REAL ESTATE EXPLAINED

COST SEGREGATION STUDIES & BONUS DEPRECIATION

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WHAT IS A COST SEGREGATION STUDY?

A tax strategy that may be used to accelerate depreciation deductions and potentially reduce taxable income under IRS guidelines

A cost segregation study identifies and reclassifies parts of a property into shorter-lived asset categories, such as:

5-YEAR PROPERTY
Carpets, appliances, signage, & certain finishes

7-YEAR PROPERTY
Office furniture & specialized equipment

15-YEAR PROPERTY
Parking lots, fences, & landscaping

WHAT IS BONUS DEPRECIATION?

Allows taxpayers to immediately deduct a large percentage of the qualified property's cost in the first year it's placed in service, rather than depreciating it slowly

Because buildings themselves don't qualify for bonus depreciation, the cost segregation study is what identifies the pieces of the property that *do* qualify. Here's an example:

Suppose you buy an office building for $5 million. A cost segregation study finds that $1.2 million of that cost is in 5-, 7-, or 15-year property.

- ✗ Without the study, you'd depreciate the full $5M over 39 years.
- ✓ With the study, bonus depreciation may allow a taxpayer to deduct a portion of qualified property in the first year, which could reduce taxable income depending on individual circumstances.

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