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Engineering Appendix

to the Cost Segregation Study

Large Apartment Complex

Sample: Apartment Complex (§1031 Replacement, Election Out)

Prepared For
Property Owner
Property Owner

Prepared By
SmartCostSeg LLC
SmartCostSeg Team

Report
SCS-LPCS-WQC3N4 (v1)
Reference LPCS-WQC3N4

Dates
Placed in service March 20, 2026
Prepared September 1, 2026



An apartment complex elevation with balconies and mixed cladding across several floors. Representative of the building type; not this property.
Photo: Andrew Patrick Photo via Pexels (Pexels License).

Computed under law as of 2026-07, engine v0.1. Tax year 2026. Stated position: Middle of the Road. This study supports the depreciation positions taken on the taxpayer's return; it is not a tax return and it is not legal advice.

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Sections appear in the order listed. The Part numbers are the study's part structure; the Element numbers are the 13 principal elements of a quality study that IRS Publication 5653 describes. A part is present only when it has real content, so a study without a recorded interview, a supplied take off, a look back adjustment, a like kind exchange, a renovation part, separately stated indirect costs or site photographs omits those parts entirely rather than printing an empty page.

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Letter of Transmittal

September 1, 2026

Property Owner

Dear Property Owner,

Enclosed is the cost segregation study for Sample: Apartment Complex (§1031 Replacement, Election Out), a Large Apartment Complex placed in service on March 20, 2026. The study separates the components of the property into their MACRS recovery classes so that personal property and land improvements are depreciated over their own recovery periods rather than over the 27.5 year life of the building shell.

Land was determined first and removed from the purchase price. The remaining depreciable building basis of $1,870,000 was allocated across 16 asset rows using the modeled residual method. The allocation reconciles exactly: the schedule totals $1,870,000, which equals the building basis to the dollar at every position, and Part 10 states for each row its system, its character, its asset class, its rationale and its authority.

The study was run at the Conservative, Middle of the Road and Aggressive positions on one land value, and the Middle of the Road position is the one stated in the year by year table of Part 1, on the Form 4562 map and in the fixed asset file. At that position $523,600 (28.0%) of the basis is reclassified into short life classes; the first year deduction with the study is $562,363 against $53,837 without it, a difference of $508,526 (Conservative $363,233, Aggressive $690,142).

SmartCostSeg does not prepare tax returns and does not provide legal advice. Your CPA or tax preparer files the return, decides which elections to make, and applies the passive activity and loss limitation rules to your situation; the CPA Next Steps section lists what this study hands to that process.

Reviewed by: _____ SmartCostSeg Team Date: _____

SmartCostSeg Team
SmartCostSeg LLC

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Part 1: Executive Summary (1 of 2)

DEPRECIABLE BUILDING BASIS	RECLASSIFIED TO SHORT LIFE (MIDDLE OF THE ROAD)	SHARE OF BASIS RECLASSIFIED
$1,870,000	**$523,600**	**28.0%**

ADDITIONAL FIRST-YEAR DEDUCTION	EST. FIRST-YEAR TAX SAVINGS AT 37%	LAND ALLOCATION (15.0% OF PRICE)
$508,526	**$188,155**	**$330,000**

Allocation by Recovery Class at the Three Positions

Recovery Class	Life	Conservative	Middle of the Road (stated)	Aggressive
5-Year Personal Property (§1245)	5	$261,800	$366,520	$497,420
15-Year Land Improvements	15	$112,200	$157,080	$213,180
27.5-Year Residential Rental Property	27.5	$1,496,000	$1,346,400	$1,159,400
Total Depreciable Building Basis		**$1,870,000**	**$1,870,000**	**$1,870,000**

The Three Positions

Position	Short-Life Share	§168(k) Allowance	First Year With Study	Without Study	Additional	Est. Tax Savings
Conservative	20.0%	$374,000	$417,070	$53,837	$363,233	$134,396
Middle of the Road (stated)	28.0%	$523,600	$562,363	$53,837	$508,526	$188,155
Aggressive	38.0%	$710,600	$743,979	$53,837	$690,142	$255,353

The three positions run the asset model and the MACRS engine on one land value; the Middle of the Road position is stated in the year by year table on the next page, on the Form 4562 map and in the fixed asset file, with the other two beside it in every table. Tax savings use the 37% combined rate stated in the assumptions.

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We cannot guarantee tax savings or financial results. Actual benefits depend on your specific tax situation.

Part 1: Executive Summary (2 of 2)

At a Glance, Year by Year (Middle of the Road position)

Year	Calendar year	With study	Without study	Difference	Cumulative difference
1	2026	$562,363	$53,837	$508,526	$508,526
2	2027	$48,955	$67,994	$(19,039)	$489,487
3	2028	$48,955	$67,993	$(19,038)	$470,449
4	2029	$48,955	$67,993	$(19,038)	$451,411
5	2030	$48,955	$67,993	$(19,038)	$432,373
6	2031	$48,955	$67,993	$(19,038)	$413,335
7	2032	$48,955	$67,994	$(19,039)	$394,296
8	2033	$48,956	$67,993	$(19,037)	$375,259
9	2034	$48,955	$67,993	$(19,038)	$356,221
10	2035	$48,955	$67,993	$(19,038)	$337,183
11	2036	$48,955	$67,993	$(19,038)	$318,145
12	2037	$48,955	$67,994	$(19,039)	$299,106
13	2038	$48,955	$67,993	$(19,038)	$280,068
	Years 14 to 28	$720,176	$1,000,244	$(280,068)	$0

The comparison runs 28 years and nets to zero over the full recovery: the study changes when depreciation is taken, not how much. The fixed asset import file carries every row with its class, method, convention and placed in service date, from which depreciation software produces each year.

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Part 1A: The Land Question and the Nine Positions

The three positions describe the building only. Land is carved out first and never depreciates, so the less of the price assigned to land, the more there is to depreciate: a low land value is the aggressive land position and a high land value is the conservative one. The grid runs the whole model at a higher and a lower land value as well as the engineering estimate; 9 positions are shown, ranked by first year benefit. This grid covers the $2,200,000 excess (new money) basis alone; the $1,150,000 carryover basis is not in it, and the land at the engineering estimate is $330,000 by illustrative land allocation (15% of the excess basis), applied to the excess (new money) basis of the exchange.

Rank	Land allocation	Land	Classification position	Depreciable basis	Additional year 1 deduction	Est. year 1 tax saving
1	Low land (more to depreciate)	$275,000	Aggressive	$1,925,000	$710,440	$262,863
2	Engineering estimate	$330,000	Aggressive	$1,870,000	$690,142	$255,353
3	High land (less to depreciate)	$385,000	Aggressive	$1,815,000	$669,843	$247,842
4	Low land (more to depreciate)	$275,000	Middle of the Road	$1,925,000	$523,482	$193,688
5	Engineering estimate (recommended)	$330,000	Middle of the Road	$1,870,000	$508,526	$188,155
6	High land (less to depreciate)	$385,000	Middle of the Road	$1,815,000	$493,569	$182,621
7	Low land (more to depreciate)	$275,000	Conservative	$1,925,000	$373,916	$138,349
8	Engineering estimate	$330,000	Conservative	$1,870,000	$363,233	$134,396
9	High land (less to depreciate)	$385,000	Conservative	$1,815,000	$352,549	$130,443

The land allocation on its own: holding the classification position at Middle of the Road, what the land question alone is worth on this property.

Land allocation	Land	Additional year 1 deduction	Est. year 1 tax saving
High land (less to depreciate)	$385,000	$493,569	$182,621
Engineering estimate	$330,000	$508,526	$188,155
Low land (more to depreciate)	$275,000	$523,482	$193,688

Every cell is a full run of the asset model and the MACRS engine at that land value, not an interpolation; the recommended cell is the engineering estimate crossed with Middle of the Road, the position stated everywhere else in this study, and a cell is named by both coordinates because the axes move in opposite directions. Tax savings use the 37% combined rate stated in the assumptions.

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Part 2: Property and Acquisition (1 of 2)

Property Type	Large Apartment Complex
Building Area	104,000 square feet
Year Built	2008
Units	96
Stories	3
Owner Entity	Property Owner
Purchase Date	March 20, 2026
Acquired (binding contract date)	March 20, 2026
Placed in Service	March 20, 2026
Total Consideration	$2,200,000
Land (determined first)	$330,000 (15.0%), illustrative land allocation (15% of the excess basis); applied to the excess (new money) basis of the exchange
Depreciable Building Basis	$1,870,000

Building Systems and Ownership Boundary

The subject is a Large Apartment Complex (104,000 square feet, 96 units, 3 stories, built 2008).

Building systems were modeled from the property type's component profile; the variance drivers for this type are stories; clubhouse/pool; parking acreage. No engineering take-off was performed unless noted in the methodology.

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Part 2: Property and Acquisition (2 of 2)

Land Determination

Total consideration	$2,200,000
Less: land value (illustrative land allocation (15% of the excess basis); applied to the excess (new money) basis of the exchange)	$(330,000)
Land as a share of the consideration	15.0%
Depreciable building basis	**$1,870,000**

Land is not depreciable and was determined first: $330,000 (15.0% of the excess basis) by illustrative land allocation (15% of the excess basis); applied to the excess (new money) basis of the exchange. The depreciable building basis is $1,870,000. Land is held constant within each position, so the Conservative, Middle of the Road and Aggressive columns of this study all rest on the same land value. Because the allocation itself is a judgment, Part 1 also shows what the result would be at a higher and a lower land value, so the effect of that judgment can be seen rather than assumed. The three positions describe the building only. Land is carved out first and never depreciates, so the less of the price assigned to land, the more there is to depreciate: a low land value is the aggressive land position and a high land value is the conservative one.

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Part 3 (Element 1): Preparer Expertise and Responsibilities

Publication 5653 lists preparation by an individual with expertise and experience as the first principal element of a quality study. This study is prepared and reviewed by the SmartCostSeg Team and names the team rather than an individual, so it states no individual credential or years of experience, and the ATG scorecard marks this element Partial.

Role	Name	Entity	Responsibilities on this study
Preparer and Reviewer	SmartCostSeg Team	SmartCostSeg LLC	Prepared this study with SmartCostSeg's analysis system; Reviewed the inputs, the documents in Part 5, the classification of each row and the reconciliation before release

Responsibilities of the Analysis System and the Team

- The analysis system determined land first, ran the asset model and the MACRS engine at the three positions, applied the recovery periods, methods and conventions of the law tables, reconciled the allocation to the building basis and produced every schedule in this study.
- Rows marked Review are the rows the SmartCostSeg Team flags for the return preparer's own confirmation.
- The taxpayer's return preparer applies the study on the return, makes the elections and applies the loss limitation rules; SmartCostSeg does not prepare returns.

Questions about how this study was prepared or reviewed go to team@smartcostseg.com.

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Part 4 (Element 2): Methodology (1 of 2)

Land was determined first and removed from the purchase price. The method runs in eleven steps: (1) acquisition documents, (2) inspection, (3) building system identification, (4) functional classification, (5) engineering take-offs, (6) unit costs, (7) component valuation, (8) §1245 and §1250 analysis, (9) MACRS classification, (10) basis reconciliation and (11) depreciation. Steps 1, 3, 4, 8, 9, 10 and 11 were performed on the inputs and documents received; steps 2, 5, 6 and 7 are modeled: the Large Apartment Complex component profile assigns modeled shares of basis to each 5-year, 7-year and 15-year component and no take-off, unit cost or site inspection was performed. The residual, everything not identified as personal property or a land improvement, stays in the building shell at its 27.5-year recovery period.

The study runs the asset model and the MACRS engine three times on one land value, at the Conservative (20.0%), Middle of the Road (28.0%) and Aggressive (38.0%) positions; every class total, waterfall, bonus and first year table carries the three columns, and the Middle of the Road position is the one stated in the year by year table of Part 1, on the Form 4562 map and in the fixed asset file.

The Conservative, Middle of the Road and Aggressive percentages for Large Apartment Complex are transcribed verbatim from the Expectation Guide row "Large Apartment Complex"; they are planning priors, not a substitute for documentation. The 5-year and 15-year split for this property type follows the Expectation Guide row "Apartments" (typical split between 5-year and 15-year property), applied at the range midpoints. The comparative band for every property type is SmartCostSeg house judgment used to gauge an allocation against the type's own Conservative, Middle of the Road and Aggressive positions; it is not an IRS threshold, an industry percentile or a published median.

Each row carries its building system, its IRC character, its Rev. Proc. 87-56 asset class, the authored rationale that applies the Whiteco permanence factors and the functional allocation approach of Hospital Corp. of America to that component, the authority for its classification and a confidence score; rows under 0.85 are marked as requiring review. This is a model, not an engineering take-off: it is consistent with the residual approach the IRS Cost Segregation Audit Techniques Guide describes and is labeled as such throughout.

Catalog corrections and house judgments disclosed: Residential built in cabinets, counters and vanities stay with the building; Retail and office removable millwork stays 5 year; 7 year office furniture, fixtures and equipment; Car wash building and related land improvements on asset class 57.1 at every position.

No site visit or photographic survey was performed; the assumptions list what is still required.

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Part 4 (Element 2): Methodology (2 of 2)

The half year convention applies to the personal property placed in service in 2026: 0% of that basis fell in the fourth quarter, under the 40 percent threshold at which the mid quarter convention would apply. Real property uses the mid month convention from its placed in service month (IRC section 168(d); Pub. 946).

Basis of the Analysis

Site survey	No site visit or photographic survey was performed
Unit cost source	SmartCostSeg component weight tables by property category (modeled shares of building basis); residual to the building shell
Indirect cost treatment	Indirect and soft costs are not separately allocated on an acquisition: the purchase price is a lump sum apportioned between land and the depreciable improvements, and no indirect cost of production exists to allocate. Part 4 and Part 14 explain the treatment.
Documents reviewed	0 documents, listed in full in Part 5
Asset rows produced	16 rows, 2 flagged for review

The method is stated so a reviewer can weigh it. A modeled residual allocation is not an engineering take-off, and this report never describes it as one.

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Part 7 (Elements 5 and 6): Nomenclature and Numbering System (1 of 3)

Common Nomenclature (Element 5)

Every asset carries a workpaper Asset ID of the form SYSTEM-nnn, where SYSTEM is the building system prefix below and nnn a sequence within that system (ELEC-001, SIGN-001, SITE-001), and an IRS asset class column that prints the Rev. Proc. 87-56 class with a two digit workpaper sub code (57.0-08). The same asset keeps the same identifier across the Conservative, Middle of the Road and Aggressive positions, in the schedules, on the Form 4562 map and in the fixed asset CSV, so every dollar can be traced from the schedule to its source.

Prefix	Building system	MasterFormat divisions (workpaper cross reference)	Rows in Part 10
STRUCT	Structure and building envelope	03, 04, 05, 06, 07, 08	1
ELEC	Electrical distribution	26	2
PLMB	Plumbing and fire protection	21, 22	1
LOWV	Low voltage, communications and security	27, 28	1
FIN	Interior finishes	09	2
FF&E	Furniture, fixtures and equipment	12	1
EQUIP	Process and specialty equipment	11	1
SITE	Site improvements and site utilities	31, 32, 33	7

Standard Numbering System (Element 6)

Sequence numbers run per building system in schedule order (structure first, site and parking structures last); sub codes run per IRS asset class; the residual building shell is the last STRUCT row and carries sub code B-01. Asset descriptions use the common names of the trade (the ATG's nomenclature rule): no building sewer is called process piping and no exit sign is called a decorative placard.

Sub codes (for example 57.0-08) are SmartCostSeg workpaper identifiers appended to the Rev. Proc. 87-56 asset class; they are not IRS designations. Building component sub codes carry the prefix B because the IRS assigns no decimal asset class number to individual building components.

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Part 7 (Elements 5 and 6): Nomenclature and Numbering System (2 of 3)

IRS Asset Class Reference (Rev. Proc. 87-56)

The classes the schedule uses, with the class life, the recovery periods and the property group example the Audit Techniques Guide gives for this kind of property. Sub codes appended to these classes in Part 10 are workpaper identifiers, not IRS designations.

Class	Rev. Proc. 87-56 description	Class life	GDS	ADS	Method	IRC	Example for this property group
00.3	Land Improvements: Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in Class 51), wharves and docks, bridges, fences, landscaping shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations. *Asset class 00.3 holds both §1245 and §1250 property, so a row in 00.3 states its own IRC character and is never labeled §1245 mechanically.*	20	15	20	150DB	§1245 or §1250	Parking areas, roads, walkways, fencing, landscaping and site drainage
57.0	Distributive Trades and Services: Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.	9	5	9	200DB	§1245	Unit appliances, carpet and clubhouse furnishings (Pub. 527 Table 2-1 is the clearer support)
B	Building and structural components (Reg. §1.48-1(e)); nonresidential real property recovers over 39 years and residential rental property over 27.5 years, straight line, mid month convention. Not a Rev. Proc. 87-56 asset class. *Building component sub codes carry the prefix B because the IRS assigns no decimal asset class number to individual building components.*	none (section 1250 building)	27.5 or 39	30 or 40	SL	§1250	Structure, envelope, general building systems, elevators, corridors and built in unit casework
functional_analysis	Functional analysis (no Rev. Proc. 87-56 class asserted): the row is classified by its function under Reg. §1.48-1(e) and the Whiteco permanence factors, and its recovery period follows that determination. *Printed where no class number exists rather than inventing one (protocol Step 9).*	none	none	none	none	§1245 or §1250	Access control, data and communications equipment, retaining walls

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Part 7 (Elements 5 and 6): Nomenclature and Numbering System (3 of 3)

IRS Asset Class Reference (Rev. Proc. 87-56) (continued)

Class	Rev. Proc. 87-56 description	Class life	GDS	ADS	Method	IRC	Example for this property group
follows_ underlying	Follows the underlying asset: dedicated hook ups, branch circuits and connections take the IRC character, class and recovery period of the equipment they serve (functional allocation, Hospital Corp. of America; ATG Ch. 8.A.5).	none	none	none	none	§1245	Dedicated appliance, laundry and clubhouse equipment electrical

Authorities for each class are printed in full in Part 17. Class 00.3 includes land improvements whether they are §1245 property or §1250 property, so each 00.3 row states its own character in Part 10.

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Part 8 (Element 7): Legal Analysis (1 of 6)

The framework, the permanence factors applied system by system, the distinctions the Audit Techniques Guide draws for this property group, and the rules that decide the character of a row.

Framework: buildings, structural components and tangible personal property

Every row is classified under Treas. Reg. §1.48-1(e): a building is any structure or edifice enclosing a space within its walls, usually covered by a roof, whose purpose is to provide shelter or housing or working, office, parking, display or sales space, and a structural component is a part of the building that relates to its operation or maintenance (walls, partitions, floors, ceilings, permanent coverings, windows, doors, central air conditioning and heating, plumbing, electric wiring and lighting fixtures, chimneys, stairs, elevators, sprinklers, fire escapes and other components relating to the operation or maintenance of a building). Everything else that is tangible property is analyzed as tangible personal property.

Hospital Corp. of America v. Commissioner, 109 T.C. 21 (1997), holds that the investment tax credit precedents govern the line between §1245 and §1250 property under MACRS; the Service acquiesced in result only and accepts a correct functional allocation of an electrical distribution system, which is the approach every ELEC and PLMB row in this study takes. Movability alone is not determinative.

Whiteco Industries, Inc. v. Commissioner, 65 T.C. 664 (1975), supplies the six permanence factors, restated at Pub. 5653 p. 21: (1) Is the property capable of being moved, and has it in fact been moved? (2) Is the property designed or constructed to remain permanently in place? (3) Are there circumstances, which tend to show the expected or intended lengths of affixation, i.e., are there circumstances, which show that the property may or will have to be moved? (4) How substantial of a job is the removal of a property and how time-consuming is it? Is it 'readily removable'? (5) How much damage will the property sustain upon its removal? (6) What is the manner of affixation of the property to the land? The factors are applied system by system below and the answer for each row is stated in its Function / Classification Rationale column in Part 10.

Authorities: Reg. §1.48-1(e); HCA (1997); Whiteco (1975).

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Part 8 (Element 7): Legal Analysis (2 of 6)

Structure and building envelope (STRUCT): the permanence factors applied

1 row in Part 10 carries the STRUCT prefix. Foundations, framing, roofing, exterior walls and openings are designed and constructed to remain permanently in place and cannot be removed without destroying the structure, so every permanence factor points to a structural component under Reg. §1.48-1(e)(2). Rows in this system are §1250 building property unless a supplied row documents otherwise.

Authorities: Reg. §1.48-1(e); Whiteco (1975).

Electrical distribution (ELEC): the permanence factors applied

2 rows in Part 10 carry the ELEC prefix. General distribution (service entrance, switchgear, panels and the branch circuits that serve lighting and convenience outlets) relates to the operation of the building and is §1250. Branch circuits, disconnects and outlets that are necessary to and used directly with a specific item of equipment follow that equipment under the functional allocation approach the ATG accepts (Ch. 8.A.5, Hospital Corp. of America); those rows are §1245 and take the recovery period of the equipment served. The permanence factors are applied to the equipment, not to the wire.

Authorities: HCA (1997); Cost Segregation ATG; Reg. §1.48-1(e).

Plumbing and fire protection (PLMB): the permanence factors applied

1 row in Part 10 carries the PLMB prefix. Water supply, sanitary and storm piping and fire protection that serve the building are §1250. Water, gas, refrigerant and drain hook ups directly connected to a specific appliance or item of equipment follow that equipment (ATG Retail Exhibit A, Plumbing). Removability is weighed against the damage removal would cause to the connected system.

Authorities: HCA (1997); ATG Retail Exhibit A; Reg. §1.48-1(e).

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Part 8 (Element 7): Legal Analysis (3 of 6)

Low voltage, communications and security (LOWV): the permanence factors applied

1 row in Part 10 carries the LOWV prefix. Building security, fire alarm and life safety wiring protect the building and its occupants and are §1250 (ATG Retail Exhibit A, Security Systems). Data, communications, paging and merchandise surveillance devices and their cabling serve the business rather than the building; they are readily removable and reusable, so factors 1, 2, 4 and 5 point to tangible personal property.

Authorities: ATG Retail Exhibit A; Whiteco (1975).

Interior finishes (FIN): the permanence factors applied

2 rows in Part 10 carry the FIN prefix. Permanently affixed finishes (ceramic tile, terrazzo, drywall, paint, permanent ceilings) are structural components. Carpet, vinyl composition tile and sheet vinyl installed with strippable adhesives, and other finishes that can be removed without damage to the finish or the building, are §1245 under the ATG Retail Exhibit A floor coverings row; factor 5 (damage on removal) is decisive.

Authorities: ATG Retail Exhibit A; Whiteco (1975); Reg. §1.48-1(e).

Furniture, fixtures and equipment (FF&E): the permanence factors applied

1 row in Part 10 carries the FF&E prefix. Furniture, movable fixtures and loose equipment are capable of being moved, are not affixed beyond leveling or anchoring for safety, and sustain no damage on removal, so all six factors point to tangible personal property (asset class 00.11 in office use, 57.0 in retail and service use).

Authorities: Whiteco (1975); Rev. Proc. 87-56, 00.11; Rev. Proc. 87-56, 57.0.

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Part 8 (Element 7): Legal Analysis (4 of 6)

Process and specialty equipment (EQUIP): the permanence factors applied

1 row in Part 10 carries the EQUIP prefix. Kitchen, laundry, wash, medical and other operating equipment is machinery rather than a structural component even when bolted down: factor 2 (designed to remain in place) is outweighed by factors 1, 4 and 5 and by the equipment's function. Car wash systems are listed as machinery and equipment in the ATG auto dealership matrix (Ch. 7.F).

Authorities: Whiteco (1975); Cost Segregation ATG.

Site improvements and site utilities (SITE): the permanence factors applied

7 rows in Part 10 carry the SITE prefix. Paving, curbing, sidewalks, fencing, landscaping, pole mounted site lighting and site drainage are land improvements in asset class 00.3, which holds both §1245 and §1250 property. Site preparation directly associated with a building follows the building, site preparation directly associated with depreciable land improvements follows them, and one time clearing and grading to allow development is land (ATG Retail Exhibit A, Site Prep/Grading). The question for this system is whether the improvement is to the land or to the building, not the permanence factors.

Authorities: Rev. Proc. 87-56, 00.3; ATG Retail Exhibit A.

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Part 8 (Element 7): Legal Analysis (5 of 6)

Distinctions the Audit Techniques Guide draws for this property group

Short life (§1245 property or a land improvement)	Long life (the building and its structural components)
Appliances, carpet, furniture and window treatments used in the rental activity (§1245, 5 years)	Kitchen cabinets, built in millwork and bathroom vanities (§1250, 27.5 years, structural component analysis)
Dedicated appliance and equipment electrical (§1245, follows the underlying asset)	General electrical, general plumbing, HVAC and general lighting (§1250, 27.5 years)
Asphalt parking, concrete walkways, landscaping, irrigation, fencing and exterior site lighting (asset class 00.3, 15 years)	Site preparation, building related earthwork and building related site utilities (§1250, building; capitalized under §263A)
Site drainage, stormwater and retaining walls (asset class 00.3, 15 years, subject to fact specific classification)	Foundation and structural concrete (§1250, 27.5 years)

Authorities: Pub. 527; HCA (1997); Rev. Proc. 87-56, 00.3.

Asset categories before activity categories

Rev. Proc. 87-56 has two broad categories of asset classes: asset categories 00.11 through 00.4, which describe specific assets used in all business activities, and activity categories 01.1 through 80.0, which describe assets used in specific business activities. An item described in both is classified to the asset category unless it is specifically excluded from the asset category or specifically included in the activity category (Norwest Corp. v. Commissioner, 111 T.C. 105 (1998); Rev. Rul. 2003-81). A desk is class 00.11 (7 years) and a cash register is class 57.0 (5 years) because cash registers are not listed in an asset category but are assets used in retail. Property with no class life and no activity class defaults to 7-year GDS and 12-year ADS, a category the ATG notes very few assets fall into.

Authorities: Cost Segregation ATG; Norwest (1998); Rev. Rul. 2003-81.

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Part 8 (Element 7): Legal Analysis (6 of 6)

Land improvements (asset class 00.3) hold both characters

Asset class 00.3 includes improvements directly to or added to land whether such improvements are §1245 property or §1250 property, so the class does not settle the character of a row. Each of the 7 00.3 rows in this study states its own IRC character in Part 10 (0 §1245, 7 §1250); the recovery period is 15 years at 150 percent declining balance either way, and the character matters on disposition (Part 14).

Authorities: Rev. Proc. 87-56, 00.3; IRC §1245; IRC §1250.

Preliminary classifications and the asterisk convention

* Preliminary, subject to documentation, ownership, use/function and acquisition verification. A preliminary classification is one whose ownership, function, construction, cost, dedicated use, building use and supporting records have not all been established through the documents in Part 5 and the interviews in Part 6; the schedule prints the asterisk so the reader can see which rows still rest on the modeled shares or on a single source.

Authorities: Cost Segregation ATG.

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Part 8A: Building Function Analysis (1 of 3)

A cost segregation study asks of each component whether it serves the tenant's use of the space, the land, or the building itself; that answer, and the authority behind it, decides the recovery class. The groups below list the components Part 10 carries at the Middle of the Road position; Part 8 states the legal analysis they rest on.

Tenant function property (5 year and 7 year, section 1245)

Carpet, vinyl and other removable floor coverings; Kitchen and laundry appliances; Decorative and accent lighting fixtures; Electrical branch circuits and outlets dedicated to equipment; Plumbing connections dedicated to equipment and appliances; Window treatments (blinds, drapes and hardware); Low-voltage security, access-control and data cabling; Miscellaneous removable finishes and accessories

$366,520 (19.6% of the depreciable basis) in the 5 year class.

Authorities: Reg. §1.48-1(e); Whiteco (1975).

Site function property (15 year land improvements)

Parking lot paving, curbs and striping; Sidewalks and exterior hardscape; Landscaping, shrubbery and planting beds; Site drainage, storm structures and retention; Fencing, gates and retaining walls; Site and parking-lot lighting (poles, bases, circuits); Swimming pool, spa and pool equipment

$157,080 (8.4% of the depreciable basis) in the 15 year class.

Authorities: Rev. Proc. 87-56, 00.3.

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Part 8A: Building Function Analysis (2 of 3)

Structural building property (27.5 year or 39 year)

Building structure and structural components including built in cabinets, counters and vanities (residual, 27.5-year)

$1,346,400 (72.0% of the depreciable basis) in the 27.5 year class.

Authorities: IRC §1250.

At the Middle of the Road position the following components carry more basis than at the Conservative position: Carpet, vinyl and other removable floor coverings ($28,798 more, 27.5 year to 5 year); Kitchen and laundry appliances ($18,326 more, 27.5 year to 5 year); Decorative and accent lighting fixtures ($10,472 more, 27.5 year to 5 year); Electrical branch circuits and outlets dedicated to equipment ($15,708 more, 27.5 year to 5 year); Plumbing connections dedicated to equipment and appliances ($10,472 more, 27.5 year to 5 year); Window treatments (blinds, drapes and hardware) ($5,236 more, 27.5 year to 5 year); Low-voltage security, access-control and data cabling ($6,545 more, 27.5 year to 5 year); Miscellaneous removable finishes and accessories ($9,163 more, 27.5 year to 5 year); Parking lot paving, curbs and striping ($14,545 more, 27.5 year to 15 year); Sidewalks and exterior hardscape ($4,155 more, 27.5 year to 15 year); Landscaping, shrubbery and planting beds ($10,389 more, 27.5 year to 15 year); Site drainage, storm structures and retention ($4,156 more, 27.5 year to 15 year); Fencing, gates and retaining walls ($4,155 more, 27.5 year to 15 year); Site and parking-lot lighting (poles, bases, circuits) ($4,155 more, 27.5 year to 15 year); Swimming pool, spa and pool equipment ($3,325 more, 27.5 year to 15 year).

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Part 8A: Building Function Analysis (3 of 3)

At the Aggressive position the following components carry more basis than at the Conservative position: Carpet, vinyl and other removable floor coverings ($64,796 more, 27.5 year to 5 year); Kitchen and laundry appliances ($41,233 more, 27.5 year to 5 year); Decorative and accent lighting fixtures ($23,562 more, 27.5 year to 5 year); Electrical branch circuits and outlets dedicated to equipment ($35,343 more, 27.5 year to 5 year); Plumbing connections dedicated to equipment and appliances ($23,562 more, 27.5 year to 5 year); Window treatments (blinds, drapes and hardware) ($11,781 more, 27.5 year to 5 year); Low-voltage security, access-control and data cabling ($14,726 more, 27.5 year to 5 year); Miscellaneous removable finishes and accessories ($20,617 more, 27.5 year to 5 year); Parking lot paving, curbs and striping ($32,725 more, 27.5 year to 15 year); Sidewalks and exterior hardscape ($9,350 more, 27.5 year to 15 year); Landscaping, shrubbery and planting beds ($23,375 more, 27.5 year to 15 year); Site drainage, storm structures and retention ($9,350 more, 27.5 year to 15 year); Fencing, gates and retaining walls ($9,350 more, 27.5 year to 15 year); Site and parking-lot lighting (poles, bases, circuits) ($9,350 more, 27.5 year to 15 year); Swimming pool, spa and pool equipment ($7,480 more, 27.5 year to 15 year).

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Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (1 of 4)

Asset ID	Asset/Component	Location	Building System	Function/Classification Rationale	IRC Classification	IRS Asset Class	MACRS Recovery Period	§168(k) Eligibility	Quantity	Unit Cost	Total Cost	Source of Cost	Legal Authority	Supporting Documentation
FIN-001	Carpet, vinyl and other removable floor coverings	Building-wide (modeled share)	Interior finishes	Carpet, vinyl composition tile and sheet vinyl laid with strippable adhesives can be removed without damage to the finish or the building and serve the occupant's use rather than the operation of the building; under Reg. §1.48-1(e) and the ATG floor coverings row they are tangible personal property, so Whiteco factors 1, 4 and 5 all point to §1245 property.	§1245	57.0-01*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$100,793	Modeled share of the 5-year pool for Large Apartment Complex	Reg. §1.48-1(e)	None on file
EQUIP-001	Kitchen and laundry appliances	Building-wide (modeled share)	Process and specialty equipment	Ranges, refrigerators, dishwashers and laundry machines are movable equipment connected by plug or simple hook up; Pub. 527 Table 2-1 lists appliances used in a residential rental activity as 5 year property and every Whiteco permanence factor points to tangible personal property.	§1245	57.0-02*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$64,141	Modeled share of the 5-year pool for Large Apartment Complex	Pub. 527	None on file
ELEC-001	Decorative and accent lighting fixtures	Building-wide (modeled share)	Electrical distribution	Neon, track and accent fixtures that are decorative in nature and not necessary for the operation of the building are tangible personal property under the ATG lighting rows; the row is limited to fixtures that do not provide the primary source of illumination, which stays with the building.	§1245	57.0-03*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$36,652	Modeled share of the 5-year pool for Large Apartment Complex	ATG Retail Exhibit A	None on file
ELEC-002	Electrical branch circuits and outlets dedicated to equipment REVIEW	Building-wide (modeled share)	Electrical distribution	Branch circuits, outlets and disconnects that are necessary to and used directly with a specific item of equipment rather than the general building service follow that equipment under the functional allocation approach of Hospital Corp. of America and ATG Ch. 8.A.5; the permanence factors are applied to the equipment served, not to the wire.	§1245	Follows underlying asset*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$54,978	Modeled share of the 5-year pool for Large Apartment Complex	HCA (1997)	None on file

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Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (2 of 4)

Asset ID	Asset/Component	Location	Building System	Function/Classification Rationale	IRC Classification	IRS Asset Class	MACRS Recovery Period	§168(k) Eligibility	Quantity	Unit Cost	Total Cost	Source of Cost	Legal Authority	Supporting Documentation
PLMB-001	Plumbing connections dedicated to equipment and appliances REVIEW	Building-wide (modeled share)	Plumbing and fire protection	Water, gas and drain hook ups directly connected to a specific appliance or item of equipment take the character and recovery period of that equipment (ATG Retail Exhibit A, Plumbing; Hospital Corp. of America); general supply, sanitary and storm piping remain with the building.	§1245	Follows underlying asset*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$36,652	Modeled share of the 5-year pool for Large Apartment Complex	HCA (1997)	None on file
FF&E-001	Window treatments (blinds, drapes and hardware)	Building-wide (modeled share)	Furniture, fixtures and equipment	Blinds, drapes and their hardware are readily removable accessories that sustain no damage on removal and are not part of the building envelope; no Rev. Proc. 87-56 class number is asserted and the classification rests on the Whiteco permanence factors.	§1245	Functional analysis*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$18,326	Modeled share of the 5-year pool for Large Apartment Complex	Whiteco (1975)	None on file
LOWV-001	Low-voltage security, access-control and data cabling	Building-wide (modeled share)	Low voltage, communications and security	Data, communications, access control and surveillance devices and their cabling serve the business conducted in the building rather than the building itself and can be removed and reused; building fire alarm and life safety wiring are excluded and stay §1250 (ATG Retail Exhibit A, Security Systems).	§1245	Functional analysis*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$22,908	Modeled share of the 5-year pool for Large Apartment Complex	HCA (1997)	None on file
FIN-002	Miscellaneous removable finishes and accessories	Building-wide (modeled share)	Interior finishes	Removable accessories and finish items that are neither structural components nor permanently affixed finishes are classified by function under Reg. §1.48-1(e); permanently affixed tile, drywall and paint remain with the building.	§1245	Functional analysis*	5-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$32,070	Modeled share of the 5-year pool for Large Apartment Complex	Reg. §1.48-1(e)	None on file

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Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (3 of 4)

Asset ID	Asset/Component	Location	Building System	Function/Classification Rationale	IRC Classification	IRS Asset Class	MACRS Recovery Period	§168(k) Eligibility	Quantity	Unit Cost	Total Cost	Source of Cost	Legal Authority	Supporting Documentation
SITE-001	Parking lot paving, curbs and striping	Site (modeled share)	Site improvements and site utilities	Grade level surface parking, curbing and striping are depreciable improvements to land in asset class 00.3 rather than to the building; they are inherently permanent, so the row carries §1250 character.	§1250	00.3-01*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$50,906	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
SITE-002	Sidewalks and exterior hardscape	Site (modeled share)	Site improvements and site utilities	Sidewalks and exterior hardscape are named in asset class 00.3 as improvements directly to land; they are inherently permanent land improvements and carry §1250 character.	§1250	00.3-02*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$14,544	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
SITE-003	Landscaping, shrubbery and planting beds	Site (modeled share)	Site improvements and site utilities	Shrubbery and planting beds adjacent to the building that would be replaced with it are depreciable land improvements named in asset class 00.3; one time clearing and grading is land and is excluded.	§1250	00.3-03*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$36,361	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
SITE-004	Site drainage, storm structures and retention	Site (modeled share)	Site improvements and site utilities	Storm structures, catch basins and retention serving the site are drainage facilities named in asset class 00.3; building related earthwork stays with the building, so the row is limited to the site share.	§1250	00.3-04*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$14,545	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file

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Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (4 of 4)

Asset ID	Asset/Component	Location	Building System	Function/Classification Rationale	IRC Classification	IRS Asset Class	MACRS Recovery Period	§168(k) Eligibility	Quantity	Unit Cost	Total Cost	Source of Cost	Legal Authority	Supporting Documentation
SITE-005	Fencing, gates and retaining walls	Site (modeled share)	Site improvements and site utilities	Fences, gates and retaining walls are named in asset class 00.3; the row carries §1250 character as an inherently permanent land improvement.	§1250	00.3-05*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$14,544	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
SITE-006	Site and parking-lot lighting (poles, bases, circuits)	Site (modeled share)	Site improvements and site utilities	Pole mounted lighting poured in concrete footings that illuminates parking and walkways is a land improvement in asset class 00.3 under the ATG exterior lighting row; the class holds both characters and the poles are carried as §1250 pending field verification.	§1250	00.3-06*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$14,544	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
SITE-007	Swimming pool, spa and pool equipment	Site (modeled share)	Site improvements and site utilities	An in ground pool, its deck and spa are land improvements in asset class 00.3; pumps and filtration equipment would be §1245 if separately costed, so the combined row is carried as §1250 pending an equipment breakout.	§1250	00.3-07*	15-year	Eligible, 100%; screen pending (Part 14)	modeled; no field inventory	modeled; residual share of the class pool	$11,636	Modeled share of the 15-year land improvement pool for Large Apartment Complex	Rev. Proc. 87-56, 00.3	None on file
STRUCT-001	Building structure and structural components including built in cabinets, counters and vanities (residual, 27.5-year)	Building shell (residual)	Structure and building envelope	Foundation, framing, roofing, exterior walls, general electrical, general plumbing, HVAC, built in kitchen cabinets, counters and bathroom vanities, and permanently affixed finishes are structural components under Reg. §1.48-1(e)(2), recovered as residential rental property over 27.5 years, straight line, mid month convention.	§1250	B-01*	27.5-year	Not eligible: real property	modeled; no field inventory	modeled; residual share of the class pool	$1,346,400	Residual of the building basis after the modeled pools for Large Apartment Complex	Reg. §1.48-1(e)	None on file
All classes, total allocated (reconciles to the depreciable basis)											**$1,870,000**	**16 rows at the Middle of the Road position**		

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Part 11 (Element 10): Basis Reconciliation

From the total consideration to an unreconciled difference of zero: land is removed first, then every recovery class is listed under each position. The engine refuses to build a study whose allocation does not equal the depreciable basis, so the last line is zero by construction.

Line	Conservative	Middle of the Road (stated)	Aggressive
Replacement property cost	$4,750,000	$4,750,000	$4,750,000
Less: deferred gain (§1031(d) basis)	$(1,400,000)	$(1,400,000)	$(1,400,000)
Less: carryover (exchanged) basis, classified on its own schedule under the Reg. §1.168(i)-6(i) election (no §168(k) allowance)	$(1,150,000)	$(1,150,000)	$(1,150,000)
Excess (new money) basis	$2,200,000	$2,200,000	$2,200,000
Less: land (excess basis)	$(330,000)	$(330,000)	$(330,000)
Depreciable building basis (excess)	**$1,870,000**	**$1,870,000**	**$1,870,000**
Direct costs identified	$1,870,000	$1,870,000	$1,870,000
Indirect costs allocated (Part 12)	$0	$0	$0
5-Year Personal Property (§1245)	$261,800	$366,520	$497,420
15-Year Land Improvements	$112,200	$157,080	$213,180
27.5-Year Residential Rental Property	$1,496,000	$1,346,400	$1,159,400
Total allocated	**$1,870,000**	**$1,870,000**	**$1,870,000**
Unreconciled difference	**$0**	**$0**	**$0**

The schedule foots. Total allocated of $1,870,000 equals the depreciable building basis of $1,870,000 to the dollar at every position: no unallocated remainder, no rounding plug.

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Part 13 (Element 12): Section 1245 Property Schedule

Every row this study classifies as §1245 property, listed separately from the §1250 building property so the return preparer and a later disposition can find them without re-reading the schedule. Character is stated per row in Part 10; it is never inferred from the recovery class.

Asset ID	Component	System	IRS Asset Class	Conservative	Middle of the Road (stated)	Aggressive
FIN-001	Carpet, vinyl and other removable floor coverings	FIN	57.0-01*	$71,995	$100,793	$136,791
EQUIP-001	Kitchen and laundry appliances	EQUIP	57.0-02*	$45,815	$64,141	$87,048
ELEC-001	Decorative and accent lighting fixtures	ELEC	57.0-03*	$26,180	$36,652	$49,742
ELEC-002	Electrical branch circuits and outlets dedicated to equipment	ELEC	Follows underlying asset*	$39,270	$54,978	$74,613
PLMB-001	Plumbing connections dedicated to equipment and appliances	PLMB	Follows underlying asset*	$26,180	$36,652	$49,742
FF&E-001	Window treatments (blinds, drapes and hardware)	FF&E	Functional analysis*	$13,090	$18,326	$24,871
LOWV-001	Low-voltage security, access-control and data cabling	LOWV	Functional analysis*	$16,363	$22,908	$31,089
FIN-002	Miscellaneous removable finishes and accessories	FIN	Functional analysis*	$22,907	$32,070	$43,524
Total §1245 property (19.6% of the depreciable basis at the stated position)				**$261,800**	**$366,520**	**$497,420**

On a later disposition, gain is ordinary income under IRC §1245 to the extent of depreciation allowed or allowable on these rows, including the §168(k) allowance; the maximum §1245 ordinary recapture exposure equals their full cost, $366,520 at the Middle of the Road position (Conservative $261,800, Middle of the Road $366,520, Aggressive $497,420). The remaining $1,503,480 is §1250 property (the building and its structural components, and land improvements carrying §1250 character), where ordinary recapture is limited to additional depreciation over straight line and unrecaptured §1250 gain is taxed at a maximum 25 percent rate. Every row in this schedule was classified from §1250 building property to §1245 property by this study; no separately acquired §1245 property was reported, so nothing is listed twice.

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Part 14 (Element 13): Related Tax Considerations (1 of 3)

The eight considerations Publication 5653 lists beside the classification itself, each marked as it applies to this property on the facts recorded. A Pending mark means the owner has not yet answered the question and the assumptions say what the study rests on meanwhile; a Not reported mark means no fact was recorded and the paragraph states what the study assumes in its place.

§168(k) used property acquisition requirements (related party and prior use) PENDING

The four used property screening questions of Treas. Reg. §1.168(k)-2(b)(3)(iii) have not all been answered. The study applies the 100% allowance the dates support; a Yes to any question removes it from every class.

Authorities: Reg. §1.168(k)-2(b)(3)(iii); IRC §179(d)(2)-(3); IRC §168(k).

Placed in service date APPLIES

This study treats every asset as acquired 2026-03-20 and placed in service 2026-03-20, in tax year 2026. Property is placed in service when it is ready and available for its specific use (Pub. 946), which can precede or follow the closing date; the placed in service date fixes the tax year of the first deduction, the applicable convention and, together with the acquisition date, the §168(k) rate.

Convention resolved: half-year for personal property (0% of the personal property basis fell in the fourth quarter, under the 40 percent test); mid-month for real property. If the placed in service date differs from the date recorded, every figure in the year by year table of Part 1 and in the fixed asset file shifts with it.

Authorities: Pub. 946; Rev. Proc. 87-57; IRC §168(k).

Ground lease and leasehold interests NOT REPORTED

No ground lease or leasehold interest was reported for this property, so this study treats the taxpayer as holding the fee. A leasehold would change what is depreciated, not how the components are classified (IRC §178; Treas. Reg. §1.167(a)-4).

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Part 14 (Element 13): Related Tax Considerations (2 of 3)

Ownership of tenant improvements NOT REPORTED

No tenant improvement ownership question was reported for this property, so every row in Part 10 is treated as the taxpayer's own property. Tax ownership decides who depreciates an improvement (IRC §110; Treas. Reg. §1.167(a)-4).

§263A uniform capitalization, kept apart from Treas. Reg. §1.263(a)-3 DOES NOT APPLY

Acquired property held for rental or use is not produced, so §263A does not apply to the purchase; acquisition costs are capitalized under §263(a). §263A and Treas. Reg. §1.263(a)-3 are different rules, kept apart.

Accounting method and Form 3115 DOES NOT APPLY

Every asset is placed in service in 2026, the current tax year, so the study goes on the original return; a later adoption generally needs Form 3115 (DCN 7) once two returns are filed; your CPA confirms the route.

Sampling methodology (Rev. Proc. 2011-42) DOES NOT APPLY

No statistical sampling was used: every asset is listed individually in Part 10, and a modeled row is a share of a class pool, not a sampled unit projected to a population. Any sampling must follow Rev. Proc. 2011-42.

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Part 14 (Element 13): Related Tax Considerations (3 of 3)

Disposition and recapture APPLIES

Gain on a later disposition of the §1245 property listed in Part 13 is ordinary income to the extent of depreciation allowed or allowable, including the §168(k) allowance (IRC §1245). The maximum §1245 ordinary recapture exposure is the full cost of those rows: $366,520 at the Middle of the Road position (Conservative $261,800, Middle of the Road $366,520, Aggressive $497,420).

The §1250 pool of $1,503,480 (the building and its structural components, and land improvements carrying §1250 character) is subject to IRC §1250, where ordinary recapture is limited to additional depreciation over straight line, generally zero under straight line MACRS, and unrecaptured §1250 gain is taxed at a maximum 25 percent rate. The disposition of a single reclassified component before the building is sold follows Treas. Reg. §1.168(i)-8 (partial dispositions), cited here for reference.

Authorities: IRC §1245; IRC §1250; Reg. §1.168(i)-8.

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Part 14 Supplement: §1031 Exchange Basis

The property was acquired in a like-kind exchange, so its basis splits in two. Under the Reg. §1.168(i)-6(i) election made for this property, the entire basis is treated as placed in service on the acquisition date: the carryover basis restarts on the replacement property's recovery periods on its own schedule in the fixed asset file, while the three positions of this study run on the excess (new money) basis. The election does not extend the §168(k) allowance to the carryover basis; only the excess basis is eligible. The deferred gain is $1,400,000 and the boot received $35,000.

Component	Basis	Year 1 Depreciation
Carryover (exchanged) basis	$1,150,000	$73,748
Excess (new money) basis	$2,200,000	$562,363
Combined	**$3,350,000**	**$636,111**

Treatment	Election under Reg. §1.168(i)-6(i) not to apply the separate schedule rule: the entire basis is treated as placed in service on the acquisition date; §168(k) reaches the excess basis only
Carryover schedule	Restarted on the acquisition date and classified at the stated position on the replacement property's recovery periods, with no §168(k) allowance

Consistency Checks

Check	Expected	Provided	Result
§1031(d) basis identity: replacement basis (cost less deferred gain) equals carryover plus excess (§1.168(i)-6(b)(7) and (8))	$3,350,000	$3,350,000	Consistent

By default under Reg. §1.168(i)-6, the carryover (exchanged) basis keeps depreciating on the relinquished property's remaining schedule (§1.168(i)-6(c)(3)(ii)), while the excess (new money) basis is treated as new property placed in service in the year of replacement (§1.168(i)-6(d)(1)(i)). Electing out under §1.168(i)-6(i)(1) (Form 4562 statement, due with the replacement-year return) treats the entire basis as newly placed in service: the carryover portion restarts on the replacement property's recovery period from the acquisition date and is classified with the excess basis; §168(k) reaches the excess basis only under either path. For a purchased (used) replacement property, bonus depreciation reaches only the excess basis, with or without the election (§1.168(k)-2(g)(5)(iii)(A) and (D)). Confirm the election and final basis with your CPA and your exchange documents.

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Part 15: Depreciation and §168(k) Analysis

Binding contract / acquired date	March 20, 2026
Placed-in-service date	March 20, 2026
Additional first-year depreciation rate	100%
Rule applied	Acquired and placed in service after January 19, 2025: 100% additional first-year depreciation, made permanent by OBBBA (IRC §168(k); Treas. Reg. §1.168(k)-2).
Eligible basis (recovery period of 20 years or less, stated position)	$523,600
Additional first-year depreciation (stated position)	**$523,600**

15 of 16 asset rows are eligible; 1 are not. Reasons recorded for the ineligible rows: Not eligible: 27.5-year real property is outside §168(k).

The Allowance and the First Year at Each Position

Position	§168(k) Allowance	First Year With Study	Without Study	Additional	Est. Tax Savings
Conservative	$374,000	$417,070	$53,837	$363,233	$134,396
Middle of the Road (stated)	$523,600	$562,363	$53,837	$508,526	$188,155
Aggressive	$710,600	$743,979	$53,837	$690,142	$255,353

Elections and Notes

- The used property acquisition screen (prior depreciable interest, related party, controlled group, carryover or §1014 basis) has not been answered; the allowance shown is what the dates support and is subject to that screen (Part 14).
- Additional first-year depreciation applies to property with a recovery period of 20 years or less; 27.5-year and 39-year real property is not eligible.
- An election out of additional first-year depreciation is made by property class on a timely filed return (including extensions); whether it fits the overall tax position is your CPA's call.
- Carryover (exchanged) basis is not eligible for additional first-year depreciation; only the excess (new money) basis is treated as newly acquired (see §1031 Exchange Basis).
- Bonus by position: Conservative $374,000, Middle of the Road $523,600, Aggressive $710,600; the Middle of the Road position is the one this study states.

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Part 17: Sources and Legal Authorities (1 of 4)

The authorities this study relies on, grouped in the order of the authority hierarchy (the Code, the regulations, Rev. Proc. 87-56, rulings and procedures, case law, then other published IRS guidance). Each asset row of Part 10 names the one that governs it; an authority marked verify before print is cited for reference only.

Tier	Authority	Applied To
1. Code	IRC §168(k); Treas. Reg. §1.168(k)-2 (additional first-year depreciation)	Part 15; Part 14 (Element 13)
1. Code	IRC §1245(a)(1)-(3) and §1245(b) (gain on the disposition of section 1245 property is ordinary income to the extent of the recomputed basis, which adds back all depreciation and amortization allowed or allowable, including the §168(k) allowance; exceptions for gifts, transfers at death and certain tax-free transfers)	Part 8 (Element 7); Part 14 (Element 13); Part 13 (Element 12)
1. Code	IRC §1250(a), (c) and (d); IRC §1(h)(1)(E) and §1(h)(6) (section 1250 property is depreciable real property other than section 1245 property; ordinary recapture is limited to additional depreciation, which is generally zero under straight-line MACRS; unrecaptured section 1250 gain is taxed at a maximum rate of 25 percent)	Part 8 (Element 7); Part 14 (Element 13); Part 13 (Element 12); Part 8A
1. Code	IRC §263A(a), (b), (f) and (g); Treas. Reg. §1.263A-1(e)(3) and (e)(4); Treas. Reg. §1.263A-12 (uniform capitalization of the direct and allocable indirect costs of real or tangible personal property produced by the taxpayer, where produce includes construct, build, install and improve; interest paid or incurred during the production period is capitalized under §263A(f); property acquired and held for rental or use is not produced and is not subject to §263A)	Part 14 (Element 13)
1. Code	IRC §179(d)(2) and (d)(3) (property is acquired by purchase only when it is not acquired from a person whose relationship would disallow losses under §267 or §707(b), not acquired from a component member of the same controlled group, and its basis is not determined by reference to the transferor's basis or under §1014(a); cost excludes basis determined by reference to other property held by the acquirer), applied to used property through IRC §168(k)(2)(E)(ii)	Part 14 (Element 13)
1. Code	IRC §110(a)-(d) (a qualified lessee construction allowance received under a short-term lease of retail space is excluded from the lessee's income and the improvement it funds is treated as nonresidential real property of the lessor; a short-term lease is 15 years or less under §168(i)(3))	Part 14 (Element 13)

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Part 17: Sources and Legal Authorities (2 of 4)

Tier	Authority	Applied To
1. Code	IRC §178(a) and (b) (in amortizing the cost of acquiring a lease, the term includes renewal options and any other period the parties reasonably expect the lease to be renewed if less than 75 percent of the cost is attributable to the remaining term)	Part 14 (Element 13)
2. Regulations	Treas. Reg. §1.48-1(e)(1)-(2) (building and structural components)	Part 10 (3 rows); Part 8 (Element 7); Part 14 (Element 13); Part 7 (Elements 5 and 6); Part 8A
2. Regulations	Treas. Reg. §1.263(a)-3 (amounts paid to improve tangible property)	Part 14 (Element 13)
2. Regulations	Treas. Reg. §1.168(i)-6 (like-kind exchanges and involuntary conversions)	Part 14 Supplement
2. Regulations	Treas. Reg. §1.263(a)-2(f) (amounts paid to facilitate the acquisition of real or personal property are capitalized; inherently facilitative amounts under §1.263(a)-2(f)(2)(ii) include appraisal, title, permit, architectural, engineering, environmental and inspection services pertaining to particular properties)	Part 14 (Element 13)
2. Regulations	Treas. Reg. §1.168(k)-2(b)(3)(iii) (used property acquisition requirements: the taxpayer or a predecessor had no depreciable interest in the property within the five calendar years before the placed-in-service year, the acquisition is by purchase under §179(d)(2)(A)-(C), and the cost meets §179(d)(3); a lessee that acquires the leased property excludes its own improvements from bonus-eligible basis)	Part 14 (Element 13)
2. Regulations	Treas. Reg. §1.167(a)-4 (capital expenditures by a lessee or lessor for a building or other permanent improvements on leased property are recovered under §168 without regard to the period of the lease; see IRC §168(i)(8)(A))	Part 14 (Element 13)
2. Regulations	Treas. Reg. §1.168(i)-8 (dispositions of MACRS property, including the partial disposition of a reclassified component) [verify before print: cited for reference in Part 14 only]	Part 14 (Element 13)
3. Rev. Proc. 87-56	Rev. Proc. 87-56, 1987-2 C.B. 674, Asset Class 00.11 (Office Furniture, Fixtures, and Equipment: furniture and fixtures that are not a structural component of a building, such as desks, files, safes and communications equipment): class life 10 years, 7-year GDS, 10-year ADS	Part 8 (Element 7)

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Part 17: Sources and Legal Authorities (3 of 4)

Tier	Authority	Applied To
3. Rev. Proc. 87-56	Rev. Proc. 87-56, 1987-2 C.B. 674, Asset Class 00.3 (Land Improvements: improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable; excludes buildings and structural components as defined in Treas. Reg. §1.48-1(e)): class life 20 years, 15-year GDS, 20-year ADS, 150 percent declining balance	Part 10 (7 rows); Part 8 (Element 7); Part 7 (Elements 5 and 6); Part 8A
3. Rev. Proc. 87-56	Rev. Proc. 87-56, 1987-2 C.B. 674, Asset Class 57.0 (Distributive Trades and Services: assets used in wholesale and retail trade and personal and professional services, including section 1245 assets used in marketing petroleum and petroleum products): class life 9 years, 5-year GDS, 9-year ADS	Part 8 (Element 7); Part 7 (Elements 5 and 6)
4. Rulings and procedures	Rev. Proc. 87-57 (MACRS percentage tables)	Part 15; Part 14 (Element 13)
4. Rulings and procedures	Rev. Rul. 90-38 (change in method of accounting, not amended returns)	Part 14 (Element 13)
4. Rulings and procedures	Rev. Proc. 2025-23 (automatic accounting method changes; DCN 7)	Part 14 (Element 13)
4. Rulings and procedures	Rev. Proc. 2011-42, 2011-37 I.R.B. 318 (statistical sampling: a taxpayer may use only the sampling procedures of the revenue procedure; the least advantageous 95 percent one-sided confidence limit applies unless relative precision does not exceed 10 percent; samples that fail the criteria are rejected)	Part 14 (Element 13)
4. Rulings and procedures	Rev. Rul. 2003-81, 2003-2 C.B. 126 (an asset described in both a Rev. Proc. 87-56 asset category and an activity category is classified to the asset category unless it is specifically excluded from the asset category or specifically included in the activity category)	Part 8 (Element 7)
5. Case law	Hospital Corp. of America v. Commissioner, 109 T.C. 21 (1997)	Part 10 (3 rows); Part 8 (Element 7); Part 7 (Elements 5 and 6)
5. Case law	Whiteco Industries, Inc. v. Commissioner, 65 T.C. 664 (1975) (six permanence factors)	Part 10 (1 row); Part 8 (Element 7); Part 7 (Elements 5 and 6); Part 8A

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Part 17: Sources and Legal Authorities (4 of 4)

Tier	Authority	Applied To
5. Case law	Norwest Corp. & Subs. v. Commissioner, 111 T.C. 105 (1998) (an asset described in a Rev. Proc. 87-56 asset category is classified there before any activity category)	Part 8 (Element 7)
6. IRS guidance	IRS Publication 946, How To Depreciate Property	Part 4 (Element 2); Part 14 (Element 13)
6. IRS guidance	IRS Cost Segregation Audit Techniques Guide (Publication 5653, rev. 2-6-2025)	ATG Quality Scorecard (Pub. 5653 Principal Elements); Part 8 (Element 7); Part 14 (Element 13)
6. IRS guidance	IRS Cost Segregation Audit Techniques Guide (Publication 5653), Ch. 7.B, Retail Industry Exhibit A (pp. 172-183)	Part 10 (1 row); Part 8 (Element 7)
6. IRS guidance	IRS Publication 527, Residential Rental Property, chapter 2 (appliances, carpets and furniture used in a residential rental activity are 5-year property; fences and other land improvements are 15-year property)	Part 10 (1 row); Part 8 (Element 7)

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Audit-Risk Gauge



0% SmartCostSeg's comparative band for this property type: 17.0% to 30.0%, midpoint 23.0% 40.0%

THIS STUDY (MIDDLE OF THE ROAD)	BAND MIDPOINT	GAUGE
28.0%	**23.0%**	**Within the band**

This study reclassifies 28.0% of the depreciable building basis out of the building's straight-line recovery period at the Middle of the Road position (Conservative 20.0%, Middle of the Road 28.0%, Aggressive 38.0% of building basis in the short-life classes). SmartCostSeg's comparative band for Large Apartment Complex is 17% to 30% (midpoint 23%); the gauge reads GREEN. The gauge compares the reclassified share with SmartCostSeg's comparative band for this property type and with the type's own Conservative, Middle of the Road and Aggressive positions. The band is house judgment; it is not an IRS threshold, an industry percentile or a published median, and the IRS publishes no such figure. Estimates are ranges, never guarantees. Real world studies on similar buildings have reclassified between 7% and 33% of basis; building specific characteristics matter.

The gauge is a self-check, not a prediction of examination.

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Part 18: Final Recommendation

This study states the Middle of the Road position: it reclassifies 28.0% of the depreciable building basis into the short life classes, which sits inside SmartCostSeg's comparative band of 17% to 30% for Large Apartment Complex, and the audit risk gauge reads GREEN.

Position	Short life share	§168(k) allowance	First year with the study	Ongoing annual, building property (straight line)
Conservative	20.0%	$374,000	$417,070	$54,395
Middle of the Road (stated)	28.0%	$523,600	**$562,363**	$48,955
Aggressive	38.0%	$710,600	$743,979	$42,156

The Conservative and Aggressive positions are shown with the same land value and the same documents. Which position is filed is the taxpayer's and the CPA's decision; the fixed asset file and the Form 4562 map carry the stated position, and every table in this study carries the other two beside it. Estimates are ranges, never guarantees.

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ATG Quality Scorecard (Pub. 5653 Principal Elements)

IRS Publication 5653 (the Cost Segregation Audit Techniques Guide) describes 13 principal elements of a quality study. This scorecard states, element by element, what this study contains, with the status derived from the data in it; a Partial or Not performed mark describes scope and hides no defect. The Service publishes no approval of any study format and none is claimed.

#	Principal element (Pub. 5653, verbatim)	Status	What this study contains
1	Preparation by an Individual with Expertise and Experience	PARTIAL	Partial: this study is prepared and reviewed by the SmartCostSeg Team and names the team rather than an individual, so no individual credential or years of experience is stated on it.
2	Detailed Description of the Methodology	MET	Modeled residual method; the eleven step method of Part 4 states each step and what it rests on.
3	Use of Appropriate Documentation	PARTIAL	No documents were received; the study rests on the inputs entered and the modeled schedule, and the assumptions list what is still required.
4	Interviews Conducted with Appropriate Parties	NOT PERFORMED	Not performed: no interview was recorded for this study; the classifications in Part 10 rest on the documents received and the modeled shares.
5	Use of a Common Nomenclature	MET	Building system prefixes and trade names for 8 systems; class reference with 5 Rev. Proc. 87-56 rows (Part 7).
6	Use of a Standard Numbering System	MET	Workpaper ids SYSTEM-nnn and two level class sub codes on all 16 rows, stable across the three positions (Part 7).
7	Explanation of the Legal Analysis	MET	13 analysis blocks: the §1.48-1(e) framework, the six Whiteco factors applied per building system, the ATG distinctions for the property group and the asset category first rule (Part 8).
8	Determination of Unit Costs and Engineering "Take-Off,"	PARTIAL	Partial: modeled shares of class pools, not a take off; the quantity and unit cost columns say modeled on every modeled row (Part 10).
9	Organization of Assets into Lists or Groups	MET	16 rows organized by building system and class with class subtotals under every position (Part 10).
10	Reconciliation of Total Allocated Costs to Total Actual Costs	MET	Allocated $1,870,000 equals the depreciable basis $1,870,000 at every position; the waterfall ends at an unreconciled difference of $0 (Part 11).
11	Explanation of the Treatment of Indirect Costs	MET	Met by explanation: acquired property carries no separately stated indirect costs; the treatment of acquisition costs is explained in Part 4 and Part 14 (§263A does not apply to a purchase).
12	Identification and Listing of § 1245 Property	MET	8 §1245 rows totalling $366,520 (19.6% of basis) listed separately with the recapture note (Part 13).
13	Consideration of Related Aspects (e.g., § 263A, Change in Accounting Method, and Sampling Techniques)	PARTIAL	Partial: 1 of the eight considerations are pending an owner answer (Part 14); 2 rows flagged for review.

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Assumptions, Limiting Conditions and Certification (1 of 2)

Assumptions and Limiting Conditions

- Building basis of $1,870,000 is the excess (new money) basis $2,200,000 less land $330,000 (illustrative land allocation (15% of the excess basis); applied to the excess (new money) basis of the exchange); the land value is the same under all three positions.
- Acquired 2026-03-20; placed in service 2026-03-20; Acquired and placed in service after January 19, 2025: 100% additional first-year depreciation, made permanent by OBBBA (IRC §168(k); Treas. Reg. §1.168(k)-2).
- Combined marginal tax rate of 37% is used for tax-savings figures; the actual rate depends on the taxpayer's return.
- The asset schedule is modeled from the Large Apartment Complex component profile; the three positions reclassify 20.0%, 28.0% and 38.0% of building basis, and the Middle of the Road position is the one stated in the year by year table of Part 1, on Form 4562 and in the fixed asset file. It is not an engineering take-off or an invoice-level cost record.
- Recovery periods and methods follow the MACRS percentage tables (Rev. Proc. 87-57); the half-year convention applies to personal property because 0% of that basis was placed in service in the fourth quarter.
- Every classification marked with an asterisk is preliminary and subject to documentation, ownership, use/function and acquisition verification; the documents schedule and any recorded interview state what has and has not been verified.
- Estimates are ranges, never guarantees. Real world studies on similar buildings have reclassified between 7% and 33% of basis; building specific characteristics matter.
- The §168(k) used property acquisition screen is pending: the owner has not confirmed the absence of a prior depreciable interest, a related party seller, a controlled group seller or a carryover basis. The allowance shown is subject to that screen (Part 14).

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Assumptions, Limiting Conditions and Certification (2 of 2)

Evidence not received

- No source documents were supplied; the study relies on the owner-provided inputs and the modeled schedule.
- No site photographs were supplied; no virtual site survey was performed.
- No plans or record drawings were supplied; building system quantities rest on the modeled shares until drawings or a field inventory are received.

Certification

This study was prepared and reviewed by the SmartCostSeg Team using SmartCostSeg's analysis system. The asset schedule is modeled residual method; where a row is marked "requires review", the classification should be confirmed against the property's actual construction before it is relied upon.

The SmartCostSeg Team has no present or contemplated interest in the property and no personal interest with respect to the parties involved. The fee for this study is not contingent on the depreciation reported or on any tax result.

The analysis relies on the inputs, documents and photographs listed in this study. It is not a tax return, an appraisal, a legal opinion or a guarantee of any tax outcome; implementation belongs to the taxpayer's CPA.

This study was prepared solely for Property Owner and its income tax return preparer, for use in preparing the federal income tax return and the depreciation records for the property described in Part 2. It is not to be relied on by lenders, buyers, insurers or any other third party, or reproduced except for that return, its examination or an appeal; the workpapers are held in confidence.

Reviewed by: _____ SmartCostSeg Team Date: _____

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Form 4562 Line Map

The rows below map this study onto Form 4562 for the placed-in-service year at the Middle of the Road position. The fixed-asset import file carries the same rows for the depreciation software, with the Conservative, Middle of the Road and Aggressive costs beside the stated one.

Line	Description	Amount
14	Special depreciation allowance for qualified property placed in service during the tax year *100% of $523,600 eligible basis at the Middle of the Road position.*	$523,600
19b	5-Year Personal Property (§1245) *Basis for depreciation $0 (cost $366,520 less bonus $366,520); 5-year; HY; 200DB; placed in service 2026-03-20.*	$0
19e	15-Year Land Improvements *Basis for depreciation $0 (cost $157,080 less bonus $157,080); 15-year; HY; 150DB; placed in service 2026-03-20.*	$0
19h	27.5-Year Residential Rental Property *Basis for depreciation $1,346,400 (cost $1,346,400 less bonus $0); 27.5-year; MM; SL; placed in service 2026-03-20.*	$38,763
17	MACRS deductions for assets placed in service in prior tax years *None: every asset in this study is placed in service in the current tax year.*	$0
22	Total depreciation (this study)	$562,363

The line map is a preparation aid. The return itself is prepared and signed by your CPA or tax preparer.

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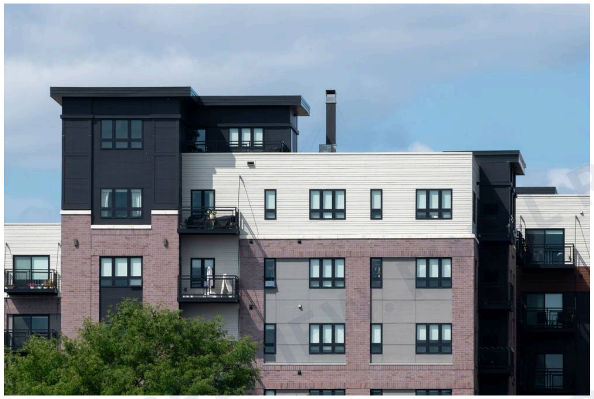
CPA Next Steps

1. Enter the study on Form 4562 using the line map in this report (line 14 for the special depreciation allowance, the line 19 rows by class); the fixed-asset import CSV carries the same rows, with the Conservative, Middle of the Road and Aggressive costs beside the stated position.
2. No Form 3115 is needed: every asset is placed in service in 2026, the current tax year, so the study is applied on the original return.
3. Check state conformity: some states do not follow federal additional first-year depreciation and require an add-back with their own recovery schedule.
4. Confirm how the deductions are used: passive-activity limits, real-estate-professional status and the excess-business-loss rules govern whether the first-year deduction offsets other income or carries forward.
5. Plan for a future sale: accelerated depreciation is subject to recapture on disposition; the study changes the timing of deductions, not their total. Keep the §1245 schedule (Part 13) with the fixed asset register; it is the recapture map for a later disposition.
6. Consider the elections: the Reg. §1.168(i)-6(i) election treats the entire exchange basis as newly placed in service (the carryover portion restarts on the replacement property's recovery period from the acquisition date; §168(k) reaches the excess basis only under either path), and an election out of additional first-year depreciation is available by class.
7. Load the fixed-asset import CSV into the depreciation software and reconcile its TOTAL row to the building basis before filing.
8. Resolve the related tax items Part 14 marks pending (the §168(k) used property screen, ground lease and tenant improvement ownership) before the return is filed; each can change the allowance or the owner of an asset.
9. The preliminary rows in Part 10 keep their asterisk until ownership, function and cost are verified against the property; no interview was recorded for this study.
10. Depreciation schedules by year are available on request.

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Appendix: Representative Photography

The photographs in this section are representative of the building type. They were not taken at the subject property, and they play no part in the evidence, the methodology or the scorecard. What was and was not supplied for this property is stated in the Evidence not received list under Assumptions, Limiting Conditions and Certification.



RP-1 An apartment complex elevation with balconies and mixed cladding across several floors. Representative of the building type; not this property.
Photo: Andrew Patrick Photo via Pexels (Pexels License).



RP-2 Several mid rise apartment blocks standing together, the pattern of a large residential complex. Representative of the building type; not this property.
Photo: Doğan Alpaslan Demir via Pexels (Pexels License).



RP-3 Balconies and planting on the elevation of a mid rise apartment building. Representative of the building type; not this property.
Photo: Jakub Zerdzicki via Pexels (Pexels License).

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Contact

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This study was prepared and reviewed by the SmartCostSeg Team using SmartCostSeg's analysis system. SmartCostSeg does not prepare tax returns and does not provide legal advice; the deductions this study supports depend on your specific tax situation and are applied on a return your preparer signs.

Reference LPCS-WQC3N4. Report SCS-LPCS-WQC3N4, version 1, prepared September 1, 2026. Recovery classes shown throughout use the labels 5-Year Personal Property, 7-Year Personal Property, 15-Year Land Improvements and 39-Year Nonresidential Real Property.

Computed under law as of 2026-07, engine v0.1.

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