

# What Is Cost Segregation?

And why bonus depreciation makes right now the most important time to do one

THE GAME CHANGER — BONUS DEPRECIATION RESTORED TO 100%

## The IRS Now Lets You Write Off Everything You Reclassify *In the Year You File.*

Congress restored **100% bonus depreciation effective January 19, 2025** — meaning every dollar your cost segregation study reclassifies into 5-year or 15-year property does not get spread over 5 or 15 years. It deducts in full in Year 1. A \$500,000 building that produces \$136,000 in reclassified components does not give you \$27,200 per year for five years. **It gives you \$136,000 this year.** That is the difference between a planning tool and a wealth event.

**100%**

Bonus depreciation — all reclassified components deducted Year 1

**Jan '25**

Effective date — retroactive to properties placed in service

**Year 1**

All of it. Not spread over years. Not amortized. Now.

### THE MECHANISM

## The IRS Lets You Write Off Your Building Faster. Most Property Owners Never Use It.

When you buy a building, the IRS requires you to depreciate it over **27.5 years (residential rental) or 39 years (commercial)**. On a \$1 million commercial building that means roughly \$25,600 per year in depreciation. That is the default. Most property owners accept it and move on.

But the IRS also recognizes that not everything in your building has a 27.5 or 39-year life. The carpet, the specialty lighting, the dedicated electrical circuits, the plumbing fixtures, the parking lot — these components wear out faster. The IRS assigns them shorter depreciation lives: **5 years or 15 years**. A cost segregation study finds every one of them, assigns each an individual value, and reclassifies them so you can write them off in years — not decades.

#### WITHOUT COST SEGREGATION

##### Everything depreciates at the same slow rate.

The IRS assigns your entire building — carpet, electrical, plumbing, parking lot, building shell — to a single 27.5 or 39-year schedule. **\$25,600 per year on a \$1 million commercial building.** Year after year. For nearly four decades.

#### WITH COST SEGREGATION + 100% BONUS DEPRECIATION

##### Everything that qualifies deducts in Year 1.

A fully engineered study reclassifies 25%–40% of your building into 5-year and 15-year property. With 100% bonus depreciation restored, **all of it deducts in the year your study is filed.** Not spread over years. All of it, now.

### HOW IT WORKS

## Three Categories. Three Dramatically Different Timelines.

CATEGORY	WHAT QUALIFIES	DEPRECIATION LIFE	WITH 100% BONUS DEP.
<b>5-Year Property</b>	Carpet, appliances, specialty lighting, dedicated electrical circuits, plumbing fixtures, telecom & data cabling, restaurant equipment	<b>5 years</b>	<b>100% in Year 1</b>
<b>15-Year Property</b>	Parking lots, sidewalks, landscaping, fencing, exterior lighting, site utilities	<b>15 years</b>	<b>100% in Year 1</b>
<b>27.5-Year (Residential) / 39-Year (Commercial)</b>	Building shell, roof, structural HVAC, elevators, load-bearing walls	27.5 / 39 years	No bonus depreciation — straight-line only

The entire value of cost segregation changed when bonus depreciation was restored to 100%. Previously, reclassified components were deducted over their shorter schedule — 5 or 15 years. Now they deduct in full in Year 1. A study that would have produced \$27,200 per year for five years now produces \$136,000 this year.

#### REAL NUMBERS

## What a Cost Segregation Study Produces — Year 1 Write-Offs

**\$136K**

**\$500,000 property**

Up to \$136,000 in Year 1 write-offs — all reclassified components deducted immediately under 100% bonus depreciation

**\$389K**

**\$1.5M building**

Up to \$389,000 in Year 1 write-offs from IRS Approaches 1 and 2 — full engineering, every component valued

**\$1.17M**

**\$5M building**

Up to \$1,170,000 in Year 1 write-offs — component by component, every system individually analyzed

*Based on IRS Approaches 1 and 2 analysis with 100% bonus depreciation. Actual results vary by property type, components installed, and individual tax situation.*

#### WHO QUALIFIES

### Your Property Likely Qualifies If:

- ✓ It is commercial, investment, or rental real estate — not your primary residence
- ✓ It was purchased, built, or renovated for **\$250,000 or more**
- ✓ It was acquired in the last 10 years (**lookback studies recover all missed depreciation**)
- ✓ You pay federal income taxes and can use the deductions — or have a qualifying tax situation

### Find Out What Your Building Holds. Free. In 24 Hours.

Property type, approximate value, year acquired. That is all we need. We provide a specific estimate of your Year 1 write-off, the flat study fee, and an honest answer on whether the economics justify a study on your specific property. **If they don't, we tell you that directly.**

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