103,822**
NPV Benefit of Cost Segregation	**$18,078**

Assumptions: Discount rate: 5.0% | Marginal tax rate: 37% (illustrative — actual rate depends on taxpayer's specific situation) | 100% bonus depreciation applied to eligible 5-year and 15-year property (per IRC §168(k) for placed-in-service year) | Half-year convention applied to first and last years of all MACRS schedules. This analysis does not account for passive activity loss limitations, depreciation recapture, or state tax variations.

F. Appendix F — Exhibits & Supporting Documentation

CSS-WP-700

The following exhibits and supporting documentation are maintained for audit documentation purposes.

Property Photo Documentation

Property photographs and imagery are presented in the Property Visual Context section of this report. 0 photograph(s) and satellite/aerial imagery were used to inform component classifications for the subject property at 62 Lakey Mountain Rd, Black Mountain, NC 28711.

Aerial / Satellite Imagery

Aerial imagery of the subject property at 62 Lakey Mountain Rd, Black Mountain, NC 28711, obtained via Google Maps Static API.

Aerial View — Subject Property

Audit Documentation Checklist

Document	Status
Purchase/closing documentation (HUD-1 or settlement statement)	Recommended
Property tax assessment showing land/improvement split	Recommended
Property photographs (exterior and interior)	Required
This cost segregation study report	Required
IRS Form 3115 (if lookback study — change in accounting method)	If applicable
MACRS depreciation schedules (provided in this report)	Included
Component classification support (engineering narratives)	Included
IRS legal citations and regulatory framework	Included
Entity formation and ownership documentation	Recommended
Loan documents and financing records	Optional
Prior appraisal or inspection reports	Optional

Floor plans or architectural drawings	**Optional**

G. Appendix G — Disclaimers & Limitations

CSS-WP-800

Professional Review: This cost segregation study was prepared in accordance with the engineering cost approach outlined in the IRS Cost Segregation Audit Techniques Guide. Component classifications follow established IRS guidance, Treasury Regulations, and relevant Tax Court precedent. This report should be reviewed by a licensed Certified Public Accountant (CPA) or qualified tax professional prior to filing to ensure compatibility with the taxpayer's specific tax situation, including passive activity limitations, at-risk rules, and state conformity considerations.

Scope of Services: This report is provided for tax preparation and planning purposes. Cost Seg Smart provides engineering cost allocation analysis using proprietary cost databases and IRS-compliant classification methodology. This report does not constitute tax advice, legal advice, or accounting advice. The taxpayer's CPA or tax professional should apply these findings to the taxpayer's specific return.

CPA Review Note: This report is intended to assist the taxpayer and their tax advisor in determining appropriate depreciation treatment under applicable tax law. The allocations presented represent engineering cost estimates derived from construction cost references and applicable IRS guidance. Final tax treatment, including the decision to claim accelerated depreciation and the application of passive activity rules, remains at the sole discretion of the taxpayer's qualified tax professional.

Accuracy of Information: The accuracy of this study depends on the completeness and accuracy of the property information provided by the user. Cost Seg Smart makes no warranty regarding the accuracy of estimated component costs, as actual costs may vary based on specific construction details, materials, and conditions not captured in the standard input process.

IRS Audit Risk: While cost segregation is a well-established tax strategy recognized by the IRS, any depreciation deduction may be subject to IRS examination. The IRS may challenge the classification of specific components. Users should maintain supporting documentation including purchase agreements, inspection reports, and photographs for audit documentation.

Bonus Depreciation: This study applies 100% bonus depreciation based on the property's placed-in-service year. Historical rates: 100% (2022 and prior), 80% (2023), 60% (2024). Bonus depreciation treatment depends on applicable federal tax law for the placed-in-service year. This analysis assumes full expensing of eligible assets for qualified property acquired and placed in service in 2025 and later. Users should verify current bonus depreciation availability with their tax professional at the time of filing.

State Tax Considerations: Some states do not conform to federal bonus depreciation provisions. State depreciation deductions may differ from the federal amounts shown in this report. Consult your CPA regarding state-specific rules.

This report was prepared by Cost Seg Smart using engineering cost allocation methodology. For questions regarding this study, please contact support@costsegsmart.com.

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