



Engineering-Based Cost Segregation Study — Single-Family  
Residential Rental

**412 Magnolia Ln**  
Nashville, TN 37209

Purchase Price

**\$550,000**

Accelerated Asset Reclassification

**\$74,481**

Depreciable Basis

**\$425,040**

Report Number

**CSS-20260314-52603**

Prepared for: Sample Report — SFR Investor

Study Date: March 14, 2026

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# Engineering-Based Cost Segregation Report

CSS-WP-010

Dear Sample Report — SFR Investor,

Cost Seg Smart was engaged to perform an engineering-based cost segregation study for the property located at 412 Magnolia Ln, Nashville, TN 37209.

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

The study identified a total of \$74,481 in accelerated depreciation, with \$44,675 classified as 5-year property and \$29,807 as 15-year property. The applicable bonus depreciation rate for the placed-in-service year 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 limited to the scope of the study and should be verified with supporting documentation where possible.

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.

Sincerely,

Cost Seg Smart Engineering & Tax Analysis Team [costsegsmart.com](http://costsegsmart.com)

If your CPA has questions about this report, they can reach us directly at [support@costsegsmart.com](mailto:support@costsegsmart.com).

Report No.: CSS-20260314-52603

# 1. Executive Summary

## Single-Family Residential Rental

CSS-WP-100

*The study identified \$74,481 of assets eligible for accelerated depreciation — 17.5% of the property's depreciable basis.*

The property at 412 Magnolia Ln 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 to optimize the property's depreciation schedule. As a single-family rental, the analysis focuses on distinguishing between structural components and tangible personal property, consistent with IRS guidance. The study identified 17.5% of the property's depreciable basis as eligible for accelerated depreciation.

### Scope of Work

This cost segregation study was performed to identify property components that may qualify for accelerated depreciation under the Modified Accelerated Cost Recovery System (MACRS) in accordance with Internal Revenue Code §168. The analysis applied an engineering-based cost approach using construction cost data, public records, and taxpayer-provided information, combined with applicable IRS asset classification guidance, to allocate portions of the building cost to shorter recovery period property.

The study was conducted in a manner consistent with the principles outlined in the IRS Cost Segregation Audit Techniques Guide (ATG). The results presented in this report are intended to assist the taxpayer and their tax advisor in determining appropriate depreciation treatment for federal income tax purposes.

All cost allocations in this report represent estimates derived from construction cost data, public records, property characteristics, and applicable tax guidance. This study does not constitute tax, legal, or accounting advice and should be reviewed by the taxpayer's qualified tax advisor prior to filing.

### Reclassification Results

Our analysis identified **\$74,481** (17.5% of depreciable basis) in building systems eligible for reclassification into shorter MACRS recovery periods.

This study identified **\$74,481** of building components eligible for shorter MACRS recovery periods, which may generate a first-year deduction of up to **\$74,481** under 100% bonus depreciation, subject to the taxpayer's individual tax circumstances.

### Tax Timing Impact

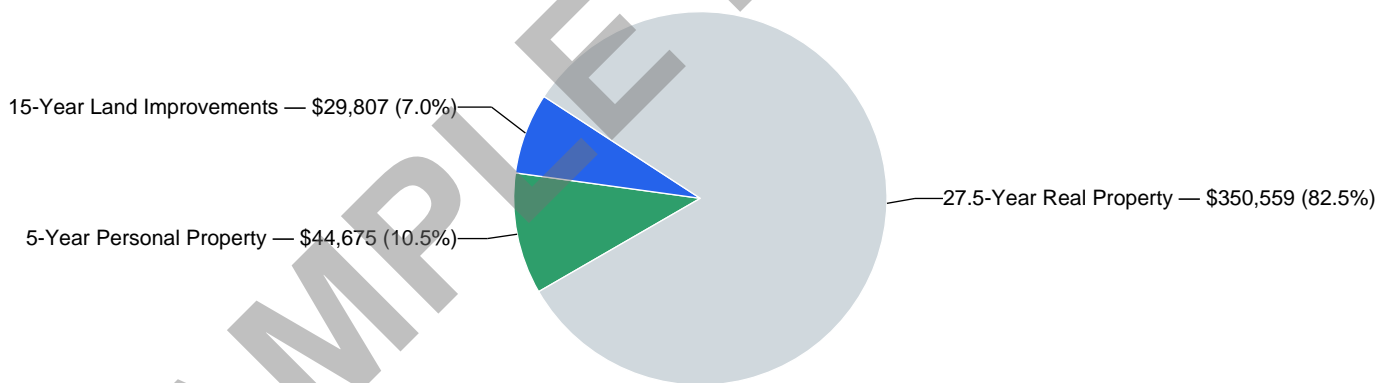
For the year 2025, the applicable bonus depreciation rate is 100% under IRC §168(k). Qualified property placed in service in this year benefits from the restoration of 100% bonus depreciation under current federal tax law, allowing for immediate expensing of eligible assets.

### Engineering Analysis Summary

Based on the wood frame residential construction typical of 2012-era builds in the Nashville, TN market, our analysis identified component-level allocations consistent with properties of this age, construction class, and quality tier. As a single-family rental, this property's accelerated components are concentrated in removable interior finishes, appliances, and site improvements.

Metric	Value
Purchase Price	\$550,000
Land Value (Non-Depreciable)	\$124,960
<b>Total Depreciable Basis</b>	<b>\$425,040</b>
5-Year Personal Property	\$44,675 (10.5%)
15-Year Land Improvements	\$29,807 (7.0%)
27.5-Year Real Property	\$350,559 (82.5%)
<b>Total Accelerated Asset Reclassification</b>	<b>\$74,481 (17.5%)</b>

Depreciable Basis Allocation by MACRS Class



Estimated First-Year Tax Savings (100% Bonus Depreciation)

Tax Bracket	First-Year Deduction	Estimated Tax Savings
24%	\$74,481	\$17,876
32%	\$74,481	\$23,834
37%	\$74,481	\$27,558

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 **\$425,040** 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 17.5% accelerated depreciation, which falls within the commonly observed range of 15%-25% for comparable single-family residential properties of similar age and construction class.

SAMPLE REPORT

### IRS Cost Segregation ATG Compliance

This study was prepared using the engineering cost approach described in the IRS Cost Segregation Audit Techniques Guide (ATG), including:

- ✓ Component-level asset identification and classification
- ✓ Engineering cost estimation using industry construction cost databases
- ✓ Reconciliation of allocated costs to taxpayer depreciable basis
- ✓ Legal authority for asset classification (IRC §§1245, 1250)
- ✓ MACRS recovery schedules compliant with Rev. Proc. 87-56
- ✓ Documentation sufficient for IRS examination

*Prepared using industry-standard cost databases including RSMeans Construction Cost Data, BLS Producer Price Index adjustments, and regional construction cost factors. The methodology and documentation address the 13 principal elements of a quality cost segregation study described in the IRS Cost Segregation ATG.*

## CPA Quick-Reference Summary

### Property Facts

Property Address	412 Magnolia Ln, Nashville, TN 37209
Property Type	Single-Family Residential
Year Built	2012
Purchase Price	\$550,000
Land Value (Non-Depreciable)	\$124,960
Depreciable Basis	<b>\$425,040</b>
Placed in Service	2025-01-15

### Basis Allocation Summary

Asset Class	Amount	% of Basis
5-Year Personal Property	\$44,675	10.5%

15-Year Land Improvements	\$29,807	7.0%
27.5-Year Real Property	\$350,559	82.5%
<b>Total Accelerated Property</b>	<b>\$74,481</b>	<b>17.5%</b>

### Estimated Year-1 Depreciation (100% Bonus)

Asset Class	Accelerated Basis	Bonus Rate	Year-1 Deduction
5-Year Property	\$44,675	100%	\$44,675
15-Year Property	\$29,807	100%	\$29,807
<b>Total Year-1 Deduction</b>			<b>\$74,481</b>

### Estimated Tax Savings

Tax Bracket	Estimated Tax Savings
24%	\$17,876
32%	\$23,834
37%	\$27,558

Typical accelerated depreciation ranges for single-family residential properties constructed between 1980 and 2020 are approximately 15%–25% of depreciable basis. The **17.5%** allocation identified in this study falls within the expected range for properties of this type and construction class.

### Method Summary

- Engineering-based 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:** 412 Magnolia Ln, Nashville, TN 37209  
**Placed in Service:** 2025-01-15  
**Total Depreciable Basis:** \$425,040

## Accelerated Asset Schedule

Asset Class	Amount	Recovery Period	Convention	Bonus Eligible
Personal Property	\$44,675	5 years	Half-year	Yes (100%)
Land Improvements	\$29,807	15 years	Half-year	Yes (100%)
Building (27.5-yr)	\$350,559	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: \$44,675  
 Life: 5 years | Method: 200% DB | Convention: Half-year  
 Bonus Depreciation: 100%

### Asset 2 — Land Improvements (15-Year)

Basis: \$29,807  
 Life: 15 years | Method: 150% DB | Convention: Half-year  
 Bonus Depreciation: 100%

### Asset 3 — Building (27.5-Year)

Basis: \$350,559  
 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 — SFR Investor
Property Address	412 Magnolia Ln, Nashville, TN 37209
Property Type	Single Family Residence
Date of Acquisition	2025-01-15
Placed in Service	2025-01-15
Purchase Price	\$550,000
Building Area	2,100 SF
Year Built	2012
Bedrooms / Bathrooms	3 BR / 2.5 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.

### 3. Cost Allocation Summary

CSS-WP-210

*\$74,481 of the property's \$425,040 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	\$44,675	10.5%
Land Improvements	15-Year MACRS	\$29,807	7.0%
Real Property (Building)	27.5-Year Straight Line	\$350,559	82.5%
<b>Total Depreciable Basis</b>		<b>\$425,040</b>	<b>100.0%</b>
<b>Total Accelerated (Reclassified)</b>		<b>\$74,481</b>	<b>17.5%</b>

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
Carpet & Pad	\$9,264	5-Year
Appliances	\$8,468	5-Year
Vinyl/Laminate Flooring	\$5,018	5-Year
Light Fixtures	\$4,831	5-Year
Removable Kitchen Fixtures	\$3,120	5-Year
Window Treatments	\$2,137	5-Year

Bathroom Accessories & Fixtures	\$1,844	5-Year
Removable Laminate Surfaces	\$1,460	5-Year
Closet Shelving	\$1,369	5-Year
Door Hardware & Accessories	\$1,206	5-Year
Ceiling Fans	\$1,118	5-Year
Removable Plumbing Trim	\$1,097	5-Year
Specialty Electrical	\$952	5-Year
Bathroom Hardware	\$909	5-Year
Decorative Millwork	\$828	5-Year
<i>Other 5-Year Components (2 items)</i>	\$1,054	5-Year
<b>Subtotal — 5-Year</b>	<b>\$44,675</b>	
Concrete Paving & Walks	\$5,862	15-Year
Wood Deck/Porch	\$5,651	15-Year
Landscaping	\$5,212	15-Year
Fencing	\$4,341	15-Year
Asphalt Paving	\$2,242	15-Year
Storm Drainage & Grading	\$1,870	15-Year
Irrigation System	\$1,680	15-Year
Exterior Lighting	\$1,490	15-Year
Retaining Walls	\$1,179	15-Year
<i>Other 15-Year Components (1 items)</i>	\$278	15-Year
<b>Subtotal — 15-Year</b>	<b>\$29,807</b>	
<b>Total Accelerated (Reclassified)</b>	<b>\$74,481</b>	

### Property Characterization (IRC §1245 / §1250)

Asset Category	IRC Section	Recapture Treatment	Amount
5-Year Personal Property	§1245	Ordinary income recapture	\$44,675
15-Year Land Improvements	§1250	25% unrecaptured §1250 gain	\$29,807
27.5-Year Real Property	§1250	25% unrecaptured §1250 gain	\$350,559

### Tax Impact Analysis

Tax Scenario	Amount
Year 1 Depreciation WITHOUT Cost Segregation	\$15,456
<b>Year 1 Depreciation WITH Cost Segregation + 100% Bonus</b>	<b>\$87,229</b>
<b>Additional First-Year Deduction</b>	<b>\$71,773</b>
Estimated Federal Tax Reduction (37% marginal rate)	<b>\$26,556</b>
Estimated Federal Tax Reduction (32% marginal rate)	\$22,967
Estimated Federal Tax Reduction (24% marginal rate)	\$17,226

*Note: The reclassified asset total (\$74,481) differs from the additional first-year deduction (\$71,773) because these assets would have received \$2,708 in standard straight-line depreciation regardless of cost segregation.*

### First-Year Depreciation Comparison

Cost segregation increases first-year depreciation by \$71,773, concentrating the majority of tax benefits in Year 1 through bonus depreciation.



## 4. Detailed Component Breakdown

CSS-WP-220

27 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	Asset Cost	Indirect Costs	Total Depreciable Basis
Carpet & Pad	\$7,631	\$1,908	\$9,264
Vinyl/Laminate Flooring	\$4,133	\$1,033	\$5,018
Removable Kitchen Fixtures	\$2,570	\$643	\$3,120
Bathroom Accessories & Fixtures	\$1,519	\$380	\$1,844
Removable Laminate Surfaces	\$1,202	\$301	\$1,460
Appliances	\$6,975	\$1,744	\$8,468
Window Treatments	\$1,760	\$440	\$2,137
Door Hardware & Accessories	\$993	\$248	\$1,206
Light Fixtures	\$3,979	\$995	\$4,831
Ceiling Fans	\$921	\$230	\$1,118
Removable Plumbing Trim	\$904	\$226	\$1,097
Smoke/CO Detectors	\$289	\$72	\$351
Closet Shelving	\$1,128	\$282	\$1,369
Decorative Millwork	\$682	\$170	\$828
Specialty Electrical	\$784	\$196	\$952
Bathroom Hardware	\$748	\$187	\$909
Kitchen Hood & Ventilation	\$579	\$145	\$703
<b>Subtotal</b>	<b>\$36,799</b>	<b>\$9,200</b>	<b>\$44,675</b>

### 15-Year Land Improvements (IRC Section 1250)

Component	Asset Cost	Indirect Costs	Total Depreciable Basis
Concrete Paving & Walks	\$4,829	\$1,207	\$5,862
Asphalt Paving	\$1,847	\$462	\$2,242
Fencing	\$3,576	\$894	\$4,341
Landscaping	\$4,293	\$1,073	\$5,212
Irrigation System	\$1,384	\$346	\$1,680
Exterior Lighting	\$1,227	\$307	\$1,490
Retaining Walls	\$971	\$243	\$1,179
Wood Deck/Porch	\$4,655	\$1,164	\$5,651
Storm Drainage & Grading	\$1,540	\$385	\$1,870
Mailbox & Site Accessories	\$229	\$57	\$278
<b>Subtotal</b>	<b>\$24,552</b>	<b>\$6,138</b>	<b>\$29,807</b>

### 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	Asset Cost	Indirect Costs	Total Depreciable Basis
Foundation	\$26,149	\$6,537	\$31,745
Framing	\$42,650	\$10,662	\$51,778
Roofing	\$22,742	\$5,685	\$27,609
Exterior Walls & Siding	\$24,502	\$6,125	\$29,746
Windows & Exterior Doors	\$16,326	\$4,082	\$19,821
Insulation	\$8,558	\$2,140	\$10,390
Drywall & Finishing	\$20,274	\$5,068	\$24,613
Interior Paint	\$7,829	\$1,957	\$9,505

Kitchen Cabinets (Built-in)	\$8,146	\$2,037	\$9,890
Bathroom Vanities (Built-in)	\$2,220	\$555	\$2,695
Interior Doors	\$2,531	\$633	\$3,072
Tile Flooring	\$10,487	\$2,622	\$12,731
Plumbing Systems	\$33,953	\$8,488	\$41,221
Electrical Systems	\$28,455	\$7,114	\$34,546
HVAC Systems	\$23,389	\$5,847	\$28,396
Fire Sprinkler System	\$4,735	\$1,184	\$5,749
Permanently Affixed Countertops	\$5,811	\$1,453	\$7,054
<b>Subtotal</b>	<b>\$288,755</b>	<b>\$72,189</b>	<b>\$350,559</b>

## 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%	\$14,004
General Conditions & Supervision	5.5%	\$19,256
Equipment Rentals & Tools	3.5%	\$12,254
Permits & Inspections	2.0%	\$7,002
Insurance & Bonding	2.5%	\$8,753
Contractor Overhead & Profit	5.0%	\$17,505
Miscellaneous Indirects	2.5%	\$8,753
<b>Total Indirect Costs</b>	<b>25.0%</b>	<b>\$87,526</b>

Total direct costs: \$350,106. 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 (22.7%)	(\$124,960)	Land allocation per statistical
<b>Depreciable Basis</b>	<b>\$425,040</b>	<b>= Total Project Cost - Land</b>

## B. Cost Segregation Allocation

Asset Category	Recovery Period	Allocated Cost
Non-Depreciable Land	N/A	\$124,960
Personal Property	5-Year MACRS	\$44,675
Land Improvements	15-Year MACRS	\$29,807
Real Property (Building)	27.5-Year Straight Line	\$350,559
<b>Total</b>		<b>\$550,000</b>

## C. Reconciliation Verification

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

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 items typically have a 5-10 year replacement cycle, consistent with the Whiteco six-factor test, which supports their classification as short-lived assets.

### Cabinetry

Removable cabinetry is classified as 5-year property due to its lack of permanent attachment and functional independence from the building structure. This classification is supported by the attachment method and

functional interdependence test, distinguishing it from built-in cabinetry, which would be classified as 27.5-year property.

**Electrical**

Decorative and specialized electrical components, such as light fixtures and ceiling fans, are classified as 5-year property under Rev. Proc. 87-56 Asset Classes 00.11 and 00.12. These components are distinct from the core building electrical systems, which are integral to the building's operation and classified as 27.5-year property.

**Plumbing Fixtures**

Removable plumbing accessories, such as bathroom hardware, are classified as 5-year property due to their detachable nature and lack of integration with the building's plumbing infrastructure, which is classified as 27.5-year property.

**Site Work**

Site improvements, including concrete paving and landscaping, are classified as 15-year land improvements under IRC §168(e)(4). These improvements are not integral to the building structure and have a longer useful life than personal property but shorter than the building itself.

**Appliances**

Appliances are classified as 5-year personal property based on their freestanding nature, as opposed to built-in fixtures. This classification follows IRS ATG guidance, which differentiates between movable equipment and structural components.

**Finishes**

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

## 6. MACRS Depreciation Schedules

CSS-WP-300

*With 100% bonus depreciation, the estimated first-year depreciation deduction on reclassified assets is \$74,481.*

The following schedules show the annual depreciation deductions under MACRS for each asset category. The 5-year and 15-year property schedules include 100% bonus depreciation in Year 1 under current federal tax law (IRC §168(k)), effective for property placed in service in 2025 and later.

### 5-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
------	------------------	------------	-----------------

1	\$44,675	\$44,675	\$0
2	\$0	\$44,675	\$0
3	\$0	\$44,675	\$0
4	\$0	\$44,675	\$0
5	\$0	\$44,675	\$0
6	\$0	\$44,675	\$0

**15-Year Land Improvements (with 100% Bonus)**

Year	Annual Deduction	Cumulative	Remaining Basis
1	\$29,807	\$29,807	\$0
2	\$0	\$29,807	\$0
3	\$0	\$29,807	\$0
4	\$0	\$29,807	\$0
5	\$0	\$29,807	\$0
6	\$0	\$29,807	\$0
7	\$0	\$29,807	\$0
8	\$0	\$29,807	\$0
9	\$0	\$29,807	\$0
10	\$0	\$29,807	\$0
11	\$0	\$29,807	\$0
12	\$0	\$29,807	\$0
13	\$0	\$29,807	\$0
14	\$0	\$29,807	\$0
15	\$0	\$29,807	\$0
16	\$0	\$29,807	\$0

### 27.5-Year Real Property (Straight-Line)

Year	Annual Deduction	Cumulative	Remaining Basis
1	\$6,374	\$6,374	\$344,185
2	\$12,748	\$19,121	\$331,437
3	\$12,748	\$31,869	\$318,690
4	\$12,748	\$44,617	\$305,942
5	\$12,748	\$57,364	\$293,194
6	\$12,748	\$70,112	\$280,447
7	\$12,748	\$82,859	\$267,699
8	\$12,748	\$95,607	\$254,952
9	\$12,748	\$108,354	\$242,204
10	\$12,748	\$121,102	\$229,457
11	\$12,748	\$133,850	\$216,709
12	\$12,748	\$146,597	\$203,961
13	\$12,748	\$159,345	\$191,214
14	\$12,748	\$172,092	\$178,466
15	\$12,748	\$184,840	\$165,719
16	\$12,748	\$197,588	\$152,971
17	\$12,748	\$210,335	\$140,223
18	\$12,748	\$223,083	\$127,476
19	\$12,748	\$235,830	\$114,728
20	\$12,748	\$248,578	\$101,981
21	\$12,748	\$261,326	\$89,233
22	\$12,748	\$274,073	\$76,486
23	\$12,748	\$286,821	\$63,738
24	\$12,748	\$299,568	\$50,990
25	\$12,748	\$312,316	\$38,243
26	\$12,748	\$325,063	\$25,495
27	\$12,748	\$337,811	\$12,748
28	\$6,374	\$344,185	\$6,374

## 7. Net Present Value Analysis

CSS-WP-310

*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 assumes a 5% discount rate and a 37% marginal tax rate, illustrating that accelerated deductions in earlier years have a higher present value. Actual savings depend on the taxpayer's specific rate and circumstances, but the methodology highlights the value of time-shifting deductions.

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)	\$81,746
<b>With Cost Segregation + Bonus Depreciation</b>	<b>\$93,667</b>
<b>NPV Benefit of Cost Segregation</b>	<b>\$11,921</b>

**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.

## 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 involve IRC §1245 for personal property, which may be subject to ordinary income recapture, and IRC §1250 for real property, which may involve a 25% unrecaptured gain. 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
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5-Year & 7-Year Property	\$44,675	IRC §1245 — Ordinary Income	37%
15-Year Property	\$29,807	IRC §1250 — Unrecaptured Gain	25%
27.5-Year Property	\$350,559	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.

## 9. Methodology & Basis of Analysis

CSS-WP-400

*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-based 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.

### 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
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
<b>Building Structure</b>	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)	\$208.40/SF	\$437,632
2	Market Reconciliation Factor	× 0.97	<b>\$425,040</b>

**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 22.7% for this property in Nashville, TN, is based on metro-area statistical averages and county assessor median land-to-improvement ratios. This allocation reflects the property's price-per-square-foot relative to the local market, providing a reasonable estimate for land value.

## 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	2,100 SF
Purchase Price	\$550,000
Land Value Allocation	\$124,960 (22.7%)
<b>Depreciable Basis</b>	<b>\$425,040</b>
<b>Implied Cost per SF</b>	<b>\$202.40/SF</b>
Accelerated Reclassification per SF	\$35.47/SF
27.5-Year Property per SF	\$166.93/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 14-year-old property, components may exhibit physical depreciation, affecting their remaining useful life. This study considers such depreciation in the cost allocation, ensuring that the remaining life of components is accurately reflected in the depreciation schedule.

#### **Step 5 - Premium/Discount Reconciliation:**

The reconciliation factor of 0.97 indicates that the replacement cost closely approximates the depreciable basis of the property. This factor suggests that the cost allocation aligns well with the property's market value and physical characteristics.

### **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 2025-01-15 for purposes of IRC §167 and §168. Based on the placed-in-service year of 2025, the property qualifies for 100% 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-based 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
<b>IRC §168</b>	Modified Accelerated Cost Recovery System (MACRS) — establishes recovery periods for tangible depreciable property
<b>IRC §1245</b>	Tangible personal property classification — property not inherently permanent or structural in nature
<b>IRC §1250</b>	Real property classification — structural components and land improvements
<b>Rev. Proc. 87-56</b>	Asset class recovery periods — assigns MACRS lives by asset class (e.g., 00.11 Office Furniture, 00.3 Land Improvements)
<b>IRC §168(k)</b>	Bonus depreciation — allows first-year deduction of qualifying property placed in service in the applicable tax year
<b>Treas. Reg. §1.48-1(e)(1)</b>	Defines the functional interdependence test for distinguishing personal property from structural components
<b>IRS ATG (2022)</b>	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
Carpet & Pad	200DB	HY	5 yr	2025-01-15	\$9,264
Appliances	200DB	HY	5 yr	2025-01-15	\$8,468
Vinyl/Laminate Flooring	200DB	HY	5 yr	2025-01-15	\$5,018
Light Fixtures	200DB	HY	5 yr	2025-01-15	\$4,831
Removable Kitchen Fixtures	200DB	HY	5 yr	2025-01-15	\$3,120
Window Treatments	200DB	HY	5 yr	2025-01-15	\$2,137
Bathroom Accessories & Fixtures	200DB	HY	5 yr	2025-01-15	\$1,844
Removable Laminate Surfaces	200DB	HY	5 yr	2025-01-15	\$1,460
Closet Shelving	200DB	HY	5 yr	2025-01-15	\$1,369
Door Hardware & Accessories	200DB	HY	5 yr	2025-01-15	\$1,206
Ceiling Fans	200DB	HY	5 yr	2025-01-15	\$1,118
Removable Plumbing Trim	200DB	HY	5 yr	2025-01-15	\$1,097
Specialty Electrical	200DB	HY	5 yr	2025-01-15	\$952
Bathroom Hardware	200DB	HY	5 yr	2025-01-15	\$909
Decorative Millwork	200DB	HY	5 yr	2025-01-15	\$828
Kitchen Hood & Ventilation	200DB	HY	5 yr	2025-01-15	\$703
Smoke/CO Detectors	200DB	HY	5 yr	2025-01-15	\$351
Concrete Paving & Walks	150DB	HY	15 yr	2025-01-15	\$5,862
Wood Deck/Porch	150DB	HY	15 yr	2025-01-15	\$5,651
Landscaping	150DB	HY	15 yr	2025-01-15	\$5,212
Fencing	150DB	HY	15 yr	2025-01-15	\$4,341
Asphalt Paving	150DB	HY	15 yr	2025-01-15	\$2,242

Storm Drainage & Grading	150DB	HY	15 yr	2025-01-15	\$1,870
Irrigation System	150DB	HY	15 yr	2025-01-15	\$1,680
Exterior Lighting	150DB	HY	15 yr	2025-01-15	\$1,490
Retaining Walls	150DB	HY	15 yr	2025-01-15	\$1,179
Mailbox & Site Accessories	150DB	HY	15 yr	2025-01-15	\$278
<b>Remaining 27.5-Year Real Property</b>	SL	MM	27.5 yr	2025-01-15	<b>\$350,559</b>
<b>TOTAL DEPRECIABLE BASIS</b>					<b>\$425,040</b>

**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.

## 12. Conclusion

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Based on the analysis described in this report, portions of the subject property at **412 Magnolia Ln, Nashville, TN 37209** were identified as qualifying for accelerated depreciation under the Modified Accelerated Cost Recovery System (MACRS).

The study allocated **\$74,481** of the property's **\$425,040** depreciable basis to 5-year and 15-year recovery periods consistent with IRS asset classification guidance. These reclassifications result in increased first-year depreciation compared with standard straight-line depreciation of the 27.5-year residential structure.

Under 100% bonus depreciation (IRC §168(k)), the full **\$74,481** in reclassified assets may be deductible in the year placed in service, subject to the taxpayer's individual tax circumstances.

The schedules and tables included in this report provide the information necessary for the taxpayer's tax advisor to incorporate the results into the taxpayer's federal income tax return.

*Prepared by CostSegSmart — Engineering-Based Cost Segregation Analysis  
Study Date: March 14, 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	\$45,998	0.20	0.97	<b>\$44,675</b>
15-Year Land Improvements	\$30,690	0.53	0.97	<b>\$29,807</b>
27.5-Year Real Property	\$360,944	0.75	0.97	<b>\$350,559</b>
<b>Total Depreciable Basis</b>	<b>\$437,632</b>	—	0.97	<b>\$425,040</b>

**Location Cost Index:** 0.98 (metro (calibrated) level — Nashville, TN). 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
<b>A.1 County Tax Assessor Allocation</b>	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
<b>A.2 Statistical Market Analysis</b>	22.7%	Metro-area land ratio analysis based on median land-to-value ratios for the Nashville, TN submarket, calibrated against comparable property sales data and construction cost indices.	Primary
<b>A.3 Replacement Cost Residual</b>	22.7%	Purchase price less estimated replacement cost of improvements (Marshall Valuation Service / RSMMeans). The residual represents the implied land value under the cost approach.	Corroborating
<b>A.4 Comparable Sales Analysis</b>	—	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

<p><b>A.5 Purchase Agreement Allocation</b></p>	<p>—</p>	<p>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.</p>	<p>Not Provided</p>
<p><b>A.6 Adopted Land Allocation</b></p>	<p><b>22.7%</b></p>	<p>Based on the statistical market analysis as the primary method, corroborated by replacement cost residual analysis. Land value of \$124,960 (22.7% of purchase price) is adopted for this study.</p>	<p><b>Adopted</b></p>

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## 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
<b>IRC §167</b>	Depreciation deduction for property used in trade/business or production of income.
<b>IRC §168</b>	Modified Accelerated Cost Recovery System (MACRS) — recovery periods by asset class.
<b>IRC §168(e)(2)(A)</b>	Residential rental property: 80%+ gross income from dwelling units. Recovery: 27.5 years.
<b>IRC §168(e)(2)(B)</b>	Nonresidential real property. Recovery: 39 years.
<b>IRC §168(k)</b>	Bonus depreciation — 100% (≤2022), 80% (2023), 60% (2024), 100% (2025+, restored under current law).
<b>IRC §1245</b>	Personal property: accelerated depreciation subject to ordinary income recapture.
<b>IRC §1250</b>	Real property: structural components subject to unrecaptured §1250 gain (25%).
<b>Treas. Reg. §1.48-1(e)(1)</b>	Tangible personal property: all tangible property except land, land improvements, buildings, and structural components.
<b>Treas. Reg. §1.1250-1(e)(2)</b>	Building: any structure enclosing a space within walls and covered by a roof.
<b>Rev. Rul. 68-4</b>	Criteria for structural component vs. tangible personal property classification.
<b>Rev. Proc. 87-56</b>	Class lives and recovery periods for depreciable assets under MACRS.
<b>IRS ATG (Rev. 2022)</b>	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
<b>Hospital Corp. of America v. Commissioner</b>	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.
<b>Whiteco Industries v. Commissioner</b>	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.
<b>Scott Paper Co. v. Commissioner</b>	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.
<b>Morrison Inc. v. Commissioner</b>	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.
<b>Meiers Parking System Inc. v. Commissioner</b>	T.C. Memo 1991-18	Addressed the classification of site improvements and their treatment as land improvements with a 15-year recovery period.
<b>IRS Cost Segregation ATG, Chapter 3</b>	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

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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](mailto:support@costsegsmart.com).

SAMPLE REPORT

## F. Appendix F — Exhibits & Supporting Documentation

CSS-WP-700

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

### Property Photo Documentation

1 property photograph(s) are included below, documenting the subject property at 412 Magnolia Ln, Nashville, TN 37209. Photos support the component classifications identified in this study.



### Aerial / Satellite Imagery

Aerial imagery of the subject property at 412 Magnolia Ln, Nashville, TN 37209, 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)	Included
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-based detailed 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-based 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-based 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). Under current federal tax law, 100% bonus depreciation has been restored 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.

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This report was prepared by Cost Seg Smart using engineering-based cost allocation methodology. For questions regarding this study, please contact [support@costsegsmart.com](mailto:support@costsegsmart.com).

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