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Engineering Appendix

to the Cost Segregation Study

Triplex

Sample: Two Building Residential (Acquisition and Renovation)

100 Sample Street, Samletown, ZZ 00000

Prepared For

Sample Property Owner
Sample Property Owner

Prepared By

SmartCostSeg LLC
SmartCostSeg Team

Report

SCS-LPCS-P30Q5L (v1)
Reference LPCS-P30Q5L

Dates

Placed in service May 1, 2023
Issued September 1, 2026



A small two story residential rental building with a walk up entrance and landscaped grounds, the scale of a front building. Representative of the building type; not this property.

Photo: Clay Elliot via Pexels (Pexels License).

Computed under law as of 2026-07, engine v0.1. Tax year 2023. 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.

Letter of Transmittal

September 1, 2026

Sample Property Owner
100 Sample Street, Sampletown, ZZ 00000

Dear Sample Property Owner,

Enclosed is the cost segregation study for Sample: Two Building Residential (Acquisition and Renovation), a Triplex placed in service on May 1, 2023. 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 or 39 year life of the building shell.

Land was determined first and removed from the purchase price. The remaining depreciable building basis of \$396,240 was allocated across 36 asset rows using the modeled residual method. The allocation reconciles exactly: the schedule totals \$396,240, 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 \$145,744 (36.8%) of the basis is reclassified into short life classes; the first year deduction with the study is \$125,153 against \$7,144 without it, a difference of \$118,009 (Conservative \$96,354, Aggressive \$139,928).

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

Part 1: Executive Summary (1 of 2)

DEPRECIABLE BUILDING BASIS \$396,240	RECLASSIFIED TO SHORT LIFE (MIDDLE OF THE ROAD) \$145,744	SHARE OF BASIS RECLASSIFIED 36.8%
ADDITIONAL FIRST-YEAR DEDUCTION \$118,009	EST. FIRST-YEAR TAX SAVINGS AT 32% \$37,763	LAND ALLOCATION (20.0% OF PRICE) \$82,400

Allocation by Recovery Class at the Three Positions

Recovery Class	Life	Conservative	Middle of the Road (stated)	Aggressive
5-Year Personal Property (§1245)	5	\$52,970	\$81,156	\$104,477
15-Year Land Improvements	15	\$25,071	\$32,981	\$40,892
Qualified Improvement Property (15-Year, Straight-Line)	15	\$41,335	\$31,607	\$26,743
27.5-Year Residential Rental Property	27.5	\$188,268	\$170,337	\$152,407
39-Year Nonresidential Real Property	39	\$88,596	\$80,159	\$71,721
Total Depreciable Building Basis		\$396,240	\$396,240	\$396,240

The Three Positions

Position	Short-Life Share	§168(k) Allowance	First Year With Study	Without Study	Additional	Est. Tax Savings
Conservative	30.1%	\$95,502	\$103,498	\$7,144	\$96,354	\$30,833
Middle of the Road (stated)	36.8%	\$116,594	\$125,153	\$7,144	\$118,009	\$37,763
Aggressive	43.4%	\$137,689	\$147,072	\$7,144	\$139,928	\$44,777

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 32% combined rate stated in the assumptions.

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	2023	\$125,153	\$7,144	\$118,009	\$118,009
2	2024	\$14,579	\$12,562	\$2,017	\$120,026
3	2025	\$12,404	\$12,562	\$(158)	\$119,868
4	2026	\$11,143	\$12,563	\$(1,420)	\$118,448
5	2027	\$10,952	\$12,562	\$(1,610)	\$116,838
6	2028	\$10,047	\$12,562	\$(2,515)	\$114,323
7	2029	\$9,059	\$12,562	\$(3,503)	\$110,820
8	2030	\$9,060	\$12,562	\$(3,502)	\$107,318
9	2031	\$9,060	\$12,563	\$(3,503)	\$103,815
10	2032	\$9,060	\$12,562	\$(3,502)	\$100,313
11	2033	\$9,059	\$12,562	\$(3,503)	\$96,810
12	2034	\$9,061	\$12,562	\$(3,501)	\$93,309
13	2035	\$9,058	\$12,563	\$(3,505)	\$89,804
Years 14 to 40		\$148,545	\$238,349	\$(89,804)	\$0

The comparison runs 40 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.

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 acquisition part alone, on its \$412,000 purchase price; the renovation part's \$66,640 depreciable basis is not in it, and the land at the engineering estimate is \$82,400 by owner-provided estimate.

Rank	Land allocation	Land	Classification position	Depreciable basis	Additional year 1 deduction	Est. year 1 tax saving
1	Low land (more to depreciate)	\$72,100	Aggressive	\$339,900	\$86,431	\$27,658
2	Engineering estimate	\$82,400	Aggressive	\$329,600	\$83,812	\$26,820
3	High land (less to depreciate)	\$92,700	Aggressive	\$319,300	\$81,193	\$25,982
4	Low land (more to depreciate)	\$72,100	Middle of the Road	\$339,900	\$64,823	\$20,743
5	Engineering estimate (recommended)	\$82,400	Middle of the Road	\$329,600	\$62,859	\$20,115
6	High land (less to depreciate)	\$92,700	Middle of the Road	\$319,300	\$60,894	\$19,486
7	Low land (more to depreciate)	\$72,100	Conservative	\$339,900	\$43,216	\$13,829
8	Engineering estimate	\$82,400	Conservative	\$329,600	\$41,906	\$13,410
9	High land (less to depreciate)	\$92,700	Conservative	\$319,300	\$40,596	\$12,991

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)	\$92,700	\$60,894	\$19,486
Engineering estimate	\$82,400	\$62,859	\$20,115
Low land (more to depreciate)	\$72,100	\$64,823	\$20,743

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 32% combined rate stated in the assumptions.

Part 2: Property and Acquisition (1 of 3)

Property Type	Triplex
Building Area	2,480 square feet
Year Built	1925
Units	3
Stories	2
Address	100 Sample Street, Sampletown, ZZ 00000
Owner Entity	Sample Property Owner
Purchase Date	March 15, 2023
Acquired (binding contract date)	February 1, 2023
Placed in Service	May 1, 2023
Total Consideration	\$412,000
Land (determined first)	\$82,400 (20.0%), owner-provided estimate
Depreciable Building Basis	\$329,600

Buildings on the parcel

Building	Units	Use	Placed in service	Building basis share	Recovery period	Reading
Front building	2	long term rental	May 1, 2023	\$224,128 (68.0%)	27.5 years	long term rental
Rear building	1	rented for periods normally under 30 days	May 1, 2023	\$105,472 (32.0%)	39 years	statute, units counted

Building Systems and Ownership Boundary

The subject is a Triplex (2,480 square feet, 3 units, 2 stories, built 1925).

Building systems were modeled from the property type's component profile; the variance drivers for this type are per-unit kitchens; shared site amenities. No engineering take-off was performed unless noted in the methodology.

Part 2: Property and Acquisition (2 of 3)

Land Determination

Total consideration	\$412,000
Less: land value (owner-provided estimate)	\$(82,400)
Land as a share of the consideration	20.0%
Depreciable building basis	\$329,600

Land is not depreciable and was determined first: \$82,400 (20.0% of the purchase price) by owner-provided estimate. The depreciable building basis is \$329,600. Land is determined first and 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.

Part 2: Property and Acquisition (3 of 3)

Land allocation, sources reconciled

Method	Land share (low to high)	Building share	Source
County assessor ratio	18.8%	81.2%	Sample assessor card, assessment date 2022-12-31 <i>Assessed land \$71,300 of \$379,200 as of December 31, 2022.</i>
Replacement cost residual	15.0% to 22.0%	78.0% to 85.0%	Sample replacement cost worksheet
Sales comparison	20.0% to 30.0%	70.0% to 80.0%	Sample urban multifamily sales
Tax assessment allocation	18.0% to 28.0%	72.0% to 82.0%	Sample practitioner allocation
Industry benchmark	15.0% to 25.0%	75.0% to 85.0%	Sample small multifamily benchmark
Adopted allocation	20.0%	80.0%	This study (owner-provided estimate)

The adopted allocation of 20.0% sits within the range of 4 of the 5 methods listed. When a purchase price covers land and buildings the cost is divided by the fair market value of each at the time of purchase; when fair market values are uncertain the split may follow the assessed values used for real estate tax (Treas. Reg. §1.167(a)-5; Pub. 527).

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.
- The SmartCostSeg Team reviewed the inputs, the documents listed in Part 5, the classification rationale of each row and the reconciliation before the study was released; rows marked Review are the rows the 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.

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 Triplex 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 (16.0%), Middle of the Road (24.0%) and Aggressive (32.0%) 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 Triplex are transcribed verbatim from the Expectation Guide row "Duplex / Triplex / Fourplex"; 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.

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

The mid quarter convention applies to the personal property placed in service in 2023: 46% of that basis fell in the fourth quarter, above the 40 percent threshold, so each personal property asset is treated as placed in service at the midpoint of the quarter it was placed in service: quarter 2 for the acquisition and quarter 4 for the renovation. 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	None performed; no site visit and no photographic survey
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	36 rows, 12 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.

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

Common Nomenclature (Element 5)

Every asset carries a worksheet 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 worksheet 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 (worksheet cross reference)	Rows in Part 10
STRUCT	Structure and building envelope	03, 04, 05, 06, 07, 08	2
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	11
FF&E	Furniture, fixtures and equipment	12	1
EQUIP	Process and specialty equipment	11	10
SITE	Site improvements and site utilities	31, 32, 33	8

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. The rows of the renovation part carry R before their sequence (EQUIP-R001): the part is in the worksheet id, and each keeps the ledger line it came from in its supporting documentation column. The building shell is one STRUCT row per building, named for the building it belongs to.

Sub codes (for example 57.0-08) are SmartCostSeg worksheet 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.

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. <i>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.</i>	20	15	20	150DB	§1245 or §1250	Driveways, walkways, fencing, landscaping, irrigation, exterior site lighting 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	Appliances, carpet and window treatments used in the rental activity (Pub. 527 Table 2-1 is the clearer support; the 57.0 label is not automatic in residential use)
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. <i>Building component sub codes carry the prefix B because the IRS assigns no decimal asset class number to individual building components.</i>	none (section 1250 building)	27.5 or 39	30 or 40	SL	§1250	Foundation, framing, roofing, exterior walls, windows, general electrical, general plumbing, HVAC, general lighting, kitchen cabinets and built in millwork, bathroom vanities, hard surface flooring

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
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. <i>Printed where no class number exists rather than inventing one (protocol Step 9).</i>	none	none	none	none	\$1245 or \$1250	Window treatments, electronic access and security equipment, data and communications equipment; site drainage and retaining walls pending fact specific classification
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 and 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.

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. Every row of Part 10 states the answer for its own component in the Function / Classification Rationale column.

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).

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

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

2 rows in Part 10 carry 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).

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

11 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.

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

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

10 rows in Part 10 carry 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

8 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.

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.

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 8 00.3 rows in this study states its own IRC character in Part 10 (0 §1245, 8 §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.

Part 8A: Building Function Analysis (1 of 4)

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; Commercial kitchen equipment and connections; cabinet installer: 5-year share (50 percent, Middle of the Road); plumbing services: 5-year share (50 percent, Middle of the Road); flooring installer: 5-year share (50 percent, Middle of the Road)

\$81,156 (20.5% of the depreciable basis) in the 5 year class; 5 further rows of Part 10 beyond those listed.

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

Qualified improvement property (15 year, section 1250)

cabinet installer: building share (50 percent, Middle of the Road); plumbing services: building share (50 percent, Middle of the Road); flooring installer: building share (50 percent, Middle of the Road); Cabinets: kitchen cabinets and island; Plumbing: bath fixtures; Electrical: general electrical work; Plumbing: water heater; Painting: interior repaint following the renovation; Building Materials: building share (60 percent, Middle of the Road)

\$31,607 (8.0% of the depreciable basis) in the QIP 15 year class.

Authorities: Pub. 946; IRC §1250.

Part 8A: Building Function Analysis (2 of 4)

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); Site Work: asphalt paving of the parking area; Site Work: exterior pole lighting along the walkway

\$32,981 (8.3% of the depreciable basis) in the 15 year class.

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

Structural building property (27.5 year or 39 year)

Building shell, Front building (27.5 year); Building shell, Rear building (39 year)

\$250,496 (63.2% of the depreciable basis) in the 27.5 year, 39 year classes.

Authorities: IRC §1250.

Part 8A: Building Function Analysis (3 of 4)

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 (\$4,532 more, from the building class to 5 year); Kitchen and laundry appliances (\$2,884 more, from the building class to 5 year); Decorative and accent lighting fixtures (\$1,648 more, from the building class to 5 year); Electrical branch circuits and outlets dedicated to equipment (\$2,472 more, from the building class to 5 year); Plumbing connections dedicated to equipment and appliances (\$1,648 more, from the building class to 5 year); Window treatments (blinds, drapes and hardware) (\$824 more, from the building class to 5 year); Low-voltage security, access-control and data cabling (\$1,030 more, from the building class to 5 year); Miscellaneous removable finishes and accessories (\$1,442 more, from the building class to 5 year); Commercial kitchen equipment and connections (\$1,978 more, from the building class to 5 year); Parking lot paving, curbs and striping (\$2,769 more, from the building class to 15 year); Sidewalks and exterior hardscape (\$791 more, from the building class to 15 year); Landscaping, shrubbery and planting beds (\$1,977 more, from the building class to 15 year); Site drainage, storm structures and retention (\$791 more, from the building class to 15 year); Fencing, gates and retaining walls (\$791 more, from the building class to 15 year); Site and parking-lot lighting (poles, bases, circuits) (\$791 more, from the building class to 15 year); cabinet installer: 5-year share (50 percent, Middle of the Road) (\$3,600 more, 15 year to 5 year); plumbing services: 5-year share (50 percent, Middle of the Road) (\$2,700 more, 15 year to 5 year); flooring installer: 5-year share (50 percent, Middle of the Road) (\$2,100 more, 15 year to 5 year); Building Materials: 5-year share (40 percent, Middle of the Road) (\$1,328 more, 15 year to 5 year).

Part 8A: Building Function Analysis (4 of 4)

At the Aggressive position the following components carry more basis than at the Conservative position: Carpet, vinyl and other removable floor coverings (\$9,064 more, from the building class to 5 year); Kitchen and laundry appliances (\$5,768 more, from the building class to 5 year); Decorative and accent lighting fixtures (\$3,296 more, from the building class to 5 year); Electrical branch circuits and outlets dedicated to equipment (\$4,944 more, from the building class to 5 year); Plumbing connections dedicated to equipment and appliances (\$3,296 more, from the building class to 5 year); Window treatments (blinds, drapes and hardware) (\$1,648 more, from the building class to 5 year); Low-voltage security, access-control and data cabling (\$2,060 more, from the building class to 5 year); Miscellaneous removable finishes and accessories (\$2,884 more, from the building class to 5 year); Commercial kitchen equipment and connections (\$3,955 more, from the building class to 5 year); Parking lot paving, curbs and striping (\$5,538 more, from the building class to 15 year); Sidewalks and exterior hardscape (\$1,582 more, from the building class to 15 year); Landscaping, shrubbery and planting beds (\$3,954 more, from the building class to 15 year); Site drainage, storm structures and retention (\$1,582 more, from the building class to 15 year); Fencing, gates and retaining walls (\$1,582 more, from the building class to 15 year); Site and parking-lot lighting (poles, bases, circuits) (\$1,583 more, from the building class to 15 year); cabinet installer: 5-year share (75 percent, Aggressive) (\$5,400 more, 15 year to 5 year); plumbing services: 5-year share (75 percent, Aggressive) (\$4,050 more, 15 year to 5 year); flooring installer: 5-year share (75 percent, Aggressive) (\$3,150 more, 15 year to 5 year); Building Materials: 5-year share (60 percent, Aggressive) (\$1,992 more, 15 year to 5 year).

Front building: 2 units, long term rental, placed in service 2023-05-01; 27.5 year residential rental property (IRC section 168(e)(2)(A)).

Rear building: 1 unit, rented for periods normally under 30 days, placed in service 2023-05-01; treated as 39 year nonresidential real property. Section 168(e)(2)(A) counts units, not nights: a dwelling unit excludes a unit in a hotel, motel or other establishment more than one half of whose units are used on a transient basis, and the Code does not define transient basis or state a number of days. The 30 day figure comes from Treas. Reg. 1.48-1(h)(2)(ii), an investment credit regulation on hotel and motel property. Applying it to this building on its own is a practitioner inference, not the text of a source; under the alternative reading the whole parcel is the establishment, 1 transient unit of 3 is not more than one half, and the building stays 27.5 year property. Both readings are carried in Part 15A, and the taxpayer's CPA chooses the life that is filed.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (1 of 15)

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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$13,596	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$8,652	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$4,944	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$7,416	Modeled share of the 5-year pool for Triplex	HCA (1997)	None on file

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (2 of 15)

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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$4,944	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$2,472	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$3,090	Modeled share of the 5-year pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$4,326	Modeled share of the 5-year pool for Triplex	Reg. §1.48-1(e)	None on file

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the \$168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (3 of 15)

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
EQUIP-002	Commercial kitchen equipment and connections	Building-wide (modeled share)	Process and specialty equipment	Commercial cooking, refrigeration and food preparation equipment is machinery used in the restaurant activity even when bolted to the floor; asset class 57.0 covers assets used in personal services and every Whiteco factor points to tangible personal property.	\$1245	57.0-04*	5-year	Eligible, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$5,933	Modeled share of the 5-year pool for Triplex	HCA (1997)	None on file
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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$8,306	Modeled share of the 15-year land improvement pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$2,373	Modeled share of the 15-year land improvement pool for Triplex	Rev. Proc. 87-56, 00.3	None on file

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the \$168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (4 of 15)

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-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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$5,933	Modeled share of the 15-year land improvement pool for Triplex	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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$2,373	Modeled share of the 15-year land improvement pool for Triplex	Rev. Proc. 87-56, 00.3	None on file
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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$2,373	Modeled share of the 15-year land improvement pool for Triplex	Rev. Proc. 87-56, 00.3	None on file

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the \$168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (5 of 15)

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-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, 80%	modeled; no field inventory	modeled; residual share of the class pool	\$2,373	Modeled share of the 15-year land improvement pool for Triplex	Rev. Proc. 87-56, 00.3	None on file
STRUCT-001	Building shell, Front building (27.5 year)	Front building	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. Front building: 27.5 year by the reading "long term rental" (Part 8A states the rule).	\$1250	B-01*	27.5-year	Not eligible: real property	modeled; no field inventory	modeled; residual share of the class pool	\$170,337	Residual of the building basis after the modeled pools for Triplex	Reg. §1.48-1(e)	None on file
STRUCT-002	Building shell, Rear building (39 year)	Rear building	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. Rear building: 39 year by the reading "statute, units counted" (Part 8A states the rule).	\$1250	B-02*	39-year	Not eligible: real property	modeled; no field inventory	modeled; residual share of the class pool	\$80,159	Residual of the building basis after the modeled pools for Triplex	Reg. §1.48-1(e)	None on file

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (6 of 15)

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
EQUIP-R001	cabinet installer: 5-year share (50 percent, Middle of the Road) REVIEW	Rear building	Process and specialty equipment	\$1245 personal property per the Pub. 5653 residential matrix: appliances, carpet/floating floors, dedicated equipment circuits (5-year). Middle of the Road: 50 percent carried as 5-year § 1245 property pending evidence.	\$1245	57.0*	5-year	Eligible, 80%	1 ledger line	\$3,600.00	\$3,600	Actual identifiable cost	Reg. § 1.48-1(e)	INV-1041
FIN-R001	cabinet installer: building share (50 percent, Middle of the Road) REVIEW	Rear building	Interior finishes	IRC § 168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per § 168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Middle of the Road: 50 percent stays with the building pending evidence. Reclassified to 15-year straight-line QIP (IRC § 168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	\$1250	B*	15-year	Eligible, 80%	1 ledger line	\$3,600.00	\$3,600	Actual identifiable cost	Pub. 946	INV-1041

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the § 168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (7 of 15)

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
EQUIP-R002	plumbing services: 5-year share (50 percent, Middle of the Road) REVIEW	Rear building	Process and specialty equipment	\$1245 personal property per the Pub. 5653 residential matrix: appliances, carpet/floating floors, dedicated equipment circuits (5-year). Middle of the Road: 50 percent carried as 5-year §1245 property pending evidence.	\$1245	57.0*	5-year	Eligible, 80%	1 ledger line	\$2,700.00	\$2,700	Actual identifiable cost	Reg. §1.48-1(e)	INV-1041
FIN-R002	plumbing services: building share (50 percent, Middle of the Road) REVIEW	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Middle of the Road: 50 percent stays with the building pending evidence. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	\$1250	B*	15-year	Eligible, 80%	1 ledger line	\$2,700.00	\$2,700	Actual identifiable cost	Pub. 946	INV-1041

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (8 of 15)

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
EQUIP-R003	flooring installer: 5-year share (50 percent, Middle of the Road) REVIEW	Rear building	Process and specialty equipment	§1245 personal property per the Pub. 5653 residential matrix: appliances, carpet/floating floors, dedicated equipment circuits (5-year). Middle of the Road: 50 percent carried as 5-year §1245 property pending evidence.	§1245	57.0*	5-year	Eligible, 80%	1 ledger line	\$2,100.00	\$2,100	Actual identifiable cost	Reg. §1.48-1(e)	INV-1041
FIN-R003	flooring installer: building share (50 percent, Middle of the Road) REVIEW	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Middle of the Road: 50 percent stays with the building pending evidence. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	§1250	B*	15-year	Eligible, 80%	1 ledger line	\$2,100.00	\$2,100	Actual identifiable cost	Pub. 946	INV-1041

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (9 of 15)

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-R004	Cabinets: kitchen cabinets and island	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Unit of property: building structure (casework) (Reg. §1.263(a)-3(e)(2)(ii)). Cabinets/countertops are building class per the Pub. 5653 residential matrix; the de minimis safe harbor may expense the item when elected and under the threshold. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	§1250	B	15-year	Eligible, 80%	1 ledger line	\$9,860.45	\$9,860	Actual identifiable cost	Pub. 946	INV-2207
FIN-R005	Plumbing: bath fixtures REVIEW	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Unit of property: building structure (unrecognized) (Reg. §1.263(a)-3(e)(2)(ii)). Unrecognized category; classified to the building conservatively; human review required. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	§1250	B*	15-year	Eligible, 80%	1 ledger line	\$3,975.00	\$3,975	Actual identifiable cost	Pub. 946	INV-3112

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (10 of 15)

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
EQUIP-R004	Flooring: floating luxury vinyl plank throughout	Rear building	Process and specialty equipment	IRS Cost Segregation Audit Techniques Guide (Pub. 5653), Ch. 7.H Exhibit A: residential rental property matrix (examiner no-adjustment classifications). Unit of property: building structure (floors) (Reg. §1.263(a)-3(e)(2)(ii)). Carpet / floating LVP is 5-year §1245 property per the Pub. 5653 residential matrix.	§1245	57.0	5-year	Eligible, 80%	1 ledger line	\$6,240.00	\$6,240	Actual identifiable cost	Reg. §1.48-1(e)	INV-4410
EQUIP-R005	Flooring: carpet in the bedrooms	Rear building	Process and specialty equipment	IRS Cost Segregation Audit Techniques Guide (Pub. 5653), Ch. 7.H Exhibit A: residential rental property matrix (examiner no-adjustment classifications). Unit of property: building structure (floors) (Reg. §1.263(a)-3(e)(2)(ii)). Carpet / floating LVP is 5-year §1245 property per the Pub. 5653 residential matrix.	§1245	57.0	5-year	Eligible, 80%	1 ledger line	\$2,180.00	\$2,180	Actual identifiable cost	Reg. §1.48-1(e)	INV-4411

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Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (11 of 15)

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
EQUIP-R006	Electrical: dedicated equipment circuits	Rear building	Process and specialty equipment	\$1245 personal property per the Pub. 5653 residential matrix: appliances, carpet/floating floors, dedicated equipment circuits (5-year). Unit of property: electrical system (Reg. §1.263(a)-3(e)(2)(ii)(B)) (Reg. §1.263(a)-3(e)(2)(ii)). Dedicated appliance/equipment circuits are 5-year §1245 property per the Pub. 5653 residential matrix.	\$1245	57.0	5-year	Eligible, 80%	1 ledger line	\$3,420.00	\$3,420	Actual identifiable cost	Reg. §1.48-1(e)	INV-5025
FIN-R006	Electrical: general electrical work	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Unit of property: electrical system (Reg. §1.263(a)-3(e)(2)(ii)(B)) (Reg. §1.263(a)-3(e)(2)(ii)). General wiring/panels are building class per the Pub. 5653 residential matrix. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	\$1250	B	15-year	Eligible, 80%	1 ledger line	\$2,650.00	\$2,650	Actual identifiable cost	Pub. 946	INV-5026

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Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (12 of 15)

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-R001	Site Work: asphalt paving of the parking area	Rear building	Site improvements and site utilities	MACRS asset class 00.3 (Rev. Proc. 87-56): land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year). Unit of property: land improvements (site, outside the building UOP) (Reg. §1.263(a)-3(e)(2)(ii)).	\$1250	00.3	15-year	Eligible, 80%	1 ledger line	\$6,900.00	\$6,900	Actual identifiable cost	Rev. Proc. 87-56, 00.3	INV-6130
SITE-R002	Site Work: exterior pole lighting along the walkway	Rear building	Site improvements and site utilities	MACRS asset class 00.3 (Rev. Proc. 87-56): land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year). Unit of property: land improvements (site, outside the building UOP) (Reg. §1.263(a)-3(e)(2)(ii)).	\$1250	00.3	15-year	Eligible, 80%	1 ledger line	\$2,350.00	\$2,350	Actual identifiable cost	Rev. Proc. 87-56, 00.3	INV-5031

* Preliminary, subject to documentation, ownership, use/function and acquisition verification.

Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the \$168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (13 of 15)

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
EQUIP-R007	Appliances: refrigerator, range and dishwasher	Rear building	Process and specialty equipment	IRS Cost Segregation Audit Techniques Guide (Pub. 5653), Ch. 7.H Exhibit A: residential rental property matrix (examiner no-adjustment classifications). Unit of property: §1245 personal property (not a building system) (Reg. §1.263(a)-3(e)(2)(ii)).	§1245	57.0	5-year	Eligible, 80%	1 ledger line	\$4,214.55	\$4,215	Actual identifiable cost	Reg. §1.48-1(e)	INV-7088
FIN-R007	Plumbing: water heater REVIEW	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Unit of property: building structure (unrecognized) (Reg. §1.263(a)-3(e)(2)(ii)). Unrecognized category; classified to the building conservatively; human review required. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	§1250	B*	15-year	Eligible, 80%	1 ledger line	\$1,480.00	\$1,480	Actual identifiable cost	Pub. 946	INV-3118

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Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (14 of 15)

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-R008	Painting: interior repaint following the renovation	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Unit of property: building structure (walls/finishes) (Reg. §1.263(a)-3(e)(2)(ii)). Painting performed by reason of a capital improvement is capitalized with the improvement (Reg. §1.263(a)-3(g)(1)). Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	\$1250	B	15-year	Eligible, 80%	1 ledger line	\$3,250.00	\$3,250	Actual identifiable cost	Pub. 946	INV-8204
EQUIP-R008	Building Materials: 5-year share (40 percent, Middle of the Road) REVIEW	Rear building	Process and specialty equipment	§1245 personal property per the Pub. 5653 residential matrix: appliances, carpet/floating floors, dedicated equipment circuits (5-year). Middle of the Road: 40 percent carried as 5-year §1245 property pending evidence.	\$1245	57.0*	5-year	Eligible, 80%	1 ledger line	\$1,328.00	\$1,328	Actual identifiable cost	Reg. §1.48-1(e)	INV-1187

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Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

Part 10 (Element 9): Detailed Asset Classification and Cost Schedule (15 of 15)

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-R009	Building Materials: building share (60 percent, Middle of the Road) REVIEW	Rear building	Interior finishes	IRC §168(e)(6): qualified improvement property: interior improvements to nonresidential real property placed in service after the building; 15-year straight-line per §168(b)(3)(G); excludes enlargements, elevators/escalators, and internal structural framework. Middle of the Road: 60 percent stays with the building pending evidence. Reclassified to 15-year straight-line QIP (IRC §168(e)(6)); interior improvement to nonresidential real property placed in service after the building.	\$1250	B*	15-year	Eligible, 80%	1 ledger line	\$1,992.00	\$1,992	Actual identifiable cost	Pub. 946	INV-1187
All classes, total allocated (reconciles to the depreciable basis)											\$396,240	36 rows at the Middle of the Road position		

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Costs shown are the Middle of the Road position; the three positions are compared by recovery class in the Part 1 table and in the class rows of the fixed asset CSV, each column footing to the depreciable basis. Authorities are cited in short form and printed in full in Part 17. Direct cost, indirect allocation, method, convention, the §168(k) amount and the first year deduction of every row are in the fixed asset CSV.

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
Total consideration (purchase price)	\$412,000	\$412,000	\$412,000
Less: nondepreciable land (owner-provided estimate)	\$(82,400)	\$(82,400)	\$(82,400)
Adjustments to basis	\$0	\$0	\$0
Depreciable basis of the acquisition	\$329,600	\$329,600	\$329,600
Of which Front building (27.5 year)	\$224,128	\$224,128	\$224,128
Of which Rear building (39 year)	\$105,472	\$105,472	\$105,472
Renovation spend (Part 13B)	\$68,540	\$68,540	\$68,540
Less amounts currently deductible	\$(1,900)	\$(1,900)	\$(1,900)
Capitalized renovation basis	\$66,640	\$66,640	\$66,640
Total depreciable basis	\$396,240	\$396,240	\$396,240
Direct costs identified	\$396,240	\$396,240	\$396,240
Indirect costs allocated (Part 12)	\$0	\$0	\$0
5-Year Personal Property (§1245)	\$52,970	\$81,156	\$104,477
15-Year Land Improvements	\$25,071	\$32,981	\$40,892
Qualified Improvement Property (15-Year, Straight-Line)	\$41,335	\$31,607	\$26,743
27.5-Year Residential Rental Property	\$188,268	\$170,337	\$152,407
39-Year Nonresidential Real Property	\$88,596	\$80,159	\$71,721
Total allocated	\$396,240	\$396,240	\$396,240
Unreconciled difference	\$0	\$0	\$0

The schedule foots. Total allocated of \$396,240 equals the depreciable building basis of \$396,240 to the dollar at every position: no unallocated remainder, no rounding plug.

Part 13 (Element 12): Section 1245 Property Schedule (1 of 2)

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*	\$9,064	\$13,596	\$18,128
EQUIP-001	Kitchen and laundry appliances	EQUIP	57.0-02*	\$5,768	\$8,652	\$11,536
ELEC-001	Decorative and accent lighting fixtures	ELEC	57.0-03*	\$3,296	\$4,944	\$6,592
ELEC-002	Electrical branch circuits and outlets dedicated to equipment	ELEC	Follows underlying asset*	\$4,944	\$7,416	\$9,888
PLMB-001	Plumbing connections dedicated to equipment and appliances	PLMB	Follows underlying asset*	\$3,296	\$4,944	\$6,592
FF&E-001	Window treatments (blinds, drapes and hardware)	FF&E	Functional analysis*	\$1,648	\$2,472	\$3,296
LOWV-001	Low-voltage security, access-control and data cabling	LOWV	Functional analysis*	\$2,060	\$3,090	\$4,120
FIN-002	Miscellaneous removable finishes and accessories	FIN	Functional analysis*	\$2,884	\$4,326	\$5,768
EQUIP-002	Commercial kitchen equipment and connections	EQUIP	57.0-04*	\$3,955	\$5,933	\$7,910
EQUIP-R001	cabinet installer: 5-year share (50 percent, Middle of the Road)	EQUIP	57.0*	\$0	\$3,600	\$5,400
EQUIP-R002	plumbing services: 5-year share (50 percent, Middle of the Road)	EQUIP	57.0*	\$0	\$2,700	\$4,050
EQUIP-R003	flooring installer: 5-year share (50 percent, Middle of the Road)	EQUIP	57.0*	\$0	\$2,100	\$3,150
EQUIP-R004	Flooring: floating luxury vinyl plank throughout	EQUIP	57.0	\$6,240	\$6,240	\$6,240
EQUIP-R005	Flooring: carpet in the bedrooms	EQUIP	57.0	\$2,180	\$2,180	\$2,180

Part 13 (Element 12): Section 1245 Property Schedule (2 of 2)

Asset ID	Component	System	IRS Asset Class	Conservative	Middle of the Road (stated)	Aggressive
EQUIP-R006	Electrical: dedicated equipment circuits	EQUIP	57.0	\$3,420	\$3,420	\$3,420
EQUIP-R007	Appliances: refrigerator, range and dishwasher	EQUIP	57.0	\$4,215	\$4,215	\$4,215
EQUIP-R008	Building Materials: 5-year share (40 percent, Middle of the Road)	EQUIP	57.0*	\$0	\$1,328	\$1,992
Total § 1245 property (20.5% of the depreciable basis at the stated position)				\$52,970	\$81,156	\$104,477

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, \$81,156 at the Middle of the Road position (Conservative \$52,970, Middle of the Road \$81,156, Aggressive \$104,477). The remaining \$315,084 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.

Part 13A: Major Renovation Cost Analysis

The renovation spend of \$68,540.00 is split by the engine's rulebook into amounts that improve the property and are capitalized (Treas. Reg. §1.263(a)-3(d)) and amounts that are currently deductible; the capitalized amount is classified at the three positions below and enters Part 10 as rows of their own, placed in service 2023-10-01 as separate property (IRC section 168(i)(6)). Every amount is a documented cost from the receipts and payments in Part 13B; no replacement cost, residual or appraisal estimate is introduced.

Physical work began June 1, 2023; placed in service October 1, 2023; the work belongs to Rear building. At the Middle of the Road and Aggressive positions the following ledger lines carry a different class than at the Conservative position: R01:1, R01:2, R01:3, R14.

Capitalized basis by recovery class	Conservative	Middle of the Road (stated)	Aggressive
5-Year Personal Property (§1245)	\$16,055	\$25,783	\$30,647
15-Year Land Improvements	\$9,250	\$9,250	\$9,250
Qualified Improvement Property (15-Year, Straight-Line)	\$41,335	\$31,607	\$26,743
Capitalized renovation basis	\$66,640	\$66,640	\$66,640
§168(k) eligible basis	\$66,640	\$66,640	\$66,640
§168(k) allowance	\$53,312	\$53,312	\$53,312
First year depreciation of the renovation part	\$53,565	\$53,646	\$54,809

Amounts currently deductible, outside the depreciable basis:

Line	Category	Description	Amount	Basis for the deduction
R13	HVAC	furnace servicing and blower repair	\$1,900.00	Routine Maintenance Safe Harbor (Reg. §1.263(a)-3(i))

Evidence still required for the renovation part:

- Missing a labor allocation across the work performed: lump-sum amounts stay conservatively in the building class without one. Raised by: cabinet installer; plumbing services; flooring installer.
- Missing line-item receipts: 5/15-year components inside mixed purchases could be broken out with them. Raised by: Building Materials.

The Aggressive position is a house upper bound and requires engineering documentation before use on a return.

Part 13B: Consolidated Receipts and Payments (1 of 2)

Line	Date	Payee	Reference	Category	Description	Amount	Treatment	Class
R01	September 29, 2023	Sample Contractor	INV-1041	General Contractor	lump sum renovation labor <i>Middle of the Road position: the documented split a comparable residential renovation study in the corpus applied to the same kind of line, pending the evidence named on the row.</i>	\$16,800.00	Capitalized	5-Year Personal Property (§1245) and Qualified Improvement Property (15-Year, Straight-Line)
R02	July 14, 2023	Sample Cabinet Shop	INV-2207	Cabinets	kitchen cabinets and island	\$9,860.45	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R03	July 28, 2023	Sample Plumbing Supply	INV-3112	Plumbing	bath fixtures	\$3,975.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R04	August 9, 2023	Sample Flooring	INV-4410	Flooring	floating luxury vinyl plank throughout	\$6,240.00	Capitalized	5-Year Personal Property (§1245)
R05	August 9, 2023	Sample Flooring	INV-4411	Flooring	carpet in the bedrooms	\$2,180.00	Capitalized	5-Year Personal Property (§1245)
R06	June 22, 2023	Sample Electric	INV-5025	Electrical	dedicated equipment circuits	\$3,420.00	Capitalized	5-Year Personal Property (§1245)
R07	June 22, 2023	Sample Electric	INV-5026	Electrical	general electrical work	\$2,650.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R08	September 12, 2023	Sample Paving	INV-6130	Site Work	asphalt paving of the parking area	\$6,900.00	Capitalized	15-Year Land Improvements
R09	September 26, 2023	Sample Electric	INV-5031	Site Work	exterior pole lighting along the walkway	\$2,350.00	Capitalized	15-Year Land Improvements

Part 13B: Consolidated Receipts and Payments (2 of 2)

Line	Date	Payee	Reference	Category	Description	Amount	Treatment	Class
R10	September 25, 2023	Sample Appliance Store	INV-7088	Appliances	refrigerator, range and dishwasher	\$4,214.55	Capitalized	5-Year Personal Property (§1245)
R11	July 28, 2023	Sample Plumbing Supply	INV-3118	Plumbing	water heater	\$1,480.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R12	September 28, 2023	Sample Painting	INV-8204	Painting	interior repaint following the renovation	\$3,250.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R13	September 5, 2023	Sample Heating	INV-9017	HVAC	furnace servicing and blower repair	\$1,900.00	Currently deductible	none (currently deductible)
R14	June 8, 2023	Sample Hardware	INV-1187	Building Materials	lump sum materials basket <i>Middle of the Road position: the documented split a comparable residential renovation study in the corpus applied to the same kind of line, pending the evidence named on the row.</i>	\$3,320.00	Capitalized	5-Year Personal Property (§1245) and Qualified Improvement Property (15-Year, Straight-Line)
Total of every line						\$68,540.00	the renovation spend of Part 11	
Capitalized						\$66,640.00	classified in Part 13A and carried in Part 10	
Currently deductible						\$1,900.00	outside the depreciable basis	
Excluded						\$0.00	planned demolition, outside this study	

Every line is the amount as entered from the consolidated receipts and payments the client supplied; the totals are added by code and foot to the renovation spend in Part 11.

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) **APPLIES**

Used property qualifies for the §168(k) allowance only when the acquisition meets Treas. Reg. §1.168(k)-2(b)(3)(iii): the taxpayer or a predecessor had no depreciable interest in the property at any time within the five calendar years before the placed in service year, the acquisition is by purchase under IRC §179(d)(2)(A) to (C) (not from a related person under §267 or §707(b), not from a component member of the same controlled group, and not with a basis determined by reference to the transferor's basis or under §1014(a)), and the cost meets §179(d)(3).

The owner's answers to the four screening questions are No (the taxpayer or a predecessor had a depreciable interest in the property within the five prior calendar years; the property was acquired from a related person under §267 or §707(b); the property was acquired from a component member of the same controlled group; the basis is determined by reference to the transferor's basis or under §1014(a): none applies), so the used property acquisition requirements are met and the 80% allowance applies to every class with a recovery period of 20 years or less.

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 2023-02-01 and placed in service 2023-05-01, in tax year 2023. 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: mid-quarter for personal property, because 46% of the personal property basis was placed in service in the last three months of the year; each asset takes the midpoint of the quarter it was placed in service; 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).

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

Ground lease and leasehold interests **DOES NOT APPLY**

The taxpayer holds the fee; no ground lease or leasehold interest was reported. A leasehold would change what is depreciated, not how the components are classified (IRC §178; Treas. Reg. §1.167(a)-4).

Ownership of tenant improvements **DOES NOT APPLY**

No tenant improvements owned by another party were reported; every row in Part 10 is treated as the taxpayer's property. Tax ownership decides who depreciates an improvement (IRC §110; Treas. Reg. §1.48-1(e)(1)).

§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 **APPLIES**

The assets were placed in service in 2023 and the study is adopted for 2025, so the change from the whole building method to the classification in this study is a change in method of accounting made with a Form 3115 automatic change (DCN 7) filed with the year of change return; the §481(a) adjustment is computed in the Part 14 supplement. Amended returns are not the mechanism once two or more filed returns used the prior method (Rev. Rul. 90-38); with one filed return, or with the placed in service year return still unfiled, your CPA confirms the route.

Authorities: Rev. Rul. 90-38; Rev. Proc. 2025-23.

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

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.

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: \$81,156 at the Middle of the Road position (Conservative \$52,970, Middle of the Road \$81,156, Aggressive \$104,477).

The §1250 pool of \$315,084 (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.

Part 14 Supplement: §481(a) Adjustment and Form 3115

The property was placed in service in 2023 and this study is applied in 2025, so 2 years of depreciation have already been claimed under the prior method; the difference between what was allowable under the method this study adopts and what was claimed is a §481(a) adjustment taken in the year of change.

Placed-in-service year	2023
Year of change	2025
Depreciation allowable under the new method	\$139,732
Depreciation claimed under the old method	\$21,105
§481(a) adjustment	\$(118,627)

The adjustment is negative, which is favorable: it is an additional deduction of \$118,627 in 2025, taken in full in the year of change.

File Form 3115 (automatic change, DCN 7) with the return for the year of change. Once a method has been adopted it is not changed by an amended return (Rev. Rul. 90-38; Pub. 946). A negative section 481(a) adjustment is deducted in full in the year of change; a positive one is generally spread over four years. Implementation belongs to your CPA.

Mechanism: Form 3115, automatic change, DCN 7

The Form 3115 supporting statements follow in the Part 14 attachment: the description of the change, the section 481(a) worksheet from the filed figures, the present and proposed method table, the fixed asset schedule and the filing notes.

Assumptions Behind the Catch-Up

- The depreciation claimed on the filed returns was entered by year (2023 \$9,120; 2024 \$11,985); the section 481(a) adjustment is the difference between those amounts and the depreciation allowable under this study for the same years.
- Year of change 2025, chosen by the taxpayer with the CPA; the catch up covers 2 completed tax years (2023 through 2024).

Part 14 Attachment: Form 3115 Supporting Statements (1 of 11)

Designated automatic accounting method change number 7, year of change 2025

The taxpayer changes from an impermissible method that depreciated Sample: Two Building Residential (Acquisition and Renovation) at 100 Sample Street, Sampletown, ZZ 00000 as a single 27.5 year building, with the land included in the depreciable basis, to the permissible method this study supports: each component depreciated in its MACRS class with the applicable convention and the additional first year depreciation that applied to qualified property when it was placed in service (Rev. Proc. 2025-23 section 6.01, designated change number 7).

Present method: 27.5 year straight line, mid month convention, on the whole purchase price including land.

Proposed method: the 36 assets in the table below, depreciated as 5 year and 7 year personal property (200 percent declining balance, half year or mid quarter), 15 year land improvements (150 percent declining balance), and 27.5 year and 39 year building property (straight line, mid month), with the additional first year depreciation applied to the classes with a recovery period of 20 years or less at the rate in effect for their placed in service year.

The proposed method follows the MACRS classes of IRC section 168(e) and the class lives of Rev. Proc. 87-56; the present method aggregated every cost into one building asset and did not identify the personal property and land improvements that recover over shorter periods.

Depreciation of Sample: Two Building Residential (Acquisition and Renovation) at 100 Sample Street, Sampletown, ZZ 00000: acquisition basis \$329,600 placed in service May 1, 2023; capitalized renovation basis \$66,640 placed in service October 1, 2023; total depreciable basis subject to the change \$396,240.

The section 481(a) worksheet, the present and proposed method table, the fixed asset schedule as of January 1, 2025, the filing notes and the filer follow on the next pages.

Part 14 Attachment: Form 3115 Supporting Statements (2 of 11)

Section 481(a) worksheet, from the depreciation claimed on the filed returns

	Year	Allowable under the proposed method	Claimed on the filed return	Difference
	2023	\$125,153	\$9,120	\$(116,033)
	2024	\$14,579	\$11,985	\$(2,594)
Section 481(a) adjustment as of December 31, 2024		\$139,732	\$21,105	\$(118,627)

The adjustment is negative and is taken in full in the year of change (Rev. Proc. 2015-13 section 7.03(1)).

The filed figures depreciated the land of \$82,400. The land piece of the adjustment is positive and is netted inside the figure above; whether to present it as a separate positive adjustment is the CPA's decision (Treas. Reg. 1.446-1(e)(2)(ii)(d)(2); Rev. Proc. 2025-23 section 6.01(8)(a)). This treatment of land under section 6.01 is an inference: no source names land.

Part 14 Attachment: Form 3115 Supporting Statements (3 of 11)

Present and proposed method, by asset:

Asset	Description	Part	Placed in service	Basis	Present method (period, convention)	Proposed method (period, convention)
FIN-001	Carpet, vinyl and other removable floor coverings	Acquisition	May 1, 2023	\$13,596	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
EQUIP-001	Kitchen and laundry appliances	Acquisition	May 1, 2023	\$8,652	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
ELEC-001	Decorative and accent lighting fixtures	Acquisition	May 1, 2023	\$4,944	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
ELEC-002	Electrical branch circuits and outlets dedicated to equipment	Acquisition	May 1, 2023	\$7,416	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
PLMB-001	Plumbing connections dedicated to equipment and appliances	Acquisition	May 1, 2023	\$4,944	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FF&E-001	Window treatments (blinds, drapes and hardware)	Acquisition	May 1, 2023	\$2,472	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
LOWV-001	Low-voltage security, access-control and data cabling	Acquisition	May 1, 2023	\$3,090	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-002	Miscellaneous removable finishes and accessories	Acquisition	May 1, 2023	\$4,326	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
EQUIP-002	Commercial kitchen equipment and connections	Acquisition	May 1, 2023	\$5,933	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
SITE-001	Parking lot paving, curbs and striping	Acquisition	May 1, 2023	\$8,306	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
SITE-002	Sidewalks and exterior hardscape	Acquisition	May 1, 2023	\$2,373	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
SITE-003	Landscaping, shrubbery and planting beds	Acquisition	May 1, 2023	\$5,933	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)

We do not prepare tax returns or provide legal advice. Please consult your CPA, tax preparer, or attorney regarding the implementation of the Cost Segregation Study.
We cannot guarantee tax savings or financial results. Actual benefits depend on your specific tax situation.

Part 14 Attachment: Form 3115 Supporting Statements (4 of 11)

Present and proposed method, by asset:

Asset	Description	Part	Placed in service	Basis	Present method (period, convention)	Proposed method (period, convention)
SITE-004	Site drainage, storm structures and retention	Acquisition	May 1, 2023	\$2,373	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
SITE-005	Fencing, gates and retaining walls	Acquisition	May 1, 2023	\$2,373	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
SITE-006	Site and parking-lot lighting (poles, bases, circuits)	Acquisition	May 1, 2023	\$2,373	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
STRUCT-001	Building shell, Front building (27.5 year)	Acquisition	May 1, 2023	\$170,337	27.5 year straight line (27.5 years, mid month)	straight line (27.5 years, mid month)
STRUCT-002	Building shell, Rear building (39 year)	Acquisition	May 1, 2023	\$80,159	27.5 year straight line (27.5 years, mid month)	straight line (39 years, mid month)
EQUIP-R001	cabinet installer: 5-year share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$3,600	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R001	cabinet installer: building share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$3,600	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
EQUIP-R002	plumbing services: 5-year share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$2,700	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R002	plumbing services: building share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$2,700	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
EQUIP-R003	flooring installer: 5-year share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$2,100	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R003	flooring installer: building share (50 percent, Middle of the Road)	Renovation	October 1, 2023	\$2,100	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
FIN-R004	Cabinets: kitchen cabinets and island	Renovation	October 1, 2023	\$9,860	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)

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Part 14 Attachment: Form 3115 Supporting Statements (5 of 11)

Present and proposed method, by asset:

Asset	Description	Part	Placed in service	Basis	Present method (period, convention)	Proposed method (period, convention)
FIN-R005	Plumbing: bath fixtures	Renovation	October 1, 2023	\$3,975	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
EQUIP-R004	Flooring: floating luxury vinyl plank throughout	Renovation	October 1, 2023	\$6,240	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
EQUIP-R005	Flooring: carpet in the bedrooms	Renovation	October 1, 2023	\$2,180	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
EQUIP-R006	Electrical: dedicated equipment circuits	Renovation	October 1, 2023	\$3,420	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R006	Electrical: general electrical work	Renovation	October 1, 2023	\$2,650	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
SITE-R001	Site Work: asphalt paving of the parking area	Renovation	October 1, 2023	\$6,900	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
SITE-R002	Site Work: exterior pole lighting along the walkway	Renovation	October 1, 2023	\$2,350	27.5 year straight line (27.5 years, mid month)	150 percent declining balance plus 80% additional first year depreciation (15 years, mid quarter)
EQUIP-R007	Appliances: refrigerator, range and dishwasher	Renovation	October 1, 2023	\$4,215	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R007	Plumbing: water heater	Renovation	October 1, 2023	\$1,480	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
FIN-R008	Painting: interior repaint following the renovation	Renovation	October 1, 2023	\$3,250	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
EQUIP-R008	Building Materials: 5-year share (40 percent, Middle of the Road)	Renovation	October 1, 2023	\$1,328	27.5 year straight line (27.5 years, mid month)	200 percent declining balance plus 80% additional first year depreciation (5 years, mid quarter)
FIN-R009	Building Materials: building share (60 percent, Middle of the Road)	Renovation	October 1, 2023	\$1,992	27.5 year straight line (27.5 years, mid month)	straight line plus 80% additional first year depreciation (15 years, mid quarter)
Total depreciable basis subject to the change				\$396,240	36 assets, each on its own line of the fixed asset file	

Part 14 Attachment: Form 3115 Supporting Statements (6 of 11)

Fixed asset schedule as of January 1, 2025

Description	Class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Annual in 2025
Carpet, vinyl and other removable floor coverings	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$13,596	\$12,372	\$1,224	\$489
Kitchen and laundry appliances	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$8,652	\$7,873	\$779	\$311
Decorative and accent lighting fixtures	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$4,944	\$4,499	\$445	\$178
Electrical branch circuits and outlets dedicated to equipment	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$7,416	\$6,749	\$667	\$267
Plumbing connections dedicated to equipment and appliances	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$4,944	\$4,499	\$445	\$178
Window treatments (blinds, drapes and hardware)	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$2,472	\$2,249	\$223	\$89
Low-voltage security, access-control and data cabling	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$3,090	\$2,812	\$278	\$111
Miscellaneous removable finishes and accessories	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$4,326	\$3,937	\$389	\$156

Part 14 Attachment: Form 3115 Supporting Statements (7 of 11)

Fixed asset schedule as of January 1, 2025

Description	Class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Annual in 2025
Commercial kitchen equipment and connections	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$5,933	\$5,399	\$534	\$214
Parking lot paving, curbs and striping	15-Year Land Improvements	150 percent declining balance	mid quarter	\$8,306	\$6,904	\$1,402	\$140
Sidewalks and exterior hardscape	15-Year Land Improvements	150 percent declining balance	mid quarter	\$2,373	\$1,973	\$400	\$40
Landscaping, shrubbery and planting beds	15-Year Land Improvements	150 percent declining balance	mid quarter	\$5,933	\$4,932	\$1,001	\$100
Site drainage, storm structures and retention	15-Year Land Improvements	150 percent declining balance	mid quarter	\$2,373	\$1,973	\$400	\$40
Fencing, gates and retaining walls	15-Year Land Improvements	150 percent declining balance	mid quarter	\$2,373	\$1,973	\$400	\$40
Site and parking-lot lighting (poles, bases, circuits)	15-Year Land Improvements	150 percent declining balance	mid quarter	\$2,373	\$1,972	\$401	\$40
Building shell, Front building (27.5 year)	27.5-Year Residential Rental Property	straight line	mid month	\$170,337	\$10,065	\$160,272	\$6,194

Part 14 Attachment: Form 3115 Supporting Statements (8 of 11)

Fixed asset schedule as of January 1, 2025

Description	Class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Annual in 2025
Building shell, Rear building (39 year)	39-Year Nonresidential Real Property	straight line	mid month	\$80,159	\$3,342	\$76,817	\$2,055
cabinet installer: 5-year share (50 percent, Middle of the Road)	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$3,600	\$3,190	\$410	\$164
cabinet installer: building share (50 percent, Middle of the Road)	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$3,600	\$2,934	\$666	\$48
plumbing services: 5-year share (50 percent, Middle of the Road)	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$2,700	\$2,392	\$308	\$123
plumbing services: building share (50 percent, Middle of the Road)	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$2,700	\$2,201	\$499	\$36
flooring installer: 5-year share (50 percent, Middle of the Road)	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$2,100	\$1,861	\$239	\$96
flooring installer: building share (50 percent, Middle of the Road)	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$2,100	\$1,711	\$389	\$28

Part 14 Attachment: Form 3115 Supporting Statements (9 of 11)

Fixed asset schedule as of January 1, 2025

Description	Class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Annual in 2025
Cabinets: kitchen cabinets and island	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$9,860	\$8,036	\$1,824	\$131
Plumbing: bath fixtures	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$3,975	\$3,240	\$735	\$53
Flooring: floating luxury vinyl plank throughout	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$6,240	\$5,529	\$711	\$285
Flooring: carpet in the bedrooms	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$2,180	\$1,931	\$249	\$99
Electrical: dedicated equipment circuits	5-Year Personal Property (\$1245)	200 percent declining balance	mid quarter	\$3,420	\$3,030	\$390	\$156
Electrical: general electrical work	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$2,650	\$2,160	\$490	\$35
Site Work: asphalt paving of the parking area	15-Year Land Improvements	150 percent declining balance	mid quarter	\$6,900	\$5,673	\$1,227	\$123

Part 14 Attachment: Form 3115 Supporting Statements (10 of 11)

Fixed asset schedule as of January 1, 2025

Description	Class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Annual in 2025
Site Work: exterior pole lighting along the walkway	15-Year Land Improvements	150 percent declining balance	mid quarter	\$2,350	\$1,932	\$418	\$42
Appliances: refrigerator, range and dishwasher	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$4,215	\$3,734	\$481	\$192
Plumbing: water heater	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$1,480	\$1,206	\$274	\$20
Painting: interior repaint following the renovation	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$3,250	\$2,649	\$601	\$43
Building Materials: 5-year share (40 percent, Middle of the Road)	5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$1,328	\$1,177	\$151	\$61
Building Materials: building share (60 percent, Middle of the Road)	Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$1,992	\$1,623	\$369	\$27
Land	Land	not depreciable	none	\$82,400	\$0	\$82,400	\$0
Total, every asset and the land				\$478,640	\$139,732	\$338,908	\$12,404

Part 14 Attachment: Form 3115 Supporting Statements (11 of 11)

Filing notes

- Attach the original Form 3115 to the timely filed federal income tax return, including extensions, for the year of change 2025.
- File a signed copy with the IRS no later than the date the original is filed, at the place the Instructions for Form 3115 give for an automatic change. The IRS sends no acknowledgement for an automatic change (Instructions for Form 3115, Rev. December 2022; Rev. Proc. 2015-13 section 6.03(1)).
- The section 481(a) adjustment is computed as of December 31, 2024, the last day of the tax year before the year of change (Rev. Proc. 2025-23 section 6.01(5)).
- If the year of change return was filed without the Form 3115, the CPA reviews Rev. Proc. 2015-13 section 6.03(4)(a) before the form is filed.

Cautions

- Confirm that no election out of the additional first year depreciation was made on the 2023 return; if one was, the analysis must be updated before filing (IRC section 168(k)(7); Rev. Proc. 2025-23 section 6.01).
- Confirm that the assets are general depreciation system property and no alternative depreciation system election applies.
- Reconcile the depreciation claimed on the filed returns to the figures entered here: 2023 \$9,120 and 2024 \$11,985; if an amount differs, the section 481(a) adjustment changes by the same amount.
- No partial disposition is modeled; if any original component was retired before the year of change, the analysis must be updated.
- Confirm that the taxpayer is not under examination; if so, the filing windows of Rev. Proc. 2015-13 section 6.03 and section 8 apply.
- If the renovation was deducted as an expense on a filed return rather than capitalized, the CPA confirms the procedure for changing its treatment before filing (Rev. Proc. 2025-23 section 6.01(1)(c)(x) and section 11.08).
- An interior improvement to a 39 year building may be qualified improvement property; the CPA confirms the procedure for a change to that class before filing (Rev. Proc. 2025-23 section 6.18).

Filer

Name of filer, taxpayer identification number and type of applicant: to be completed by the filer. The CPA enters the taxpayer's identity on Form 3115; this attachment carries the figures and the descriptions.

Part 15: Depreciation and §168(k) Analysis

Binding contract / acquired date	February 1, 2023
Placed-in-service date	May 1, 2023
Additional first-year depreciation rate	80%
Rule applied	Acquired on or before January 19, 2025: TCJA phase-down rate of 80% for property placed in service in 2023 (IRC §168(k)).
Eligible basis (recovery period of 20 years or less, stated position)	\$145,744
Additional first-year depreciation (stated position)	\$116,594

34 of 36 asset rows are eligible; 2 are not. Reasons recorded for the ineligible rows: Not eligible: 27.5-year real property is outside §168(k). Not eligible: 39-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	\$95,502	\$103,498	\$7,144	\$96,354	\$30,833
Middle of the Road (stated)	\$116,594	\$125,153	\$7,144	\$118,009	\$37,763
Aggressive	\$137,689	\$147,072	\$7,144	\$139,928	\$44,777

Elections and Notes

- 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 the return; whether it fits the overall tax position is your CPA's call.
- Bonus by position: Conservative \$95,502, Middle of the Road \$116,594, Aggressive \$137,689; the Middle of the Road position is the one this study states.
- The renovation rows are self constructed property placed in service 2023-10-01; their allowance is tested on the date physical work began, 2023-06-01 (Treas. Reg. §1.168(k)-2(b)(5)(iv)), and the rate on the eligible renovation classes is 80%.

An election out of additional first-year depreciation is made by property class on a timely filed return. Whether to make it is your preparer's call, not this study's.

Part 15A: Combined Acquisition and Renovation Summary

The acquisition and the renovation are separate property with their own placed in service dates, so they are shown side by side and then combined. The Middle of the Road position is the one this study states; the other two positions are carried beside it in every table so the taxpayer and the CPA can see the alternatives.

The two parts side by side at the Middle of the Road position: the acquisition placed in service May 1, 2023, the renovation October 1, 2023.

Recovery class	Acquisition	Renovation	Combined	Treatment
5-Year Personal Property (§1245)	\$55,373	\$25,783	\$81,156	80% §168(k) allowance in 2023, then 200 percent declining balance over 5 years
15-Year Land Improvements	\$23,731	\$9,250	\$32,981	80% §168(k) allowance in 2023, then 150 percent declining balance over 15 years
Qualified Improvement Property (15-Year, Straight-Line)	\$0	\$31,607	\$31,607	80% §168(k) allowance in 2023, then straight line over 15 years
27.5-Year Residential Rental Property	\$170,337	\$0	\$170,337	straight line, 27.5 years, mid month
39-Year Nonresidential Real Property	\$80,159	\$0	\$80,159	straight line, 39 years, mid month
Total depreciable basis	\$329,600	\$66,640	\$396,240	Both parts foot to Part 11
§168(k) eligible basis	\$79,104	\$66,640	\$145,744	Classes with a recovery period of 20 years or less
First year depreciation with the study	\$71,507	\$53,646	\$125,153	Each part in its own placed in service year

The three positions, both parts combined; the section 481(a) adjustment is the Part 14 supplement's figure at each:

Position	§168(k) eligible basis	§481(a) adjustment	Ongoing annual, building property (straight line)
Conservative	\$119,376	\$(95,976)	\$9,117
Middle of the Road (stated)	\$145,744	\$(118,627)	\$8,249
Aggressive	\$172,112	\$(141,166)	\$7,380

The alternative reading of the building life:

Building	Life under the alternative reading	First year with the study	§481(a) adjustment
Rear building	27.5 years	\$100,819	\$(95,792)

Part 8A states both readings and the inference each rests on; the taxpayer's CPA chooses the life that is filed, and the fixed asset file carries the reading this study states.

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); Part 15A
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)

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 (12 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); Part 13A
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)
2. Regulations	Treas. Reg. §1.167(a)-5 (when depreciable and nondepreciable property, as for example buildings and land, is acquired for a lump sum, the basis for depreciation cannot exceed the share of the lump sum that the value of the depreciable property at acquisition bears to the value of the entire property)	Part 2

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 00.11 (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)
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 (8 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); Part 14 Supplement; Part 14 Attachment
4. Rulings and procedures	Rev. Proc. 2025-23 (automatic accounting method changes; DCN 7)	Part 14 (Element 13); Part 14 Supplement; Part 14 Attachment
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 (4 rows); Part 8 (Element 7); Part 7 (Elements 5 and 6)

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

Tier	Authority	Applied To
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
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 10 (9 rows); Part 4 (Element 2); Part 14 (Element 13); Part 8A
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); Part 2

Audit-Risk Gauge



THIS STUDY (MIDDLE OF THE ROAD)

36.8%

BAND MIDPOINT

21.0%

GAUGE

High

This reclassified share exceeds SmartCostSeg's comparative band for this property type and carries elevated audit risk. We recommend the Conservative scenario unless your property has documented, unusual short-life assets.

This study reclassifies 36.8% of the depreciable building basis out of the building's straight-line recovery period at the Middle of the Road position (Conservative 30.1%, Middle of the Road 36.8%, Aggressive 43.4% of building basis in the short-life classes). SmartCostSeg's comparative band for Triplex is 18% to 30% (midpoint 21%); the gauge reads RED. 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 compares the share of basis this study reclassifies against SmartCostSeg's comparative band for the property type. It is a self-check, not a prediction of examination, and it is not a statement about the IRS or any IRS threshold.

Part 18: Final Recommendation

This study states the Middle of the Road position: it reclassifies 36.8% of the depreciable building basis into the short life classes, which sits above SmartCostSeg's comparative band of 18% to 30% for Triplex, and the audit risk gauge reads RED.

Position	Short life share	§168(k) allowance	First year with the study	§481(a) adjustment	Ongoing annual, building property (straight line)
Conservative	30.1%	\$95,502	\$103,498	\$(95,976)	\$9,117
Middle of the Road (stated)	36.8%	\$116,594	\$125,153	\$(118,627)	\$8,249
Aggressive	43.4%	\$137,689	\$147,072	\$(141,166)	\$7,380

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.

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 36 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	36 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 \$396,240 equals the depreciable basis \$396,240 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	17 §1245 rows totalling \$81,156 (20.5% 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)	MET	All eight considerations addressed on the facts recorded (Part 14); 12 rows flagged for review.

Assumptions, Limiting Conditions and Certification (1 of 2)

Assumptions and Limiting Conditions

- Building basis of \$329,600 is the purchase price \$412,000 less land \$82,400 (owner-provided estimate); the land value is the same under all three positions.
- The capitalized renovation basis of \$66,640 is added to the building basis as separate property placed in service 2023-10-01 (IRC section 168(i)(6)); the total depreciable basis of both parts is \$396,240.
- Acquired 2023-02-01; placed in service 2023-05-01; Acquired on or before January 19, 2025: TCJA phase-down rate of 80% for property placed in service in 2023 (IRC §168(k)).
- Combined marginal tax rate of 32% is used for tax-savings figures; the actual rate depends on the taxpayer's return.
- The asset schedule is modeled from the Triplex component profile; the three positions reclassify 16.0%, 24.0% and 32.0% 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 mid-quarter convention applies to personal property because 46% 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 depreciation claimed on the filed returns was entered by year (2023 \$9,120; 2024 \$11,985); the section 481(a) adjustment is the difference between those amounts and the depreciation allowable under this study for the same years.
- Year of change 2025, chosen by the taxpayer with the CPA; the catch up covers 2 completed tax years (2023 through 2024).

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 Sample 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:** _____

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
17	MACRS deductions for assets placed in service in prior tax years (2025 under the new method) <i>Study year 3 of the combined schedule at the Middle of the Road position. The §481(a) catch up of -\$118,627 is claimed through the Form 3115 filing (the Part 14 supplement), not on Form 4562.</i>	\$12,404
14	Special depreciation allowance <i>Not applicable in the year of change; the assets were placed in service in a prior year.</i>	\$0
22	Total depreciation (this study)	\$12,404

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

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. If the 2023 return has not been filed yet, the study goes on that original return and no Form 3115 is needed. Once returns have been filed without it, file Form 3115 (automatic change, DCN 7) with the 2025 return to claim the §481(a) adjustment: where two or more filed returns used the prior method, the change is not made by amending them (Rev. Rul. 90-38), and where only one has been filed, your CPA chooses between an amended return and Form 3115. The Part 14 attachment carries the supporting statements for the filing.
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 whether an election out of additional first-year depreciation by property class fits the overall tax position for the year.
7. Load the fixed-asset import CSV into the depreciation software and reconcile its TOTAL row to the depreciable basis of both parts before filing; the renovation rows carry R in their ids, their own placed in service date and the Renovation value in the Part column.
8. Confirm the related tax facts recorded in Part 14 (the used property screen, ground lease and tenant improvement ownership) against the closing file before the return is filed.
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.

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.



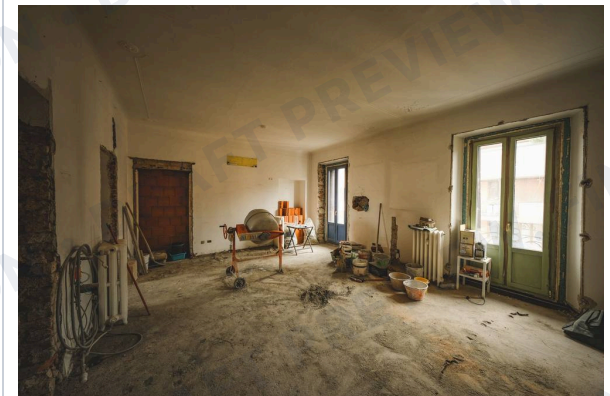
RP-1 A small two story residential rental building with a walk up entrance and landscaped grounds, the scale of a front building. Representative of the building type; not this property.

Photo: Clay Elliot via Pexels (Pexels License).



RP-2 A small two story rental building with an exterior stair and parking at grade, the scale of a rear building. Representative of the building type; not this property.

Photo: Jake Ryan via Pexels (Pexels License).



RP-3 An interior room stripped back during a unit renovation, with bare walls and materials on the floor. Representative of the building type; not this property.

Photo: Francesco Ungaro via Pexels (Pexels License).

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-P30Q5L. Report SCS-LPCS-P30Q5L, version 1, issued 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.

