



COST SEG SMART

Cost Segregation Analysis Report

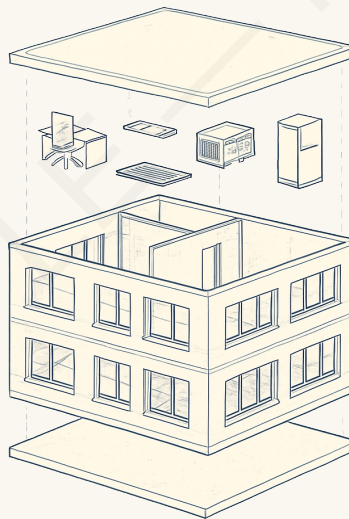
SUBJECT PROPERTY

8400 S Kyrene Rd

Tempe, AZ 85284

COMMERCIAL OFFICE PROPERTY

BUILT 1980 · 16,752 SF · PLACED IN SERVICE 2025-06-15



ACCELERATED BASIS IDENTIFIED
assets moved from the 39-year class

\$483,526

20.2% OF DEPRECIABLE BASIS

ESTIMATED FIRST-YEAR DEPRECIATION
federal estimate — CPA to confirm filing treatment

\$510,060

21.3% OF BASIS · INCL. STRUCTURAL REGULAR DEPRECIATION

\$2,394,000 DEPRECIABLE BASIS

Estimated tax results depend on placed-in-service date, bonus rules, entity structure, elections, and taxpayer circumstances.

PREPARED FOR

Sample Office Owner

REPORT

ISSUED
REPORT NO.
REVISION

AUGUST 5, 2026
CSS-SAMPLE-OFFICE
1.0

REVIEWED BY

Cost Seg Smart Technical Review



VERIFY

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Engineering-Method Cost Segregation Report

CSS-WP-010

Date: August 05, 2026

To: Sample Office Owner

Re: Cost Segregation Study — 8400 S Kyrene Rd, Tempe, AZ 85284

Report No.: CSS-SAMPLE-OFFICE

Dear Sample Office Owner,

Cost Seg Smart prepared this illustrative engineering-method cost segregation analysis to demonstrate the scope, schedules, and format of a typical study, using 8400 S Kyrene Rd, Tempe, AZ 85284, a commercial office building constructed in 1980 (approximately 16,752 square feet), as the representative subject.

The analysis is designed to address the principal quality-study elements described in the IRS Cost Segregation Audit Techniques Guide (IRS Pub. 5653) and applicable authorities, including IRC §168 and Rev. Proc. 87-56.

The study identified \$483,526 of assets and property components eligible for accelerated depreciation, reclassified from the default 39-year Nonresidential Real Property recovery class into shorter 5-year, 7-year, and 15-year MACRS periods.

This sample demonstrates the deliverable a purchaser receives; it uses representative assumptions, was not prepared for a taxpayer, and is not intended for tax filing or reliance.

This study is based upon representative sample inputs, public records where available, aerial and street-level imagery, and industry construction cost databases. This report is an engineering-method tax classification analysis and does not constitute a stamped engineering opinion, tax advice, legal advice, or a guarantee of any specific tax outcome. The taxpayer is responsible for verifying property information and consulting with a licensed CPA or tax advisor regarding the application of these results.

Sincerely,

Cost Seg Smart Technical Review

Cost Seg Smart LLC

costsegsmart.com · support@costsegsmart.com

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

This report was prepared using Cost Seg Smart's engineering-method cost segregation methodology. All reports undergo multi-stage internal review against the principal elements of a quality cost segregation study set forth in IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 4, prior to delivery.

1. Executive Summary

Commercial Office Property

CSS-WP-100

Study result. This cost segregation study identifies **\$483,526** of assets eligible for accelerated depreciation (20.2% of the property's depreciable basis), reclassified from the standard recovery period into shorter 5, 7- and 15-year MACRS classes. With 100% bonus depreciation assumed for eligible short-life assets, estimated federal first-year depreciation is **\$510,060**, subject to CPA confirmation.

ILLUSTRATIVE SAMPLE — NOT PREPARED FOR TAX FILING. This sample report is illustrative only. It was not prepared for a taxpayer, should not be filed, and uses representative sample inputs and AI-generated representative interior images (not photographs of the subject property). A live engagement uses the taxpayer's actual property data and documentation.

Basis of Analysis

- Purchase Price and placed-in-service date are representative sample assumptions
- Land value derived from public records and market data
- Building size, age, property type, and parcel characteristics reviewed against public records
- Property configuration and site improvements evaluated from public aerial imagery
- Component costs estimated using engineering construction-cost data
- All component allocations reconciled to the adopted depreciable basis
- Remote engineering study; no physical site inspection performed

The subject property, located at 8400 S Kyrene Rd, Tempe, AZ, is classified as nonresidential real property under IRC §168(e)(2) with a default recovery period of 39 years. The purpose of this study is to identify components eligible for shorter recovery periods, thereby optimizing the depreciation schedule for the taxpayer. This commercial office building, constructed in 1980, presents various opportunities for reclassification of assets to shorter recovery periods, consistent with the IRS guidelines.

In the context of a commercial office, the study focuses on elements such as tenant build-out, low-voltage cabling, and dedicated circuits, which are common in such properties. The analysis identified that 20.2% of the property's depreciable basis is eligible for accelerated depreciation, reflecting the presence of qualifying assets that meet the criteria for shorter recovery periods under applicable tax law.

Scope of Work

This cost segregation study identifies property components eligible for accelerated depreciation under MACRS (IRC §168). The analysis applies an engineering-method cost approach using construction cost data, public records, and representative sample inputs.

All cost allocations represent estimates derived from construction cost data, property characteristics, and applicable tax guidance. Standard professional disclaimers, including the taxpayer-advisor relationship and the

limits of this analysis, are stated in full in the Disclaimers section.

Reclassification Results

The reclassified components break down across the accelerated MACRS recovery classes as detailed below.

This study identified **\$483,526** of assets eligible for accelerated depreciation (20.2% of depreciable basis). Combined with regular depreciation on the remaining basis and full bonus expensing of eligible assets under IRC §168(k), as amended by Pub. L. 119-21 (OBBBA, 2025) for qualified property acquired and placed in service after January 19, 2025 as in effect at report issuance, this is expected to generate approximately **\$510,060** in total first-year depreciation deductions (see Section 1.1, Year 1 Tax Impact Analysis), subject to the taxpayer's individual tax circumstances and any subsequent change in law.

Tax Timing Impact

This property was placed in service in 2025. The modeled depreciation schedules apply the federal MACRS and bonus-depreciation rules in effect for that placed-in-service year. The appropriate filing method depends on the status of the taxpayer's 2025 return: if it remains open, the reclassifications may be reported directly on the original return; if it has already been filed, the taxpayer's CPA should determine whether a timely superseding return, an amended return, or an accounting-method change (Form 3115), as procedurally available, is appropriate. This report does not calculate a §481(a) adjustment. *Under IRC §168(k), as amended by Pub. L. 119-21 (OBBBA, 2025), 100% bonus depreciation may apply to qualified property acquired and placed in service after January 19, 2025, subject to acquisition date, placed-in-service date, and taxpayer-specific circumstances.*

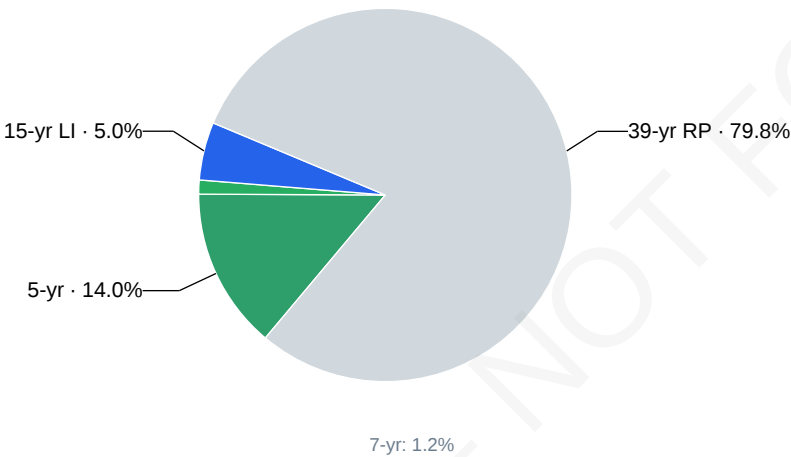
Engineering Analysis Summary

Based on the property's configuration and characteristics, the analysis identified component-level allocations consistent with the subject property's construction and operating profile (commercial office construction, Tempe, AZ). Commercial office properties include dedicated electrical circuits, low-voltage cabling, and interior buildout components classified under Rev. Proc. 87-56 for accelerated recovery. Specialty equipment and FF&E are included only to the extent they are owned by the taxpayer and included in the depreciable acquisition basis analyzed. For a building-only purchase, triple-net lease, or tenant-operated facility, operator- or tenant-owned equipment is excluded; the taxpayer's CPA should confirm ownership and any purchase-price or lease cost-allocation terms.

Metric	Value
Purchase Price	\$2,850,000
Land Value (Non-Depreciable)	\$456,000
Total Depreciable Basis	\$2,394,000
5-Year Personal Property	\$334,245 (14.0%)
7-Year Personal Property	\$29,125 (1.2%)

15-Year Land Improvements	\$120,156 (5.0%)
39-Year Real Property	\$1,910,474 (79.8%)
Total Accelerated Asset Reclassification	\$483,526 (20.2%)

Depreciable Basis Allocation by MACRS Class



Estimated First-Year Federal Tax Savings (Full Federal Expensing Assumed)

Tax Bracket	Additional Year-1 Deduction	Estimated Federal Tax Savings
24%	\$476,810	\$114,434
32%	\$476,810	\$152,579
37%	\$476,810	\$176,420

"Additional Year-1 Deduction" is the estimated **incremental** first-year deduction relative to default straight-line MACRS treatment. The cover-page "Estimated First-Year Depreciation" is the **total** first-year figure — bonus depreciation on the reclassified assets plus regular first-year depreciation on the remaining real-property basis.

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 **\$2,394,000** so that all component-level costs collectively equal the recorded acquisition price less land value, consistent with the cost approach methodology described in IRS Pub 5653, Chapter 3 §C.2. Market acquisition pricing often reflects factors beyond construction cost, including land value, location premiums, and market conditions.

Composition of Accelerated Basis

This study allocated 20.2% of the depreciable basis to accelerated (5-year, 7-year, and 15-year) asset classes, driven by Site Improvements at \$120,156 (5.0% of basis) and Specialty Electrical at \$89,616 (3.7% of basis) and Telecom / Data at \$59,411 (2.5% of basis). The allocation reflects the qualifying components identified from the information available for this study.

State conformity. Arizona treatment may require state-specific bonus-depreciation additions or subtractions or other conformity adjustments; confirm Arizona treatment with your CPA before filing.

Documentation & Evidence Reviewed

This illustrative sample was prepared using representative sample assumptions, public property records, publicly available imagery, and engineering cost-estimation procedures; no taxpayer documentation was reviewed. The first table lists the source types used in the analysis; the second lists the records a live engagement would request and retain in the taxpayer's file.

Documentation Used

Source / document	Status	Use in study
Purchase Price / sample basis input	Illustrative sample input	Establishes acquisition price used in the basis bridge
County property records	Reviewed	Building area, year built, property type, lot size, parcel facts
Public aerial / satellite imagery	Reviewed	Parcel context, driveway/hardscape, landscaping, and site-improvement identification
Public street-level imagery	Reviewed	Exterior and site corroboration
Acquisition and placed-in-service assumptions	Illustrative sample inputs; not independently verified	Demonstrate the basis, placed-in-service, and filing-method items a live engagement confirms with the CPA
Engineering cost database / model	Used	Replacement-cost estimates and component allocations, reconciled to depreciable basis

Optional Supplemental Records

Source / document	Status	Use in study
Closing statement / ALTA	Not relied upon	May independently support purchase price, closing costs, and basis allocation
Additional contractor / renovation invoices	Not relied upon	May provide direct component-cost support and placed-in-service dates
Additional appraisal or inspection documentation	Not relied upon	Any further appraisal or inspection records beyond those already reviewed may provide supplemental property-condition and land/building support
Floor plan / listing package	Not relied upon	May supplement room-area takeoffs for flooring, partitions, millwork, lighting, and specialty systems
On-site field observation	Not part of engagement	Desktop methodology used; a site visit would add field-observed support

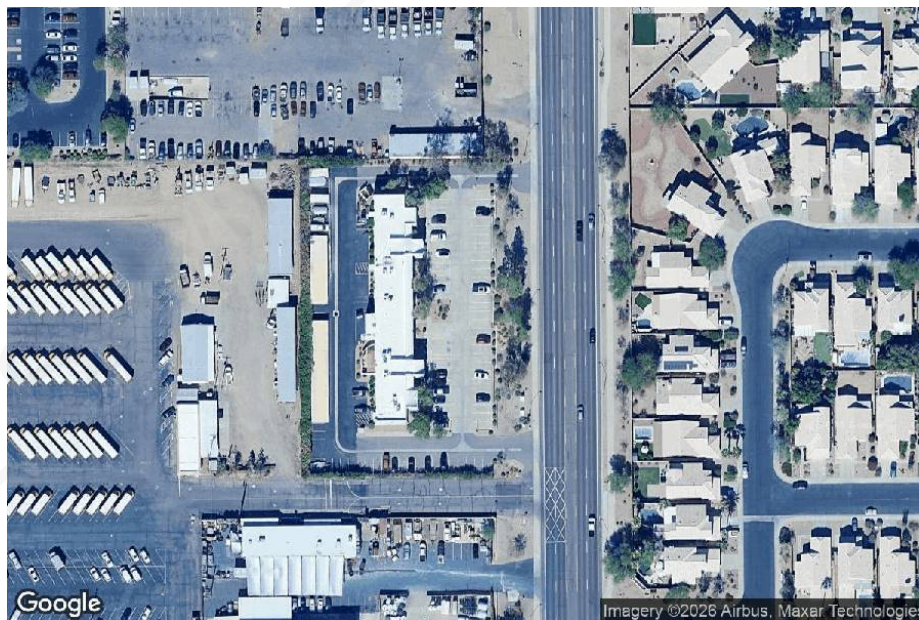
Evidence note. Illustrative documented-cost inputs are sample values shown to demonstrate how documented amounts are carried in a live report. Engineering-estimated components are based on property characteristics and cost-model procedures. All final component allocations are reconciled to the adopted sample basis and are not intended to represent current replacement cost.

Conservative exclusions. The following were retained as real property (27.5- or 39-year) and were NOT accelerated: foundation, structural frame, roof, exterior walls, windows and doors, base building plumbing / electrical / HVAC, panels and conduit, general lighting, tile and permanent flooring, and building-envelope systems. Short-life reclassification is limited to the non-structural, removable, or site-improvement components identified in the schedules above.

Property Observation & Classification Support

Publicly available imagery and public property records 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 to inform component identification and classification decisions.

NOTE ON THE IMAGES IN THIS SECTION: The interior images below are ***AI-generated representative images***, included in this illustrative sample for confidentiality. They are **not photographs of the subject property** and are not relied upon as evidence for any component allocation. On a live engagement, actual property photographs are incorporated per IRS Pub. 5653 Chapter 4 to support component identification. The satellite/aerial imagery is publicly available imagery associated with the subject address or parcel, reviewed for exterior and site context; it is not a substitute for an on-site inspection.



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).



Representative property image documenting visible site improvements, exterior systems, and building components. Each component is classified by its function in the Section 4 schedules (qualifying site improvements 15-year; removable equipment 5-year; building shell and systems 39-year).



Representative building-interior image. Documents the shell, lighting, and electrical distribution; each component is classified by function per Section 4.



Representative property image documenting visible site improvements, exterior systems, and building components. Each component is classified by its function in the Section 4 schedules (qualifying site improvements 15-year; removable equipment 5-year; building shell and systems 39-year).

Component Evidence & Tax Treatment

For this illustrative sample, every component's evidence basis is shown as **Representative sample** — classifications are modeled from representative sample inputs, not from taxpayer-supplied documentation. On a live engagement, components are tagged owner-documented, photo-corroborated, or engineering estimate. Classifications are based on the component's function, construction, and relationship to the building structure.

Scope of reclassified systems. Reclassified specialty plumbing, electrical, and mechanical/HVAC components reflect equipment-specific or process-dedicated systems and, where present, separable equipment; they exclude general building plumbing, base building electrical service, general building HVAC, the structural slab and foundation, and other building-integral systems, which remain in the real-property class.

Observable Feature	Classification	Recovery	Evidence	Rationale
Dedicated Tenant HVAC (Supplemental Units, VRF)	Personal property	5-year	Representative sample	Server rooms, conference rooms, dedicated tenant zones (HCA identifiable-equipment)
Demountable / Movable Partitions	Personal property	5-year	Representative sample	Reconfigurable office partitions clamp-mounted to floor/ceiling; not part of base building
Low-Voltage Data & Telecom Cabling	Personal property	5-year	Representative sample	Cat 6 / fiber cabling and cable tray; replaced on tenant turn
Surface Parking Lot (Paving, Striping, Curbs)	Land improvement	15-year	Representative sample	Surface site improvement; not a building component
Site Lighting (Pole Bases, Fixtures, Site Wiring)	Land improvement	15-year	Representative sample	Exterior site illumination

Sidewalks, Curbs, Stoops, Site Concrete	Land improvement	15-year	Representative sample	Land improvement supporting site access
Structural Frame	Real property	39-year	Representative sample	Structural building component; inherently permanent

Interpretation: Exterior imagery supports the general presence of visible site improvements such as paving, landscaping, and exterior structures, which are separable from the building and appropriately classified as shorter-life property where owned by the taxpayer. It does not independently verify interior quantities or costs. Interior quantities and costs are based on the evidence sources identified in the component schedules, which may include taxpayer records, property photographs, field observations, and modeled estimates.

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

Top 5 Drivers of Accelerated Depreciation

The assets below are the five largest contributors to the accelerated depreciation identified for this property. Each component was separately valued within the engineering allocation and assigned from the total depreciable basis to the applicable shorter MACRS recovery class.

Component	Class	Amount
Surface Parking Lot (Paving, Striping, Curbs)	15-year	\$60,600
Dedicated Tenant HVAC (Supplemental Units, VRF)	5-year	\$49,507
Demountable / Movable Partitions	5-year	\$48,183
Low-Voltage Data & Telecom Cabling	5-year	\$42,547
Built-in Millwork (Reception, Conference Credenzas, Workstations)	5-year	\$39,806

Together, these five assets account for 50% of the accelerated basis identified in this study (\$240,643 of \$483,526). Displayed amounts are rounded; components carry unrounded values, so the listed figures may not sum exactly to the total.

Ownership note: these accelerated assets are included only to the extent they existed on the placed-in-service date, were conveyed to and owned by the taxpayer, and are reflected in the acquisition basis analyzed. Tenant- or operator-owned improvements, equipment, and furnishings, and any items removed before acquisition, are excluded; the taxpayer's CPA should confirm ownership and conveyance.

Accelerated Basis by System

The same accelerated basis, grouped by asset system rather than by individual component. The largest groups, ranked by allocated value, are described below.

Site Improvements — \$120,156

Includes Surface Parking Lot (Paving, Striping, Curbs), Site Lighting (Pole Bases, Fixtures, Site Wiring), Sidewalks, Curbs, Stoops, Site Concrete, Landscaping & Irrigation, and 2 more. These are land improvements (IRC §1250) that support the site but are not structural components of the building, recovered over 15 years.

Specialty Electrical — \$89,616

Includes Specialty Tenant Electrical (Workstation Drops, Floor Boxes), Decorative & Accent Lighting, Access Control & Security Systems. Electrical serving specific equipment and functions rather than general building service — recovered over 5 years as §1245 personal property where separately identifiable.

Telecom / Data — \$59,411

Includes Low-Voltage Data & Telecom Cabling, Audio-Visual Systems. Structured low-voltage data and communications cabling and related pathways, excluding base-building electrical service — recovered over 5 years as §1245 personal property.

Specialty Plumbing & Mechanical — \$49,507

Includes Dedicated Tenant HVAC (Supplemental Units, VRF). Specialty systems serving specific equipment or process needs rather than general building service, recovered over 5 years as §1245 personal property where separately identifiable.

Interior Construction — \$48,183

Includes Demountable / Movable Partitions. Recovered over 5 years as §1245 personal property, to the extent these items are separately identifiable and not permanent components of the building.

CPA Quick-Reference Summary

Property Facts

Property Address	8400 S Kyrene Rd, Tempe, AZ 85284
Property Type	Office
Year Built	1980
Purchase Price	\$2,850,000
Land Value (Non-Depreciable)	\$456,000
Depreciable Basis	\$2,394,000
Placed in Service	2025-06-15

Basis Allocation Summary

Asset Class	Amount	% of Basis
5-Year Personal Property	\$334,245	14.0%
7-Year Personal Property	\$29,125	1.2%
15-Year Land Improvements	\$120,156	5.0%
39-Year Real Property	\$1,910,474	79.8%
Total Accelerated Property	\$483,526	20.2%

Estimated Year-1 Depreciation (100% Bonus)

The 100% rate applies because the stated acquisition date (June 15, 2025) is after the January 19, 2025 OBBBA cutoff for 100% bonus depreciation.

Based on the acquisition and placed-in-service dates reported for this property, this illustration applies 100% bonus depreciation under IRC §168(k) as amended by OBBBA. The applicable acquisition-date rules — including written-binding-contract and self-construction considerations — together with the placed-in-service date, used-property, prior-use, and related-party rules and any elections, are fact-specific; the taxpayer's CPA should confirm them before filing.

Asset Class	Accelerated Basis	Bonus Rate	Year-1 Deduction
5-Year Property	\$334,245	100%	\$334,245
7-Year Property	\$29,125	100%	\$29,125
15-Year Property	\$120,156	100%	\$120,156

Year-1 deduction on reclassified assets			\$483,526
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This is the Year-1 deduction on the reclassified (5-, 7-, and 15-year) assets only. Regular first-year depreciation on the remaining 39-year building basis is additional; total first-year depreciation across all classes is shown in the executive summary.

Estimated Tax Savings

Based on the additional Year-1 deduction from cost segregation (\$476,810), computed as (Year-1 with cost seg) minus (Year-1 without cost seg), applying the IRS mid-month convention for the 39-year structural portion.

Tax Bracket	Additional Year-1 Deduction	Estimated Tax Savings
24%	\$476,810	\$114,434
32%	\$476,810	\$152,579
37%	\$476,810	\$176,420

Method Summary

- Engineering cost approach using construction cost data and public records
- Allocation following the engineering-method approach (Pub 5653, Ch. 3 §C.2)
- Asset classifications supported by IRC §168, Rev. Proc. 87-56, and relevant case law

1.1 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.

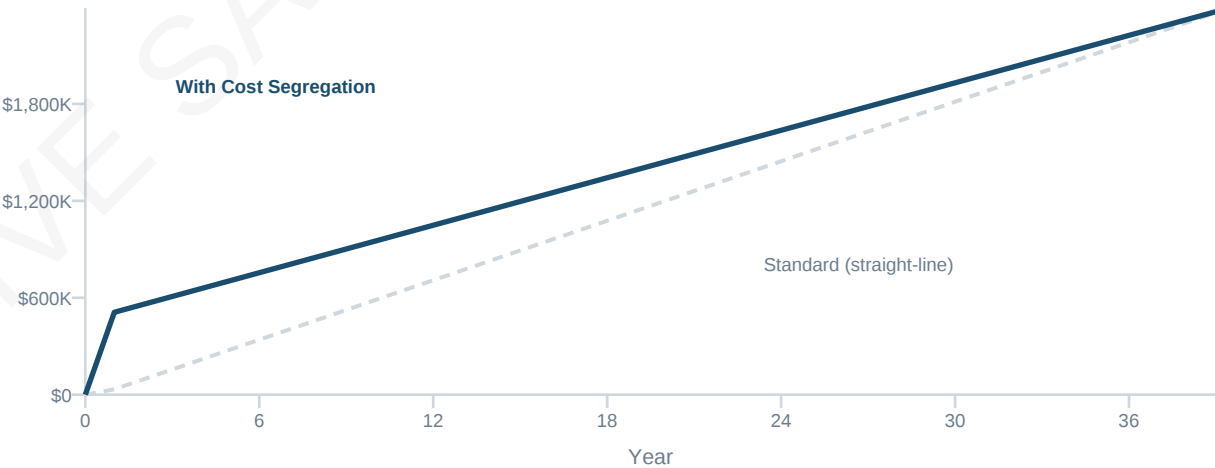
Scenario	Total Year 1 Depreciation (All Classes)
Without Cost Segregation	\$33,250 (39-year straight-line, mid-month convention)
With Cost Segregation	\$510,060 (accelerated + remaining straight-line)
Additional First-Year Benefit	\$476,810

Figures are rounded to the nearest dollar; the additional-benefit line is computed from unrounded amounts, so the rounded line items may not subtract exactly.

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 **\$476,810** of additional deductions into Year 1. Total lifetime depreciation remains unchanged; the benefit derives from timing.

Selected ATG Concepts Addressed

The following table maps selected concepts from the IRS Cost Segregation Audit Techniques Guide to the procedures applied in this study. The complete element-by-element conformance review appears in Appendix B.

IRS ATG Quality Element	Procedure Applied
Preparation methodology	Engineering cost approach applied using standardized cost data, public records, and documented classification procedures aligned with the IRS Cost Segregation ATG
Component identification	34 building and site components evaluated across 5-, 7-, 15-, and 39-year asset classes
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 without material variance
Asset classification rationale	Written engineering-method 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 IRS Pub 5653 (Feb 2025).

1.2 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	\$2,850,000	Total acquisition cost
Less: Land Value	(\$456,000)	Non-depreciable
Depreciable Basis	\$2,394,000	Basis subject to depreciation
5-Year Personal Property	\$334,245	Interior finishes, fixtures, removable components
7-Year Property	\$29,125	Equipment and specialized fixtures

15-Year Land Improvements	\$120,156	Site improvements, landscaping, hardscape
39-Year Real Property	\$1,910,474	Structural building components
Total Allocated	\$2,394,000	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	\$334,245	14.0%
7-Year Property	\$29,125	1.2%
15-Year Property	\$120,156	5.0%
39-Year Property	\$1,910,474	79.8%
Total	\$2,394,000	100.0%

Where the Depreciation Comes From



This study identified **20.2%** of depreciable basis as accelerated property; refer to the component detail and engineering rationale sections for the property-specific basis.

Identified Assets

The assets below were included based on the available property information, reviewed documentation, or the property-specific engineering model, as indicated in the Evidence column; purely modeled items are shown as modeled as present. This summarizes the highest-value items by class life; the complete schedule appears in the Detailed Component Breakdown.

Identified asset	Class	Allocated	Authority	Evidence
Dedicated Tenant HVAC (Supplemental Units, VRF)	5-yr \$1245	\$49,507	Rev. Proc. 87-56 Cl. 57.0	Representative sample
Demountable / Movable Partitions	5-yr \$1245	\$48,183	Rev. Proc. 87-56 Cl. 57.0	Representative sample
Low-Voltage Data & Telecom Cabling	5-yr \$1245	\$42,547	Rev. Proc. 87-56 Cl. 00.12	Representative sample
Built-in Millwork (Reception, Conference Credenzas, Workstations)	5-yr \$1245	\$39,806	Rev. Proc. 87-56 Cl. 57.0	Representative sample
Specialty Tenant Electrical (Workstation Drops, Floor Boxes)	5-yr \$1245	\$38,574	Rev. Proc. 87-56 Cl. 57.0	Representative sample
Decorative & Accent Lighting	5-yr \$1245	\$30,701	Rev. Proc. 87-56 Cl. 57.0	Representative sample
Office Furniture, Modular Systems Furniture	7-yr \$1245	\$22,451	Rev. Proc. 87-56 Cl. 00.11	Representative sample
Decorative Items, Artwork, Plants	7-yr \$1245	\$6,674	Rev. Proc. 87-56 Cl. 00.11	Representative sample
Surface Parking Lot (Paving, Striping, Curbs)	15-yr \$1250	\$60,600	Rev. Proc. 87-56 Cl. 00.3	Representative sample
Site Lighting (Pole Bases, Fixtures, Site Wiring)	15-yr \$1250	\$18,651	Rev. Proc. 87-56 Cl. 00.3	Representative sample
Sidewalks, Curbs, Stoops, Site Concrete	15-yr \$1250	\$15,463	Rev. Proc. 87-56 Cl. 00.3	Representative sample
Landscaping & Irrigation	15-yr \$1250	\$13,087	Rev. Proc. 87-56 Cl. 00.3	Representative sample
Monument / Pylon Signage (Freestanding)	15-yr \$1250	\$7,566	Rev. Proc. 87-56 Cl. 00.3	Representative sample
Site Fencing, Bollards, Site Walls	15-yr \$1250	\$4,789	Rev. Proc. 87-56 Cl. 00.3	Representative sample

Top items by allocated value per class life. "Evidence" reflects how each asset was identified — owner documentation, site imagery, or engineering model.

Engineering Rationale by Component

The largest reclassified assets are described individually below, with the engineering basis for the recovery period assigned to each. Where a component is described as serving identifiable equipment, that analysis follows *Hospital Corporation of America v. Commissioner*, 109 T.C. 21 (1997), as discussed in the IRS Cost Segregation Audit Techniques Guide. In AOD 1999-008 the Service acquiesced to that framework but not to the court's determinations for the individual assets in that case, so each classification below rests on this property's own facts.

Surface Parking Lot (Paving, Striping, Curbs)

Paving, curbing, site lighting, and landscaping are land improvements that are not structural components of the building. Under Rev. Proc. 87-56 these are §1250 land improvements recovered over 15 years. Surface site improvement; not a building component.

Allocated Basis: \$60,600

Recovery Period: 15 years

Authority: Rev. Proc. 87-56 Cl. 00.3

Dedicated Tenant HVAC (Supplemental Units, VRF)

These are separately identifiable components serving specific business operations or equipment rather than the building's general systems, and are distinct from the structural and building-envelope elements retained as real property. Under Rev. Proc. 87-56 these are §1245 personal property recovered over 5 years. Server rooms, conference rooms, dedicated tenant zones. The short-life position here rests on the identifiable-equipment analysis set out in Section 5.

Allocated Basis: \$49,507

Recovery Period: 5 years

Authority: Rev. Proc. 87-56 Cl. 57.0

Demountable / Movable Partitions

This asset serves a specific occupant or operational function distinct from the building structure and is removable or replaceable independent of it. Under Rev. Proc. 87-56 these are §1245 personal property recovered over 5 years. Reconfigurable office partitions clamp-mounted to floor/ceiling; not part of base building.

Allocated Basis: \$48,183

Recovery Period: 5 years

Authority: Rev. Proc. 87-56 Cl. 57.0

Low-Voltage Data & Telecom Cabling

This asset serves a specific occupant or operational function distinct from the building structure and is removable or replaceable independent of it. Under Rev. Proc. 87-56 these are §1245 personal property recovered over 5 years. Cat 6 / fiber cabling and cable tray; replaced on tenant turn.

Allocated Basis: \$42,547

Recovery Period: 5 years

Authority: Rev. Proc. 87-56 Cl. 00.12

Built-in Millwork (Reception, Conference Credenzas, Workstations)

This asset serves a specific occupant or operational function distinct from the building structure and is removable or replaceable independent of it. Under Rev. Proc. 87-56 these are §1245 personal property recovered over 5 years. Trade-specific furniture-grade casework; functionally distinct from base building.

Allocated Basis: \$39,806

Recovery Period: 5 years

Authority: Rev. Proc. 87-56 Cl. 57.0

Specialty Tenant Electrical (Workstation Drops, Floor Boxes)

This asset serves a specific occupant or operational function distinct from the building structure and is removable or replaceable independent of it. Under Rev. Proc. 87-56 these are §1245 personal property recovered over 5 years. Branch wiring serving identifiable tenant equipment loads. The short-life position here rests on the identifiable-equipment analysis set out in Section 5.

Allocated Basis: \$38,574

Recovery Period: 5 years

Authority: Rev. Proc. 87-56 Cl. 57.0

CPA Filing Sheet

Property:

Placed in Service:

Total Depreciable Basis:

8400 S Kyrene Rd, Tempe, AZ 85284

2025-06-15

\$2,394,000

Accelerated Asset Schedule

Asset Class	Amount	Recovery Period	Convention	Bonus Eligible
Personal Property	\$334,245	5 years	Half-year	Eligible — 100% assumed; CPA to confirm
Personal Property (7-yr)	\$29,125	7 years	Half-year	Eligible — 100% assumed; CPA to confirm
Land Improvements	\$120,156	15 years	Half-year	Eligible — 100% assumed; CPA to confirm
Building (39-yr)	\$1,910,474	39 years	Mid-month	No

Convention note: The half-year convention is shown provisionally. Whether half-year or mid-quarter applies is determined under IRC §168(d)(3) across all depreciable personal property the taxpayer placed in service during the year — including property outside this study — so it cannot be concluded from this property alone. The taxpayer's tax professional confirms the applicable convention before these schedules are entered.

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: \$334,245

Life: 5 years | Method: 200% DB | Convention: Half-year

Bonus Depreciation: 100% assumed — confirm binding-contract/acquisition and placed-in-service dates before entry

Asset 2 — Personal Property (7-Year)

Basis: \$29,125

Life: 7 years | Method: 200% DB | Convention: Half-year

Bonus Depreciation: 100% assumed — confirm binding-contract/acquisition and placed-in-service dates before entry

Asset 3 — Land Improvements (15-Year)

Basis: \$120,156

Life: 15 years | Method: 150% DB | Convention: Half-year

Bonus Depreciation: 100% assumed — confirm binding-contract/acquisition and placed-in-service dates before entry

Asset 4 — Building (39-Year)

Basis: \$1,910,474

Life: 39 years | Method: Straight-line | Convention: Mid-month

Bonus Depreciation: Not eligible

Note: These entries reflect the reclassification identified in this study. This basis was placed in service in 2025. If the 2025 return is still open, not yet filed, or on extension, the classification may be reported directly on the original return via Form 4562. If a 2025 return has already been filed, the taxpayer's CPA should determine whether an amended return, a superseding return, or a Form 3115 method change is appropriate based on the filing posture and applicable procedures.

2. Property Summary

CSS-WP-200

Property Detail	Information
Owner	Sample Office Owner
Property Address	8400 S Kyrene Rd, Tempe, AZ 85284
Property Type	Commercial Office Building
Date of Acquisition	2025-06-15
Placed in Service	2025-06-15
Purchase Price	\$2,850,000
Building Area	16,752 SF
Year Built	1980
Construction Type	Commercial Office
Property Features	No declared feature list; classification modeled from property type, public records, and imagery
Lot Dimensions	234 × 340 ft (approx.)
Property Class	The general use for the property is for commercial purposes (per public records)
Lot Size (acres)	1.81 ac (per public records)

Acquisition and placed-in-service dates are recorded to the month; the first of the month is shown by convention where a specific day was not collected at intake. The recovery class, applicable convention and bonus-depreciation determinations in this report turn on the month and year, not the day. Where a settlement statement or deed states a specific date, that document governs for the taxpayer's records.

Property Data Sources

Property Fact	Value	Source
Purchase Price	\$2,850,000	Illustrative sample input
Square footage	16,752 SF	Illustrative sample input
Year built	1980	Illustrative sample input

Land allocation	16.0% (\$456,000)	Statistical estimate (regional market data)
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Sources reflect the data reviewed for this study. County / MLS figures are drawn from third-party public-records APIs; owner-reported figures should be confirmed against the taxpayer's records and closing documents.

Property Classification

This property is classified as **Nonresidential Real Property** under IRC Section 168(e)(2)(B). The default recovery period for the building structure is **39 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

\$483,526 of the property's \$2,394,000 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	\$334,245	14.0%
Personal Property	7-Year MACRS	\$29,125	1.2%
Land Improvements	15-Year MACRS	\$120,156	5.0%
Real Property (Building)	39-Year Straight Line	\$1,910,474	79.8%
Total Depreciable Basis		\$2,394,000	100.0%
Total Accelerated (Reclassified)		\$483,526	20.2%

The 7-year personal property figure (\$29,125) is limited to the specific item(s) identified in the component schedule: Office Furniture, Modular Systems Furniture and Decorative Items, Artwork, Plants (Rev. Proc. 87-56 asset class 00.11). Ordinary operating furniture and equipment are reported separately in the 5-year class.

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
Dedicated Tenant HVAC (Supplemental Units, VRF)	\$49,507	5-Year
Demountable / Movable Partitions	\$48,183	5-Year
Low-Voltage Data & Telecom Cabling	\$42,547	5-Year

Built-in Millwork (Reception, Conference Credenzas, Workstations)	\$39,806	5-Year
Specialty Tenant Electrical (Workstation Drops, Floor Boxes)	\$38,574	5-Year
Decorative & Accent Lighting	\$30,701	5-Year
Raised Access Flooring (Where Present)	\$27,916	5-Year
Access Control & Security Systems	\$20,341	5-Year
Audio-Visual Systems	\$16,864	5-Year
Removable Tenant Trade-Dress Finishes (Modular Carpet Tile, Branded Vinyl)	\$10,105	5-Year
Blinds, Shades & Curtain Rods (removable)	\$9,701	5-Year
Subtotal — 5-Year	\$334,245	
Office Furniture, Modular Systems Furniture	\$22,451	7-Year
Decorative Items, Artwork, Plants	\$6,674	7-Year
Subtotal — 7-Year	\$29,125	
Surface Parking Lot (Paving, Striping, Curbs)	\$60,600	15-Year
Site Lighting (Pole Bases, Fixtures, Site Wiring)	\$18,651	15-Year
Sidewalks, Curbs, Stoops, Site Concrete	\$15,463	15-Year
Landscaping & Irrigation	\$13,087	15-Year
Monument / Pylon Signage (Freestanding)	\$7,566	15-Year
<i>Other 15-Year Components (1 item)</i>	\$4,789	15-Year
Subtotal — 15-Year	\$120,156	
Total Accelerated (Reclassified)	\$483,526	

Property Characterization (IRC §1245 / §1250)

Asset Category	IRC Section	Recapture Treatment	Amount
5-Year Personal Property	§1245	Ordinary income recapture	\$334,245
7-Year Personal Property	§1245	Ordinary income recapture	\$29,125
15-Year Land Improvements	§1250	Disposition character is asset- and transaction-specific; the CPA determines the applicable §1245/§1250 treatment at disposition	\$120,156
39-Year Real Property	§1250	25% unrecaptured §1250 gain	\$1,910,474

15-year land improvements are generally §1250 property (§1245/§1250 characterization and recapture treatment depend on the particular assets and should be confirmed by the tax advisor), depreciated under an accelerated MACRS method (150% declining balance); on disposition, depreciation claimed in excess of straight-line is recaptured as ordinary income under §1250, and the remaining depreciation-related gain is unrecaptured §1250 gain (maximum 25% rate). Actual recapture depends on the method elected, holding period, and gain at disposition — the taxpayer's CPA should confirm characterization.

Tax Impact Analysis

Tax Scenario	Amount
Year 1 Depreciation WITHOUT Cost Segregation	\$33,250
Year 1 Depreciation WITH Cost Segregation + 100% Bonus	\$510,060
Additional First-Year Deduction	\$476,810
Estimated Federal Tax Reduction (37% marginal rate)	\$176,420
Estimated Federal Tax Reduction (32% marginal rate)	\$152,579
Estimated Federal Tax Reduction (24% marginal rate)	\$114,434

Two figures to keep distinct: the **total reclassified assets** (\$483,526) is the depreciable basis moved from the long-life recovery class into 5-year, 7-year, and 15-year classes by this study. The **incremental Year-1 benefit from cost segregation** (\$476,810) is the additional first-year depreciation this study generates compared with treating the entire depreciable basis as 39-year commercial property under the IRS mid-month convention.

First-Year Depreciation Comparison

Cost segregation increases first-year depreciation by \$476,810, concentrating the majority of tax benefits in Year 1 through bonus depreciation.



4. Detailed Component Breakdown

CSS-WP-220

19 components reclassified into accelerated categories; 15 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 assessed based on its function, construction type, and applicable IRS asset classification. The **Direct RCN** and **Indirect RCN** columns show the engineering replacement-cost-new estimate (direct cost plus its allocated indirect cost); the **Reconciled Basis** column is each component's final allocation after those estimates are calibrated (reconciled) to the taxpayer's illustrative depreciable basis. Because of that reconciliation, Reconciled Basis is not the sum of Direct RCN and Indirect RCN — it is the amount carried into the depreciation schedule, and the class subtotals tie to the depreciable basis (see Section 4.3, Reconciliation of Costs).

***Evidence basis (Source column):** In this illustrative sample every component cost is modeled from representative sample inputs — not taxpayer-supplied documentation, field measurements, or property photographs. On a live engagement the Source column distinguishes owner-documented, field-measured, photo-corroborated, and engineering-estimate bases.*

Component costs are estimated using unit-cost data from published construction cost references (industry-standard square-foot costs with BLS Producer Price Index time-index) keyed to the property's classification, size, and finish level. The component set reflects Cost Seg Smart's standardized engineering cost model calibrated to properties of comparable size, age, construction class, and quality tier — line items are presented as modeled allocations rather than direct field observations. Regional cost adjustment of approximately 5% below the national baseline is applied uniformly across components to reflect local labor and materials pricing in the property's metro market.

5-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Source	Direct RCN	Indirect RCN	Reconciled Basis
Demountable / Movable Partitions	Personal property — shorter recovery	57.0 CSI 10 22 00 Partitions	Engineering cost estimate	\$67,498	\$16,874	\$48,183
Dedicated Tenant HVAC (Supplemental Units, VRF)	Personal property — shorter recovery	57.0 CSI 23 81 00 Decentralized Unitary HVAC Equipment	Engineering cost estimate	\$69,353	\$17,338	\$49,507
Low-Voltage Data & Telecom Cabling	Personal property — shorter recovery	00.12 CSI 27 10 00 Structured Cabling	Engineering cost estimate	\$59,603	\$14,901	\$42,547
Decorative & Accent Lighting	Personal property — shorter recovery	57.0 CSI 26 50 00 Lighting	Engineering cost estimate	\$43,008	\$10,752	\$30,701
Built-in Millwork (Reception, Conference Credenzas, Workstations)	Personal property — shorter recovery	57.0 CSI 06 40 00 Architectural Woodwork	Engineering cost estimate	\$55,763	\$13,941	\$39,806
Access Control & Security Systems	Personal property — shorter recovery	00.12 CSI 28 00 00 Electronic Safety and Security	Engineering cost estimate	\$28,495	\$7,124	\$20,341
Audio-Visual Systems	Personal property — shorter recovery	00.12 CSI 27 41 00 Audio-Video Systems	Engineering cost estimate	\$23,624	\$5,906	\$16,864
Raised Access Flooring (Where Present)	Personal property — shorter recovery	57.0 CSI 09 60 00 Flooring	Engineering cost estimate	\$39,106	\$9,776	\$27,916
Specialty Tenant Electrical (Workstation Drops, Floor Boxes)	Personal property — shorter recovery	57.0 CSI 26 27 00 Low-Voltage Distribution Equipment	Engineering cost estimate	\$54,036	\$13,509	\$38,574
Blinds, Shades & Curtain Rods (removable)	Non-permanent window coverings	57.0 CSI 09 90 00 Painting and Coating	Engineering cost estimate	\$13,590	\$3,398	\$9,701

Removable Tenant Trade-Dress Finishes (Modular Carpet Tile, Branded Vinyl)	Personal property — shorter recovery	57.0 CSI 09 90 00 Painting and Coating	Engineering cost estimate	\$14,156	\$3,539	\$10,105
Subtotal				\$468,232	\$117,058	\$334,245

7-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Source	Direct RCN	Indirect RCN	Reconciled Basis
Office Furniture, Modular Systems Furniture	Equipment — shorter recovery	00.11 CSI 12 50 00 Furniture	Engineering cost estimate	\$17,961	\$4,490	\$22,451
Decorative Items, Artwork, Plants	Equipment — shorter recovery	00.11 CSI 12 50 00 Furniture	Engineering cost estimate	\$5,339	\$1,335	\$6,674
Subtotal				\$23,300	\$5,825	\$29,125

15-Year Land Improvements (IRC Section 1250)

Site improvement allocations below reflect typical 15-year land-improvement composition for properties of comparable size, age, and construction class. Classifications are limited to components supported by the documentation reviewed; the underlying engineering cost model is calibrated to the property's classification and quality tier, with regional and time-index adjustments described in Section 10.

Site-improvement classification note: detached decks, patios, walkways, paving, fencing, landscaping, and exterior site lighting are treated as 15-year land improvements. Attached covered porches, structural decks and balconies, exterior stairs, and other building-envelope elements are part of the 27.5- or 39-year building and are not classified as 15-year property unless separately supported as detached, removable, or non-structural.

Component	Description	Classification	Source	Direct RCN	Indirect RCN	Reconciled Basis
Surface Parking Lot (Paving, Striping, Curbs)	Land improvement	00.3 CSI 32 00 00 Exterior Improvements	Engineering cost estimate	\$84,893	\$21,223	\$60,600
Site Lighting (Pole Bases, Fixtures, Site Wiring)	Land improvement	00.3 CSI 26 56 00 Exterior Lighting	Engineering cost estimate	\$26,127	\$6,532	\$18,651
Sidewalks, Curbs, Stoops, Site Concrete	Land improvement	00.3 CSI 32 00 00 Exterior Improvements	Engineering cost estimate	\$21,661	\$5,415	\$15,463

Landscaping & Irrigation	Land improvement	00.3 CSI 32 90 00 Planting	Engineering cost estimate	\$18,333	\$4,583	\$13,087
Monument / Pylon Signage (Freestanding)	Land improvement	00.3 CSI 32 00 00 Exterior Improvements	Engineering cost estimate	\$10,599	\$2,650	\$7,566
Site Fencing, Bollards, Site Walls	Land improvement	00.3 CSI 32 31 00 Fences and Gates	Engineering cost estimate	\$6,709	\$1,677	\$4,789
Subtotal				\$168,322	\$42,080	\$120,156

39-Year Real Property (IRC Section 1250)

The following components constitute the structural building envelope and core systems that remain classified as nonresidential real property under IRC §168(e)(2)(B): structural steel and framing, foundation and footings, exterior envelope systems (facade, curtain wall, roofing), core mechanical/electrical/plumbing distribution, vertical circulation, and life safety systems permanently integrated into the building structure. These components are depreciated over 39 years using the straight-line method.

Component	Description	Classification	Source	Direct RCN	Indirect RCN	Reconciled Basis
Foundation	Structural building foundation	§1250 CSI 03 30 00 Cast-in-Place Concrete	Engineering cost estimate	\$257,969	\$64,492	\$184,150
Structural Frame	Structural building component	§1250 CSI 05 12 00 Structural Steel Framing	Engineering cost estimate	\$436,662	\$109,166	\$299,216
Roofing System	Structural building component	§1250 CSI 07 50 00 Membrane Roofing	Engineering cost estimate	\$188,555	\$47,139	\$134,599
Exterior Walls & Facade	Structural building component	§1250 CSI 07 42 00 Wall Panels	Engineering cost estimate	\$316,757	\$79,189	\$226,115
Windows & Storefronts	Structural building component	§1250 CSI 08 44 00 Curtain Wall and Glazed Assemblies	Engineering cost estimate	\$173,893	\$43,473	\$124,133
Insulation	Thermal building envelope	§1250 CSI 07 21 00 Thermal Insulation	Engineering cost estimate	\$60,872	\$15,218	\$43,453

Interior Partitions	Structural building component	\$1250 CSI 09 29 00 Gypsum Board	Engineering cost estimate	\$129,496	\$32,374	\$92,440
Drywall & Finishing	Interior wall surfaces	\$1250 CSI 09 29 00 Gypsum Board	Engineering cost estimate	\$130,657	\$32,664	\$93,269
Ceramic Tile	Structural building component	\$1250 CSI 09 30 00 Tiling	Engineering cost estimate	\$66,349	\$16,587	\$47,362
Plumbing Systems	Core building plumbing	\$1250 CSI 22 10 00 Plumbing Piping and Pumps	Engineering cost estimate	\$213,851	\$53,463	\$152,657
Electrical Distribution	Structural building component	\$1250 CSI 26 24 00 Switchboards and Panelboards	Engineering cost estimate	\$245,153	\$61,288	\$175,001
HVAC Systems	Central heating and cooling	\$1250 CSI 23 00 00 Heating, Ventilating, and Air Conditioning	Engineering cost estimate	\$326,047	\$81,512	\$232,747
Fire Protection System	Structural building component	\$1250 CSI 21 13 00 Fire-Suppression Sprinkler Systems	Engineering cost estimate	\$97,569	\$24,392	\$69,649
Interior Doors & Frames	Structural building component	\$1250 CSI 08 11 00 Metal Doors and Frames	Engineering cost estimate	\$28,733	\$7,183	\$20,511
Permanently Affixed Countertops	Built-in surface installations	\$1250 CSI 09 30 00 Tiling	Engineering cost estimate	\$21,254	\$5,314	\$15,172
Subtotal				\$2,693,817	\$673,454	\$1,910,474

4.1 Facilities Summary by CSI Division

CSS-WP-225

Identified components organized by Construction Specifications Institute (CSI) MasterFormat 2020 division, the standard construction numbering system referenced in the IRS Cost Segregation Audit Techniques Guide. Each row totals one construction system across its MACRS recovery periods.

CSI Div	Construction System	5-Yr	7-Yr	15-Yr	39-Yr	Total
03 30 00	Cast-in-Place Concrete	—	—	—	\$184,150	\$184,150
05 12 00	Structural Steel Framing	—	—	—	\$299,216	\$299,216
06 40 00	Architectural Woodwork	\$39,806	—	—	—	\$39,806
07 21 00	Thermal Insulation	—	—	—	\$43,453	\$43,453
07 42 00	Wall Panels	—	—	—	\$226,115	\$226,115
07 50 00	Membrane Roofing	—	—	—	\$134,599	\$134,599
08 11 00	Metal Doors and Frames	—	—	—	\$20,511	\$20,511
08 44 00	Curtain Wall and Glazed Assemblies	—	—	—	\$124,133	\$124,133
09 29 00	Gypsum Board	—	—	—	\$185,709	\$185,709
09 30 00	Tiling	—	—	—	\$62,534	\$62,534
09 60 00	Flooring	\$27,916	—	—	—	\$27,916
09 90 00	Painting and Coating	\$19,806	—	—	—	\$19,806
10 22 00	Partitions	\$48,183	—	—	—	\$48,183
12 50 00	Furniture	—	\$29,125	—	—	\$29,125
21 13 00	Fire-Suppression Sprinkler Systems	—	—	—	\$69,649	\$69,649
22 10 00	Plumbing Piping and Pumps	—	—	—	\$152,657	\$152,657
23 00 00	Heating, Ventilating, and Air Conditioning	—	—	—	\$232,747	\$232,747
23 81 00	Decentralized Unitary HVAC Equipment	\$49,507	—	—	—	\$49,507
26 24 00	Switchboards and Panelboards	—	—	—	\$175,001	\$175,001
26 27 00	Low-Voltage Distribution Equipment	\$38,574	—	—	—	\$38,574
26 50 00	Lighting	\$30,701	—	—	—	\$30,701
26 56 00	Exterior Lighting	—	—	\$18,651	—	\$18,651
27 10 00	Structured Cabling	\$42,547	—	—	—	\$42,547

27 41 00	Audio-Video Systems	\$16,864	—	—	—	\$16,864
28 00 00	Electronic Safety and Security	\$20,341	—	—	—	\$20,341
32 00 00	Exterior Improvements	—	—	\$83,629	—	\$83,629
32 31 00	Fences and Gates	—	—	\$4,789	—	\$4,789
32 90 00	Planting	—	—	\$13,087	—	\$13,087
Total		\$334,245	\$29,125	\$120,156	\$1,910,474	\$2,394,000

4.2 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 the modeled building components based on their direct cost share, consistent with the engineering cost estimate approach.

Indirect Cost Category	% of Direct Costs	Allocated Amount
Architectural & Engineering Fees	4.0%	\$134,147
General Conditions & Supervision	5.5%	\$184,452
Equipment Rentals & Tools	3.5%	\$117,378
Permits & Inspections	2.0%	\$67,073
Insurance & Bonding	2.5%	\$83,842
Contractor Overhead & Profit	5.0%	\$167,684
Miscellaneous Indirects	2.5%	\$83,842
Total Indirect Costs	25.0%	\$838,418

Total direct costs: \$3,353,672. Displayed category figures are rounded; the total is computed from unrounded component values. 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. Category percentages are rounded to 0.1% and may not sum exactly to the total rate.

4.3 Reconciliation of Costs

Pub 5653, Chapter 4 §C.10, 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 illustrative depreciable basis, with no unexplained variance.

A. Basis Determination

Item	Amount	Notes
Purchase Price	\$2,850,000	Illustrative sample input (acquisition price)
Less: Land Value (16.0%)	(\$456,000)	Land allocation per statistical
Depreciable Basis	\$2,394,000	= Total Project Cost - Land

B. Cost Segregation Allocation

Asset Category	Recovery Period	Allocated Cost
Non-Depreciable Land	N/A	\$456,000
Personal Property	5-Year MACRS	\$334,245
Personal Property	7-Year MACRS	\$29,125
Land Improvements	15-Year MACRS	\$120,156
Real Property (Building)	39-Year Straight Line	\$1,910,474
Total		\$2,850,000

C. Reconciliation Verification

Reconciliation Item	Amount
A. Total Project Cost (Purchase Price)	\$2,850,000
B. Total Allocated per Cost Segregation Study	\$2,850,000
Variance	\$0

All allocated costs reconcile to the property's total project cost without material variance. The total project cost ties to the sum of land and depreciable component allocations.

5. Engineering Rationale by Category

CSS-WP-230

The following narratives describe the engineering-method rationale 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.

Certain classifications involve professional judgment applying the removability, permanency, and functional-use tests under Treas. Reg. §1.48-1(e)(1) and the Whiteco six-factor framework (Whiteco Industries, Inc. v. Commissioner, 65 T.C. 664 (1975)). The classifications below reflect Cost Seg Smart's engineering-method assessment for the property type and construction class; the taxpayer's CPA may reach different conclusions for specific components based on installation method, condition, or facts not visible in the documentation reviewed.

Site Work

Site improvements, including parking lot paving and landscaping, are classified as 15-year property under IRC §168(e)(4). These improvements are considered land improvements and have a distinct recovery period from the building structure.

Finishes

Removable and decorative finishes, such as modular carpet tiles and branded vinyl, are classified as 5-year property due to their non-permanent nature. In contrast, permanently affixed surfaces are classified as 39-year property, reflecting their integration into the building structure.

Specialty Electrical

Dedicated electrical branch circuits and outlets serving specific equipment or occupant functions — rather than the building's general electrical distribution — are classified as 5-year personal property under Rev. Proc. 87-56 (by the asset class of the equipment served). These circuits serve an identifiable function rather than the building as a whole, the distinction drawn in *Hospital Corporation of America v. Commissioner*, 109 T.C. 21 (1997). The building's primary electrical infrastructure (service entrance, switchgear, panels, feeder conduit) remains real property.

Specialty MEP

Removable mechanical and process equipment serving a specific occupant or operational function — rather than the building generally — is classified as 5-year personal property. These items are removable without material damage to the building (*Whiteco Industries, Inc. v. Commissioner*, 65 T.C. 664 (1975)) and serve an identifiable function rather than the building itself (*Hospital Corporation of America*, 109 T.C. 21 (1997)); the building's base HVAC and plumbing remain real property.

Telecom / Data

Low-voltage data and communications cabling, and removable electronic security and surveillance systems, are classified as 5-year personal property under Rev. Proc. 87-56 Asset Class 00.12 (Information Systems). These systems serve the occupant's business operation, are removable without damage to the structure, and are independent of the building's core systems — the functional-use distinction in *Hospital Corporation of America v. Commissioner*, 109 T.C. 21 (1997).

Millwork

Removable trade fixtures and freestanding or readily-removable casework and millwork serving the occupant's specific use are classified as 5-year personal property. They satisfy the removability and functional-use tests (*Whiteco Industries*, 65 T.C. 664 (1975); *Hospital Corporation of America*, 109 T.C. 21 (1997)). Built-in millwork integral to the building remains real property at the standard recovery period.

6. MACRS Depreciation Schedules

CSS-WP-300

With 100% bonus depreciation, the estimated first-year depreciation deduction on reclassified assets is \$483,526.

The following schedules show the annual depreciation deductions under MACRS for each asset category. The 5-year, 7-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	\$334,245	\$334,245	\$0
2	\$0	\$334,245	\$0
3	\$0	\$334,245	\$0
4	\$0	\$334,245	\$0
5	\$0	\$334,245	\$0
6	\$0	\$334,245	\$0

7-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	\$29,125	\$29,125	\$0
2	\$0	\$29,125	\$0
3	\$0	\$29,125	\$0
4	\$0	\$29,125	\$0
5	\$0	\$29,125	\$0
6	\$0	\$29,125	\$0
7	\$0	\$29,125	\$0
8	\$0	\$29,125	\$0

15-Year Land Improvements (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	\$120,156	\$120,156	\$0
2	\$0	\$120,156	\$0
3	\$0	\$120,156	\$0
4	\$0	\$120,156	\$0
5	\$0	\$120,156	\$0
6	\$0	\$120,156	\$0
7	\$0	\$120,156	\$0
8	\$0	\$120,156	\$0
9	\$0	\$120,156	\$0
10	\$0	\$120,156	\$0
11	\$0	\$120,156	\$0
12	\$0	\$120,156	\$0
13	\$0	\$120,156	\$0
14	\$0	\$120,156	\$0
15	\$0	\$120,156	\$0
16	\$0	\$120,156	\$0

39-Year Real Property (Straight-Line, mid-month convention)

Year	Annual Deduction	Cumulative	Remaining Basis
1	\$26,534	\$26,534	\$1,883,940
2	\$48,987	\$75,521	\$1,834,953
3	\$48,987	\$124,508	\$1,785,966
4	\$48,987	\$173,495	\$1,736,979
5	\$48,987	\$222,482	\$1,687,992
6	\$48,987	\$271,469	\$1,639,005
7	\$48,987	\$320,456	\$1,590,018
8	\$48,987	\$369,443	\$1,541,031
9	\$48,987	\$418,430	\$1,492,044
10	\$48,987	\$467,417	\$1,443,057
11	\$48,987	\$516,404	\$1,394,070
12	\$48,987	\$565,391	\$1,345,083
13	\$48,987	\$614,378	\$1,296,096
14	\$48,987	\$663,365	\$1,247,109
15	\$48,987	\$712,352	\$1,198,122
16	\$48,987	\$761,339	\$1,149,135
17	\$48,987	\$810,326	\$1,100,148
18	\$48,987	\$859,313	\$1,051,161
19	\$48,987	\$908,300	\$1,002,174
20	\$48,987	\$957,287	\$953,187
21	\$48,987	\$1,006,274	\$904,200
22	\$48,986	\$1,055,260	\$855,214
23	\$48,986	\$1,104,246	\$806,228
24	\$48,986	\$1,153,232	\$757,242
25	\$48,986	\$1,202,218	\$708,256
26	\$48,986	\$1,251,204	\$659,270
27	\$48,986	\$1,300,190	\$610,284
28	\$48,986	\$1,349,176	\$561,298
29	\$48,986	\$1,398,162	\$512,312
30	\$48,986	\$1,447,148	\$463,326

31	\$48,986	\$1,496,134	\$414,340
32	\$48,986	\$1,545,120	\$365,354
33	\$48,986	\$1,594,106	\$316,368
34	\$48,986	\$1,643,092	\$267,382
35	\$48,986	\$1,692,078	\$218,396
36	\$48,986	\$1,741,064	\$169,410
37	\$48,986	\$1,790,050	\$120,424
38	\$48,986	\$1,839,036	\$71,438
39	\$48,986	\$1,888,022	\$22,452
40	\$22,452	\$1,910,474	\$0

7. NPV Analysis (Illustrative Only)

CSS-WP-310

Illustrative only — not tax advice. The figures below depend on assumptions (discount rate, marginal tax bracket, and hold period) that differ for every taxpayer. Do not rely on the specific dollar amount; your CPA should confirm the after-tax impact for your situation.

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 assumes a 5% discount rate and a 37% marginal tax rate. Accelerated deductions in earlier years are more valuable in present-value terms, as they reduce taxable income sooner. Actual savings depend on the taxpayer's specific rate and circumstances.

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)	\$378,061
With Cost Segregation + Bonus Depreciation	\$472,088
NPV Benefit of Cost Segregation	\$94,027

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, 7-year, and 15-year property (per IRC §168(k), based on acquisition and placed-in-service dates) | Half-year convention applied to 5-, 7-, and 15-year property; mid-month convention applied to 39-year real property. 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 ordinary income recapture of personal property and §1250 for 25% unrecaptured gain for real property. Cost segregation accelerates the timing of depreciation but does not create additional depreciation. The economic benefit derives from the time value of money. It is recommended to consult a CPA for property-specific recapture planning.

Recapture Categories

Category	Amount	Recapture Type	Max Rate
5-Year Property & 7-Year Property	\$363,370	IRC §1245 — Ordinary Income	37%
15-Year Property	\$120,156	IRC §1250 — excess over straight-line recaptured as ordinary income; balance is unrecaptured §1250 gain	Ordinary / ≤25%
39-Year Property	\$1,910,474	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, where present, 7-year personal property) is recaptured as ordinary income up to the amount of depreciation claimed. Section 1250 property (15-year land improvements and 39-year real property) is generally subject to a maximum 25% rate on unrecaptured depreciation under IRC §1(h)(1)(E). Recapture is fact-specific: the §1245 versus §1250 character of particular land improvements, the portion recaptured as ordinary income versus unrecaptured §1250 gain, and the applicable rate depend on the asset, the depreciation method used, and the taxpayer's circumstances at disposition — these should be confirmed with the taxpayer's CPA at the time of sale.

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. 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.

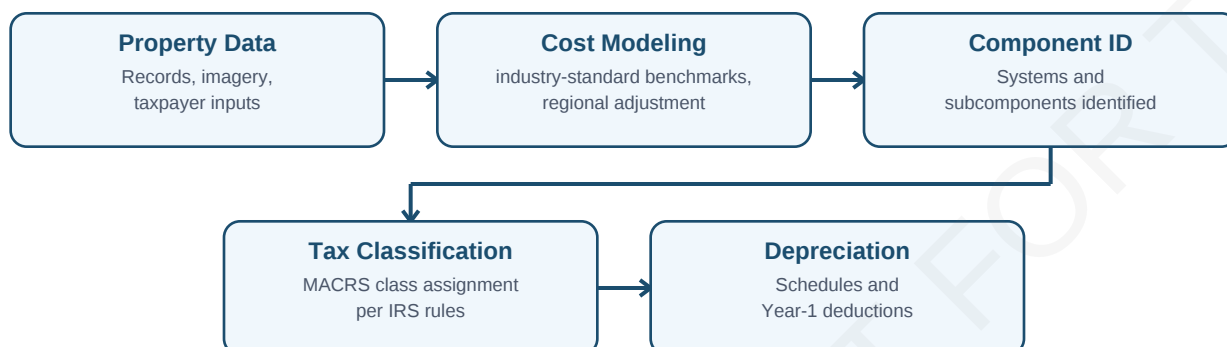
Factor	Potential Impact
Detailed contractor invoices available	May refine or increase 5-year personal property allocations based on actual costs
Major renovations or improvements	Increases short-life property share; renovated components may qualify for accelerated treatment
Higher-end or custom finishes	May change component values by asset and classification: premium removable flooring, appliances, or qualifying equipment can increase shorter-life allocations, while premium structural finishes (built-in cabinetry, tile, stone) remain real property
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

This is a remote (desktop) analysis prepared without a physical site visit; component classifications rest on representative sample property information, public records, available public imagery, and engineering cost estimates as described in the Data Sources section. The methodology is consistent with the engineering cost-estimate approach described in IRS Publication 5653, subject to the evidentiary limitations described in this report. Retaining the acquisition records, and any available invoices materially strengthens the engagement file.

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.

10. Methodology & Basis of Analysis

CSS-WP-400



This study applies the engineering-method approach described in Pub 5653, Chapter 3 §C.2.

Cost estimates were developed using construction cost data, public records, and representative sample inputs, consistent with IRS cost segregation guidance.

Cost Approach Methodology

This cost segregation study employs the engineering-method cost approach using construction cost data, public records, and representative sample inputs, consistent with the methodology described in IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 3 §C.2 — Detailed Engineering Cost Estimate Approach. Under this approach, component-level cost estimates are developed from industry-standard construction cost references and observed property characteristics, then reconciled to the total acquisition or project cost. This is the second of the six approaches enumerated in Pub 5653 Ch. 3, and is the methodology most commonly applied by national engineering and accounting firms when complete actual-cost records for every building component are not available, as is typical for acquired real property.

No physical site inspection was conducted for this study. The analysis relies on representative sample inputs, public records, aerial and street-level imagery, third-party property data, and calibrated construction-cost modeling, with component-level cost allocation and source references. The absence of a physical inspection should be considered by the taxpayer and advisor when evaluating the evidentiary posture of the study.

Preparation Team & Qualifications

This cost segregation study was prepared by the study team of **Cost Seg Smart LLC** (EIN 42-2738626; D-U-N-S 144528479), working under the direction of the firm's Technical Lead, a practitioner dedicated to engineering-method cost segregation studies for U.S. real estate investors. The study team applies the engineering-method process across residential rental, short-term rental, multifamily, and small commercial property classes and maintains familiarity with the principal elements of a quality cost segregation study set forth in IRS Publication 5653, Chapter 4. Component classifications in this report are developed under the framework of IRC §168, Treasury Regulation 1.48-1, Revenue Procedure 87-56, and the Whiteco six-factor functional test, with additional reference to the published case law collected in Appendix D.

Cost Seg Smart LLC has no contingent interest in any tax outcome shown in this illustrative sample; no taxpayer engagement was undertaken and no fee was contingent on the results shown. On a live engagement the study is performed under a flat fee agreed in advance in the engagement letter.

*Engineering provenance (for audit reproducibility): this study was produced by the Cost Seg Smart cost-segregation engine **v3.55.0** (released 2026-08-05), applying construction cost data calibrated to **industry-standard 2026 construction cost data**. The engine version and configuration are retained in the engagement workpaper record so the allocation can be reproduced on examination.*

Data Sources & Observation Methodology

Property observations were derived from aerial imagery, street-level photography, public records where available, property listing data, representative sample inputs, and third-party API data sources. Engineering cost estimates were developed using nationally-recognized construction cost references (U.S. Census construction-cost data and the BLS Producer Price Index) and observed property characteristics derived from these sources. Pub 5653, Chapter 3 §C.2 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
- Public building-permit records, where available — permits issued, work descriptions, and dates, reviewed for renovation/improvement corroboration; no permit-based component override was applied unless specifically noted
- 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

This study reflects the records available at the time of preparation. The taxpayer may strengthen it by providing additional documentation — the closing settlement statement, contractor invoices or pay applications, appraisals, and dated property photographs. Such records can refine individual component allocations and, where they substantiate a specific asset, upgrade it from a modeled estimate to an documented (observed) cost in a reissued study.

Cost Basis & Source Provenance

Every component cost in this study is assigned a source basis — representative sample cost input, public-record or property-data support, imagery support, or engineering estimate. High-impact items (such as flooring, site improvements, FF&E, and commercial specialty systems) are estimated bottom-up; the remaining components are calibrated to aggregate construction-cost benchmarks and reconciled to the building total.

Cost estimates are derived from nationally-recognized construction-cost benchmarks and engineering calibration procedures. Cost data is grounded in:

- U.S. Census Bureau — Survey of Construction and Value of Construction Put in Place (whole-building \$/SF magnitude by property type)
- U.S. Bureau of Labor Statistics — Producer Price Index (materials) and OEWS wages (labor); U.S. Dept. of Labor Davis-Bacon prevailing wages
- State DOT bid tabulations (site-work unit costs); GSA schedules and observed federal procurement pricing (equipment / specialty systems)
- NAHB cost-of-construction stage shares (system-level allocation framework)
- IRS Revenue Procedure 87-56 and Publication 5653 (recovery-class classification)

Component costs are reconciled to the property's illustrative depreciable basis (purchase price less land) through a normalization scalar with class-level constraints, so the effective factor differs by recovery class as disclosed in the Cost Derivation appendix. This anchors the study to the arms-length purchase price while applying the class-level constraints disclosed above — so the result depends on the component *mix* and its classification, both documented above, rather than on any single absolute unit cost. Modeled costs are held at or below published cost ranges (a deliberately conservative posture). Published commercial construction surveys are used only as reasonableness checks, never as the cost basis.

Information Sources & Interviews Documentation

Evidence reviewed	Status
Property photographs	Not provided
Supporting documents	Not provided
Taxpayer-supplied cost documents	Not provided
Taxpayer intake questionnaire	Completed
Renovation / post-acquisition improvement documentation	Not applicable

Cost Provenance Summary

Source	Basis	Share
Illustrative documented-cost input — sample value demonstrating how a documented cost is carried in a live report	\$0	0.0%
Engineering estimate — cost estimate per Pub 5653, Chapter 3 §C.2 (industry-standard unit costs, BLS PPI time-index, regional adjustment)	\$2,394,000	100.0%
Total depreciable basis	\$2,394,000	100.0%

The Detailed Component Breakdown in Section 4 marks each line item's source. Sample documented-cost inputs are carried at the stated amount without indirect markup or remaining-life adjustment; engine-modeled costs are derived from the engineering cost estimate approach described in Section 5 and calibrated to the adopted sample basis.

Rows are displayed in whole dollars; independently rounded rows may differ from the printed total by \$1.

As provided by IRS Publication 5653, Chapter 4 §C.4, a quality study documents the interviews and information exchanges conducted with the appropriate parties. **For this illustrative sample, the inputs and any interior images shown are representative sample data — not taxpayer-supplied audit evidence.** In a live engagement, taxpayer intake responses, property photographs, invoices and pay applications, and scope-of-work correspondence are reviewed and retained in the workpaper file.

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 identified for this property (Landscaping & Irrigation, Monument / Pylon Signage (Freestanding), Sidewalks, Curbs, Stoops, Site Concrete, Site Fencing, Bollards, Site Walls, Site Lighting (Pole Bases, Fixtures, Site Wiring), Surface Parking Lot (Paving, Striping, Curbs)) per Rev. Proc. 87-56 asset class 00.3
Building Structure	39 years	Remaining structural building components — foundation, framing, roofing, exterior walls, core mechanical/electrical/plumbing systems

Common Nomenclature & Standard Numbering System

Component descriptions in this report use construction-industry terminology and standard component naming conventions. Where the taxpayer provides invoices, pay applications, bid documents, or cost schedules, those descriptions are reconciled to the source documents. This aligns with the common-nomenclature guidance of IRS Publication 5653, Chapter 4 §C.5, which discourages “creative” descriptions that disguise the true nature of an asset.

The Classification Reference column in the Detailed Component Breakdown (Section 4) follows the Construction Specifications Institute (CSI) MasterFormat Division numbering system, the standard numbering convention identified in IRS Publication 5653, Chapter 4 §C.6. CSI MasterFormat categorizes costs by building system or component (e.g., Division 11 — Equipment; Division 03 — Concrete; Division 22 — Plumbing). Use of CSI numbering allows direct cross-reference between this study's component list and any contractor bid documents, pay applications, or invoices provided by the taxpayer.

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 representative sample inputs; (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 illustrative 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
- industry-standard square-foot costs — per-building-type cost benchmarks with quality tier variants and regional cost factors
- 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 Pub 5653 (Feb 2025) — classification framework, methodological guidance, and audit-quality considerations (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 derivation from modeled base replacement cost to final allocated depreciable basis for this property:

Step	Description	Factor	Result
------	-------------	--------	--------

1	Modeled Replacement Cost New (modeled components)	\$250.24/SF	\$4,192,089
2	Market Reconciliation Factor (exact)	× 0.5711	\$2,394,000

Note: The final allocated basis equals the property's depreciable basis (total cost basis less land value). The reconciliation factor is shown to four decimals; amounts reflect the exact computation, so multiplying the printed figures may differ from the printed results by a few dollars of rounding. Illustrative documented-cost inputs are carried at their stated value and are never scaled by the factor.

Replacement Cost New (RCN) estimates were developed using industry construction cost databases. The aggregate factor is applied within class-level constraints, so the effective factor differs between recovery classes — the per-class figures are shown in the Cost Derivation table. The aggregate modeled cost is normalized to equal the taxpayer's actual depreciable basis, consistent with the engineering cost estimate approach.

Land Value Allocation

Land value of \$456,000 (16.0% of purchase price) was determined using statistical market analysis for the Tempe, AZ submarket. No independent appraisal or vacant-land comparable analysis was performed.

This allocation is consistent with the cost approach methodology described in Pub 5653, Chapter 3 §C.2, 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 square-foot costs (current edition) and publicly available construction cost indices published by the Bureau of Labor Statistics. Regional cost multipliers are based on regional construction 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. Per-unit cost estimation derived from industry-standard construction cost references is consistent with the Detailed Engineering Cost Estimate Approach described in IRS Publication 5653 (Feb 2025), Chapter 3 §C.2, and with the unit-cost determination element required by Chapter 4 §C.8. Component costs are calibrated against industry-standard square-foot costs for the applicable building type and quality tier, with BLS Producer Price Index time-index applied to the placed-in-service date.

Metric	Value
Gross Building Area	16,752 SF
Purchase Price	\$2,850,000
Land Value Allocation	\$456,000 (16.0%)

Depreciable Basis	\$2,394,000
Implied Cost per SF	\$142.91/SF
Accelerated Reclassification per SF	\$28.86/SF
39-Year Property per SF	\$114.04/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: Indirect costs — contractor overhead, profit, architectural and engineering fees, and other soft costs — are modeled using standardized construction-cost relationships embedded within the underlying industry-standard construction cost database and allocated proportionally by component. The applied indirect-cost percentage varies by property model and component mix; the amounts used in this study are shown in §4.2 (Indirect Cost Allocation). Industry studies indicate indirect costs commonly range between 20%–30%, consistent with industry-standard contractor markup benchmarks and the engineering-method framework for indirect-cost treatment.

Step 4 - Remaining Life (Informational): Physical depreciation and remaining useful life factors are tracked per component for context. However, allocation is based on Replacement Cost New (RCN) — remaining life factors are not applied to component costs pre-reconciliation. This approach avoids compressing modeled costs for older properties. The reconciliation scalar actually applied to this study is $\times 0.5711$, a material normalization of modeled RCN to the adopted depreciable basis.

Step 5 - Premium/Discount Reconciliation:

The adopted depreciable basis is approximately 43% below the aggregate modeled replacement-cost (RCN) estimate. This difference may reflect property-specific quality, location, market conditions, modeling granularity, or other transaction factors. A modeled replacement-cost estimate and a transaction-derived basis are not the same quantity; the model prices direct construction cost at regionally indexed unit costs, while a completed in-service property can also embed indirect and financing costs, entrepreneurial incentive, above-typical specification, and conditions at the transaction date. Age-related depreciation does not explain this, as the allocation is based on replacement cost new and remaining-life factors are not applied. The factor is applied proportionally across modeled components solely to reconcile the allocation to the taxpayer's adopted depreciable basis.

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 39 years (nonresidential).

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 acquisition and placed-in-service dates reported for this property, this report models 100% bonus depreciation under IRC §168(k) as amended by OBBBA (Pub. L. 119-21). The applicable acquisition-date rules — including written-binding-contract and self-construction considerations — along with used-property, prior-use, and related-party eligibility and any elections, are fact-specific; the taxpayer's CPA should confirm them before filing.

11. Legal Authority for Asset Classification

This cost segregation study was performed using the engineering cost estimate approach described in IRS Pub 5653 (Feb 2025). 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
Pub. L. 119-21	2025 federal tax legislation (OBBBA) — amended IRC §168(k) to permanently restore 100% bonus depreciation for qualifying property acquired and placed in service after January 19, 2025, terminating the prior 2023–2026 phase-down schedule.
Treas. Reg. §1.48-1(e)(1)	Defines the functional interdependence test for distinguishing personal property from structural components
IRS ATG (Pub. 5653, Feb. 2025)	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 **39-year nonresidential real 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.

12. Schedule for Fixed Asset Ledger Entry

CSS-WP-500

This schedule is intended to assist the CPA in entering the study results into fixed-asset or tax-preparation software, subject to CPA review and taxpayer-specific filing determinations.

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
Dedicated Tenant HVAC (Supplemental Units, VRF)	200DB	HY	5 yr	2025-06-15	\$49,507
Demountable / Movable Partitions	200DB	HY	5 yr	2025-06-15	\$48,183
Low-Voltage Data & Telecom Cabling	200DB	HY	5 yr	2025-06-15	\$42,547
Built-in Millwork (Reception, Conference Credenzas, Workstations)	200DB	HY	5 yr	2025-06-15	\$39,806
Specialty Tenant Electrical (Workstation Drops, Floor Boxes)	200DB	HY	5 yr	2025-06-15	\$38,574
Decorative & Accent Lighting	200DB	HY	5 yr	2025-06-15	\$30,701
Raised Access Flooring (Where Present)	200DB	HY	5 yr	2025-06-15	\$27,916
Access Control & Security Systems	200DB	HY	5 yr	2025-06-15	\$20,341
Audio-Visual Systems	200DB	HY	5 yr	2025-06-15	\$16,864
Removable Tenant Trade-Dress Finishes (Modular Carpet Tile, Branded Vinyl)	200DB	HY	5 yr	2025-06-15	\$10,105
Blinds, Shades & Curtain Rods (removable)	200DB	HY	5 yr	2025-06-15	\$9,701
Office Furniture, Modular Systems Furniture	200DB	HY	7 yr	2025-06-15	\$22,451
Decorative Items, Artwork, Plants	200DB	HY	7 yr	2025-06-15	\$6,674
Surface Parking Lot (Paving, Striping, Curbs)	150DB	HY	15 yr	2025-06-15	\$60,600
Site Lighting (Pole Bases, Fixtures, Site Wiring)	150DB	HY	15 yr	2025-06-15	\$18,651
Sidewalks, Curbs, Stoops, Site Concrete	150DB	HY	15 yr	2025-06-15	\$15,463
Landscaping & Irrigation	150DB	HY	15 yr	2025-06-15	\$13,087

Monument / Pylon Signage (Freestanding)	150DB	HY	15 yr	2025-06-15	\$7,566
Site Fencing, Bollards, Site Walls	150DB	HY	15 yr	2025-06-15	\$4,789
Remaining 39-Year Real Property	SL	MM	39 yr	2025-06-15	\$1,910,474
TOTAL DEPRECIABLE BASIS					\$2,394,000

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

Convention note: The half-year convention is shown provisionally. Whether half-year or mid-quarter applies is determined under IRC §168(d)(3) across all depreciable personal property the taxpayer placed in service during the year — including property outside this study — so it cannot be concluded from this property alone. The taxpayer's tax professional confirms the applicable convention before these schedules are entered.

Note: Assets with recovery periods of 20 years or less may qualify for 100% bonus depreciation under IRC §168(k), subject to qualified-property rules, acquisition date, placed-in-service date, related-party rules, prior-use limitations, and elections. 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. Because the property was placed in service in 2025, the CPA should first determine whether the original 2025 return remains open or has already been filed. If filed, the CPA should review the filed depreciation schedules to determine whether a method has been adopted and, if so, calculate any required Form 3115 / §481(a) catch-up adjustment; this report does not include that adjustment workpaper. If the taxpayer's CPA has questions about this report, they may contact us directly at support@costsegsmart.com.

13. Tax Practitioner Review Considerations

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

- **Filing Method — Original Return, Amended/Superseding Return, or Form 3115 (CPA to determine):** This basis was placed in service in 2025. If the 2025 return is still open (not yet filed, or on extension), the classification may be reported directly on the original return via Form 4562. If a 2025 return has already been filed, the taxpayer's CPA determines whether an amended return, a superseding return, or a Form 3115 method change is appropriate based on the filing posture and applicable procedures.
- **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:** Arizona treatment may require state-specific bonus-depreciation additions or subtractions or other conformity adjustments; confirm Arizona treatment with your CPA before filing. Entity-level, local, and multistate considerations should still be reviewed by the taxpayer's advisor.
- **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.

14. Conclusion

This illustrative analysis demonstrates how a property with the modeled profile of **8400 S Kyrene Rd, Tempe, AZ 85284** could be allocated under an engineering-method cost segregation study. It is not an opinion concerning the actual property.

Using an engineering cost approach, this study allocated **\$483,526** of the property's **\$2,394,000** 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 the bonus depreciation provisions in effect for the property's placed-in-service year (IRC §168(k)), the **\$483,526** in reclassified assets may qualify for accelerated first-year deductions depending on bonus-depreciation eligibility, the taxpayer's individual tax circumstances (entity structure, passive activity status, real estate professional qualification), and the state's conformity to IRC §168(k).

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

In a live engagement, the final 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 illustrative sample was not prepared for a taxpayer, uses representative inputs, and may not be used for tax filing or relied upon for tax reporting purposes. Final tax treatment should be determined in consultation with a qualified tax professional.

Audit Support. For completed client engagements, the scope of included audit support is governed by the applicable engagement agreement. Supporting schedules and methodology workpapers are retained with the engagement file.

Certification

This illustrative analysis demonstrates how the identified property profile could be allocated under an engineering-method cost segregation study. Because this is a marketing sample rather than a taxpayer engagement, the allocations shown are not a tax position, certification, or opinion concerning the actual property.

No taxpayer engagement was undertaken for this sample and no fee was contingent on the amount of accelerated depreciation shown. Cost Seg Smart LLC has no ownership or financial interest in the illustrative subject property.

The report format and methodology are designed to address the principal elements of a quality cost segregation study set forth in IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 4. A filing-ready study uses the taxpayer's actual basis records, acquisition documentation, property photographs, and other engagement evidence.

Cost Seg Smart LLC

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Study Date: August 05, 2026

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 illustrative depreciable basis. Physical depreciation / remaining life is tracked per component for context; allocation is based on RCN.

Category	RCN (Pre-Recon)	Avg RLF (Info)	Eff. Factor	Final Allocated Basis
5-Year Personal Property	\$585,290	0.20	× 0.57	\$334,245
7-Year Personal Property	\$29,125	0.20	× 1.00	\$29,125
15-Year Land Improvements	\$210,402	0.20	× 0.57	\$120,156
39-Year Real Property	\$3,367,272	0.20	× 0.57	\$1,910,474
Total (Pre-Recon RCN)	\$4,192,089	—	—	
Total Depreciable Basis				\$2,394,000

Location Cost Index: 0.95 (state level — Tempe, AZ). 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. The **Final Allocated Basis** per class is the reconciled amount carried consistently throughout this report (Cost Allocation Summary, CPA schedule, MACRS schedules, and fixed-asset ledger); the per-class figures sum to the depreciable basis. Owner-declared (typed) costs are carried at their stated amount and are not scaled by the reconciliation factor, and any pre-PIS renovation allocation is included in the class total — so the effective per-class factor (Final ÷ pre-recon RCN) can differ modestly between classes. 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 table below presents the allocation evidence considered (each with its geographic scope and treatment), followed by the adopted allocation — the study's conclusion from that evidence:

Evidence / Determination	Indicated	Description	Treatment
A.1 County Tax Assessor Allocation	—	<i>Scope: Subject parcel.</i> County assessor data was not available for this property. When available, assessor allocations provide a recognized parcel-specific benchmark per ATG Chapter 4.	Not available
A.2 Statistical Market Estimate	16.0%	<i>Scope: Metro/submarket.</i> Metro-area land-ratio estimate for the submarket. Regional rather than parcel-specific. In the absence of a usable parcel-level land/improvement split, this estimate is the basis of the adopted allocation below — it is the only estimate, not an independent cross-check.	Basis of adopted allocation
A.3 Comparable Sales Analysis	—	<i>Scope: Subject submarket.</i> Vacant-land sales in the immediate submarket would provide direct market evidence. This method was not performed for this study.	Not performed
A.4 Purchase Agreement Allocation	—	<i>Scope: Subject transaction.</i> If the purchase contract or settlement statement contains a land/improvement allocation, that buyer-seller negotiated split may be used. Not provided for this study.	Not provided
A.5 Adopted Land Allocation	16.0%	<i>Scope: Study conclusion.</i> No usable parcel-level assessor land/improvement split was available. The adopted allocation is based on the statistical estimate and should be verified against an appraisal, assessor allocation, or local market evidence when material. No independent appraisal or vacant-land comparable analysis was performed. Land value of \$456,000 (16.0% of purchase price) is adopted for this study.	Adopted

Appendix B — IRS ATG Quality Elements

CSS-WP-600

IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 4 §C.1–C.13, identifies the 13 principal elements of a quality cost segregation study. The left column below restates each element using the IRS publication's own headings; the right column identifies where this report addresses the element.

ATG Element	How Addressed
C.1 Preparation by an Individual with Expertise and Experience	Section 10 — Preparation Team & Qualifications identifies the preparing firm's study team responsible for the work at firm level (no individual is named in this report) and describes the engineering-method experience and qualification framework they apply.
C.2 Detailed Description of the Methodology	Section 10 — Methodology & Basis of Analysis describes the engineering-method cost approach (Pub 5653 Ch. 3 §C.2), the data sources reviewed, and the cost reconciliation process.
C.3 Use of Appropriate Documentation	Section 10 (Data Sources subsection) and Appendix E (Audit Documentation & Support) enumerate the documentation relied on for this study. The inputs always include the taxpayer's intake responses, public-record and third-party property data, and the calibrated construction-cost data underlying the estimates; closing documents, property photographs, appraisals, contractor invoices and pay applications, and renovation records are reviewed and incorporated when the taxpayer provides them.
C.4 Interviews Conducted with Appropriate Parties	Section 10 — Information Sources & Interviews Documentation records the taxpayer intake questionnaire responses and any provided scope or contractor documentation. The taxpayer's intake responses and public-record data are used in lieu of a physical site visit for this analysis.
C.5 Use of Common Nomenclature	Section 10 — Common Nomenclature & Standard Numbering System confirms that component descriptions use terminology consistent with construction-industry convention and, where applicable, terminology from contractor documents, invoices, pay applications, or scope schedules.
C.6 Use of a Standard Numbering System	Section 4 (Detailed Component Breakdown) renders each component's CSI MasterFormat Division reference in the Classification Ref column. The use of CSI MasterFormat is documented in the Common Nomenclature subsection of Section 10.
C.7 Explanation of the Legal Analysis	Section 5 (Engineering Rationale by Category) cites authorities for each classification; Section 11 (Legal Authority for Asset Classification) sets out the statutory and regulatory framework; Appendix D (Case Law & IRS Rulings) collects supporting precedent.
C.8 Determination of Unit Costs and Engineering "Take-off"	Section 4 (Detailed Component Breakdown) shows the component-level direct and indirect cost allocations; Appendix A (Cost Derivation Summary) documents the class-level derivation from modeled replacement cost to the reconciled basis. Underlying unit-cost benchmarks and quantity assumptions are retained in the engagement file.
C.9 Organization of Assets Into Lists or Groups	Section 4 organizes assets by recovery period (5-, 7-, 15-, and 39-year classes). Section 12 (Schedule for Fixed Asset Ledger Entry) lists assets in a format that ties to the taxpayer's fixed asset ledger.
C.10 Reconciliation of Total Allocated Costs to Total Actual Costs	Section 4.3 (Reconciliation of Costs) demonstrates that the sum of allocated costs equals the total depreciable basis. Separately-acquired §1245 property (e.g., FF&E acquired outside the project cost) is listed distinctly to prevent duplication, consistent with Pub 5653 Ch. 4 §C.10(2).

C.11 Explanation of the Treatment of Indirect Costs	Section 4.2 (Indirect Cost Allocation) identifies indirect cost categories, explains the allocation method applied, and reconciles the indirect-cost treatment to the direct-cost basis.
C.12 Identification and Listing of §1245 Property	Section 4 separately lists §1245 property (5-year and 7-year classes) from §1250 structural components. Items originally classified as §1250 that have been reclassified to §1245 under the functional-test analysis are highlighted.
C.13 Consideration of Related Issues (§263A, Change in Accounting Method, Sampling Techniques)	No separate taxpayer-produced or construction-period cost pool requiring a §263A (UNICAP) allocation was identified from the records provided; the filing professional should confirm whether any pre-placed-in-service renovation or production costs were separately capitalized. Change-in-accounting-method status (whether a Form 3115 is required, and the §481(a) catch-up computation for lookback studies) is stated in the depreciation analysis and, where applicable, the Form 3115 / §481(a) section. Sampling techniques are not applicable to this study (single property; population of one).

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 (Pub. 5653, Feb. 2025)	Cost Segregation Audit Techniques Guide — 13 elements of a quality study.

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. The factors as applied in this study are enumerated in the Classification Methodology section; they address movability, permanence of the installation, utility connections, purpose-specific design, damage on removal, and the property's weight and size relative to the building. (Single-sourced with that section so the two recitals cannot diverge.)
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, Chapters 3 & 4	Pub 5653 (Feb 2025)	Chapter 3 provides detailed guidance on the engineering approach to cost segregation, including acceptable methodologies (detailed engineering, residual estimation, sampling/modeling); Chapter 4 identifies the 13 principal elements of a quality study.

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. Because depreciation positions remain relevant for as long as the property is depreciated, the taxpayer should retain a copy of this report and all supporting documentation for the entire ownership period of the property, plus the limitations period that applies after the year of disposition (generally three years from filing, or six years if gross income is understated by more than 25%).

Component-Level Allocation Methodology

Each component category in this study has been analyzed, classified, and costed using the detailed engineering cost approach. This methodology is aligned with the component-level analysis 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 Alignment

This cost segregation study has been prepared to address the 13 principal elements of a quality cost segregation study as identified in the IRS Cost Segregation Audit Techniques Guide (ATG), Chapter 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.

Appendix F — Exhibits & Supporting Documentation

CSS-WP-700

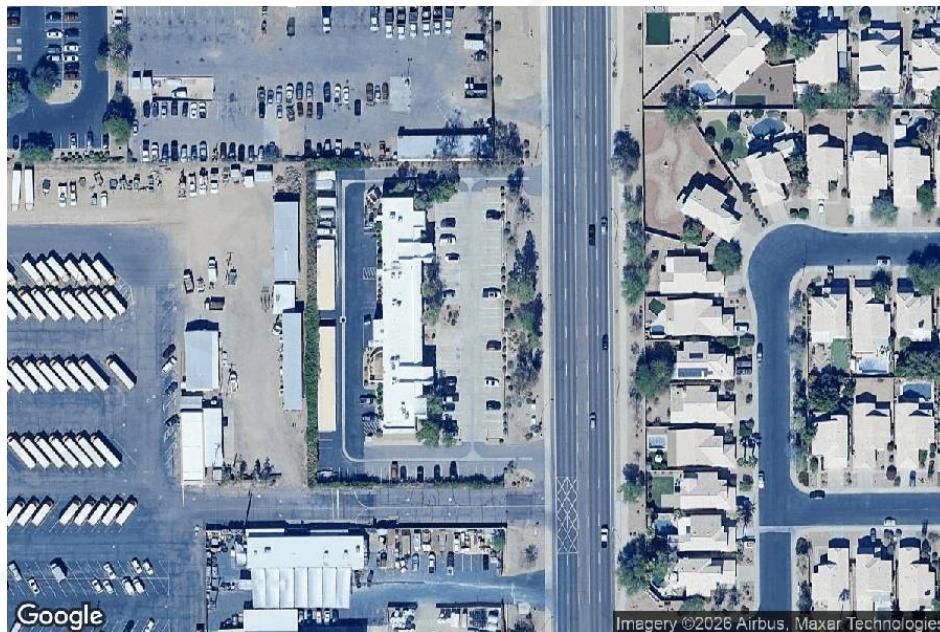
The following exhibits and supporting documentation are maintained for audit documentation purposes.

Property Photo Documentation

Public street-level and aerial imagery are presented in the Property Visual Context section and were reviewed to inform component classifications for the subject property at 8400 S Kyrene Rd, Tempe, AZ 85284. No property photographs were used for this illustrative sample.

Aerial / Satellite Imagery

Aerial imagery of the subject property at 8400 S Kyrene Rd, Tempe, AZ 85284, 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 (taxpayer's file)	Recommended
Public street-level / aerial imagery	Reviewed
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

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-ATG-aligned 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.

Tax Practitioner 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 a federal bonus depreciation assumption of 100% under IRC §168(k) for the reclassified 5-year, 7-year, and 15-year property. The applicable rate depends on the acquisition (or binding-contract) date, the placed-in-service date, and any election: under current federal law (OBBA, Pub. L. 119-21) 100% bonus is available for qualified property both acquired and placed in service after January 19, 2025, while property acquired before January 20, 2025 follows the TCJA phase-down by placed-in-service year (80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, 0% in 2027). For qualified property acquired on or after January 20, 2025, 100% is the default rate; a reduced rate applies only where the taxpayer makes the available election for the first taxable year ending after January 19, 2025 — that election is the filing professional's determination, not an automatic alternative. Verify the acquisition date, binding-contract date, related-party status, prior-use limitations, and any elections with your tax professional before 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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Report CSS-SAMPLE-OFFICE

Issued August 5, 2026

This report and its contents are confidential and prepared solely for the named taxpayer. It should be reviewed with a qualified tax professional prior to filing.