



SmartCostSeg.com

Cost Segregation Study

Triplex

Sample: Two Building Residential (Acquisition and Renovation)

100 Sample Street, Sampletown, 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
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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).

The Engineering Appendix, delivered beside this Study as its own file, carries each asset's rationale, the legal analysis, the receipts line by line, the photographs and the authorities tied to each row in full.

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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Executive Summary (1 of 3)

DEPRECIABLE BUILDING BASIS
\$396,240

LAND ALLOCATION (20.0% OF PRICE)
\$82,400

FIRST YEAR DEDUCTION, MIDDLE OF
THE ROAD
\$125,153

SECTION 481(a) ADJUSTMENT, 2025
\$(118,627)

Land of \$82,400 is 20.0% of the purchase price of \$412,000, by owner-provided estimate; it is held at that one value under all three positions. The Middle of the Road position is the one this Study states, and every table carries the other two beside it.

The Three Positions: the First Year Benefit

Position	Short-Life Share	\$168(k) Allowance	First Year With Study	Without Study	Additional First Year Deduction	Est. Tax Savings	\$481 (a) Adjustment
Conservative	30.1%	\$95,502	\$103,498	\$7,144	\$96,354	\$30,833	\$(95,976)
Middle of the Road (stated)	36.8%	\$116,594	\$125,153	\$7,144	\$118,009	\$37,763	\$(118,627)
Aggressive	43.4%	\$137,689	\$147,072	\$7,144	\$139,928	\$44,777	\$(141,166)

Tax savings use the 32% combined rate stated in the assumptions.

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

Executive Summary (2 of 3)

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.

Executive Summary (3 of 3)

Part 1A: the Land Question and the Nine Positions

The whole model run at a higher and a lower land value as well as the engineering estimate, at each of the three positions, every cell ranked by its first year benefit; a lower land value leaves more to depreciate, so a cell is named by both coordinates. 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 recommended cell, the engineering estimate crossed with the position this Study states, ranks 5 of 9; the cells above it rest on a lower land value or a more aggressive position.

The Position on Its Own (the engineering estimate's land)

Position	Additional year 1 deduction	Est. year 1 tax saving
Conservative	\$41,906	\$13,410
Middle of the Road	\$62,859	\$20,115
Aggressive	\$83,812	\$26,820

The Land on Its Own (Middle of the Road position)

Land allocation	Additional year 1 deduction	Est. year 1 tax saving
High land (less to depreciate)	\$60,894	\$19,486
Engineering estimate	\$62,859	\$20,115
Low land (more to depreciate)	\$64,823	\$20,743

Every cell is a full run of the model, not an interpolation; tax savings use the 32% combined rate stated in the assumptions.

1. Findings and Open Items (1 of 2)

What the documents, the filed returns and the engine's own checks show for this property, each with its source, what this Study assumed meanwhile and who decides. A finding prints only when the data shows it; the CPA next steps resolve the items marked for the CPA.

#	What the documents or returns show	Source	What this Study assumed meanwhile	Who decides
1	The 2023 return claimed \$9,120 of depreciation in the first year. No month's first year rate of Table A-6 (27.5 years) or Table A-7a (39 years) gives that figure on the building basis of \$329,600 or the purchase price of \$412,000, land included; the nearest is the February rate of Table A-7a (39 years) on the purchase price of \$412,000, land included, \$9,258.	The filed 2023 return, as entered; the mid month first year rates; Fact F57	The worksheet uses the 2023 figure as entered; if the filed figure differs, the section 481(a) adjustment changes by the same amount (Fact F36).	The CPA, from the filed 2023 Form 4562 (its placed in service date, basis and method).
2	The filed figures were entered as depreciating the land of \$82,400, but the 2024 figure of \$11,985 is straight line over 27.5 years on the building basis of \$329,600 alone, without the land.	The filed 2024 return, as entered; the Form 3115 attachment's land note; Fact F27	The attachment states the land was depreciated and nets the land's piece inside the section 481(a) adjustment, as entered.	The CPA, from the filed returns: whether the land was in the depreciated basis.
3	The renovation was placed in service on October 1, 2023, but the 2024 figure of \$11,985 is straight line over 27.5 years on the building basis of \$329,600 alone: the capitalized renovation basis of \$66,640 is not in it.	The filed 2024 return, as entered; an improvement is depreciated as its own property; Fact F59	The worksheet allows the renovation from its own placed in service date; the Form 3115 description does not say the renovation was left out, because that was not entered.	The CPA, from the filed returns; the client confirms whether the renovation was expensed or left off.
4	The year of change is 2025, as entered; the catch up covers 2023 through 2024.	The look back, the Engineering Appendix's Part 14 Supplement; Facts F33 and F34	The section 481(a) adjustment of \$(118,627) is computed as of December 31, 2024 for a 2025 year of change.	The CPA confirms the year of change and files Form 3115 with the 2025 return (Fact F37).
5	The taxpayer's name, identification number and type of applicant for Form 3115 were not given.	The Form 3115 attachment's filer block	The attachment leaves the three fields to the filer and says so; nothing is filled in for the taxpayer.	The CPA, as the filer of Form 3115.
6	Whether the 2023 return elected out of the additional first year depreciation for any class was not stated.	The Form 3115 attachment's cautions; the filed 2023 return	No election out: the allowable figures carry the additional first year depreciation at 80% on the acquisition and on the renovation (Fact F56).	The CPA, from the filed 2023 return.

1. Findings and Open Items (2 of 2)

#	What the documents or returns show	Source	What this Study assumed meanwhile	Who decides
7	Rear building: 1 unit, rented for periods normally under 30 days. The study states 39 years (statute, units counted); the 27.5 year reading stands beside it.	The buildings as entered, with the client's answer on the rental period; Facts F21, F46 and F47	39 years in every figure of this Study; the Combined Summary prints the first year under the 27.5 year reading.	The CPA chooses the recovery period that is filed.
8	The rulebook recognized no category for lines R03 (Plumbing, bath fixtures, Sample Plumbing Supply) and R11 (Plumbing, water heater, Sample Plumbing Supply).	The renovation engine's rulebook, on the Engineering Appendix's Part 10 rows FIN-R005 and FIN-R007	In the engine's words: classified to the building conservatively; human review required. At the stated position the lines carry Qualified Improvement Property (15-Year, Straight-Line).	The preparer reviews the category with the client.
9	Missing: a labor allocation across the work performed, for cabinet installer; plumbing services; flooring installer.	The renovation engine's evidence check, as the Engineering Appendix's Part 13A names it	At the stated Middle of the Road position: 50 percent to the 5-year class and the rest as the building share, pending this evidence (line R01, Part 13B); Conservative: not split.	The client supplies it; the preparer re runs the renovation part.
10	Missing: line-item receipts, for Building Materials.	The renovation engine's evidence check, as the Engineering Appendix's Part 13A names it	At the stated Middle of the Road position: 40 percent to the 5-year class and the rest as the building share, pending this evidence (line R14, Part 13B); Conservative: not split.	The client supplies it; the preparer re runs the renovation part.
11	At the Middle of the Road position the gauge reads 36.8% against SmartCostSeg's comparative band of 18.0% to 30.0% (midpoint 21.0%) for this property type: RED. 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.	The audit risk gauge, against SmartCostSeg's comparative band (house judgment, not an IRS threshold)	The Middle of the Road position, as this Study states it; the Conservative and Aggressive positions print beside it in every table.	The CPA and the client choose the position that is filed.
12	The property's address names no state this study reads, so its state is not known: no confirmed state rule on file applies.	The property's address	The study's figures are federal: no state rule or state depreciation is applied; the tax savings use the combined rate the assumptions state.	The CPA applies the state's treatment on the return of the property's state.

Resting on Fact F57 (section 11), Fact F36 (section 8), Fact F27 (section 3), Fact F59 (section 6), Fact F33 (section 8), Fact F34 (section 8), Fact F37 (section 15), Fact F56 (section 7), Fact F21 (section 2), Fact F46 (section 4) and Fact F47 (section 4), each printed in full there.

2. Property Description

Reference name	Sample: Two Building Residential (Acquisition and Renovation)	Units on the parcel	3
Reference code	LPCS-P30Q5L	Buildings on the parcel	2
Address	100 Sample Street, Sampletown, ZZ 00000	Purchase price	\$412,000
Owner	Sample Property Owner	Purchase (closing) date	March 15, 2023
Property type	Triplex	Acquired (binding contract date)	February 1, 2023
Building area, square feet	2,480	Placed in service	May 1, 2023
Year built	1925	Renovation placed in service	October 1, 2023
Stories	2	Tax year placed in service	2023

Buildings and Units on the Parcel

Building	Units	Use	Placed in service	Share of building basis	Building basis	Recovery period	Reading
Front building	2	long term rental	May 1, 2023	68.0%	\$224,128	27.5 years	long term rental
Rear building	1	rented for periods normally under 30 days	May 1, 2023	32.0%	\$105,472	39 years	statute, units counted; alternative reading 27.5 years
All buildings	3			100.0%	\$329,600		

Fact F52. Depreciation begins when property is placed in service, which for a rental means when it is ready and available for rent, even if no tenant has moved in yet.

Fact F21. Under the general depreciation system, residential rental property is depreciated over 27.5 years and nonresidential real property over 39 years. The alternative depreciation system, which applies to some property, has longer recovery periods.

3. Land Allocation

The land determination	Amount	Share of price
Purchase price	\$412,000	100.0%
Land, by owner-provided estimate	\$82,400	20.0%
Depreciable building basis of the purchase	\$329,600	80.0%

Land Allocation Sources, Reconciled

Method	Land share	Source	The adopted allocation
County assessor ratio	18.8%	Sample assessor card, assessment date 2022-12-31	outside this range
Replacement cost residual	15.0% to 22.0%	Sample replacement cost worksheet	within this range
Sales comparison	20.0% to 30.0%	Sample urban multifamily sales	within this range
Tax assessment allocation	18.0% to 28.0%	Sample practitioner allocation	within this range
Industry benchmark	15.0% to 25.0%	Sample small multifamily benchmark	within this range
Adopted allocation	20.0%	within the range of 4 of the 5 methods listed	

Fact F27. Land cannot be depreciated. The costs of clearing, grading, planting and landscaping are usually part of the cost of land.

Fact F53. When a purchase price covers both land and buildings, the cost must be divided between them based on the fair market value of each at the time of purchase. If fair market values are uncertain, the IRS allows the split to follow the assessed values used for real estate tax.

4. Building Function Analysis

Function group	Classes	Components carried at the Middle of the Road position	Cost	Share of basis
Tenant function property (5 year and 7 year, section 1245)	5 year	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; and 9 more rows	\$81,156	20.5%
Qualified improvement property (15 year, section 1250)	QIP, 15 year	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; and 1 more row	\$31,607	8.0%
Site function property (15 year land improvements)	15 year	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%
Structural building property (27.5 year or 39 year)	27.5 year, 39 year	Building shell, Front building (27.5 year); Building shell, Rear building (39 year)	\$250,496	63.2%
All groups			\$396,240	100.0%

Middle of the Road: 19 components carry more basis than at the Conservative position. Aggressive: 19 components carry more basis than at the Conservative position. The Engineering Appendix, Part 8A, names each component with the amount it moves.

Fact F22. Under the general rule in section 168(e), property is 5 year property if its class life is more than 4 but less than 10 years, 7 year property if its class life is 10 or more but less than 16 years, and 15 year property if its class life is 20 or more but less than 25 years. The Code puts some property in a class by name, and property with no class life that is not otherwise classified is 7 year property.

Fact F25. Qualified improvement property is 15 year property. Congress added it to the 15 year list in section 2307 of the CARES Act in 2020, effective as if it had been part of the 2017 tax act.

Fact F46. A building is residential rental property only if 80 percent or more of its gross rental income is from dwelling units. A dwelling unit does not include a unit in a hotel, motel or other establishment where more than one half of the units are used on a transient basis. Section 168 does not define transient basis or state a number of days.

Fact F47. The 30 day figure comes from Treas. Reg. 1.48-1(h)(2)(ii), an investment credit regulation on hotel and motel property, not from section 168. It says accommodations are used on a transient basis if the rental period is normally less than 30 days. Paragraph (h)(1)(i) of the same regulation contains no 30 day language.

5. Acquisition: the Three Positions by Class

These columns are the acquisition part alone, placed in service May 1, 2023; the renovation part follows in its own section and the two are added together in the combined summary.

Recovery Class	Life	Conservative	Middle of the Road (stated)	Aggressive
5-Year Personal Property (§1245)	5	\$36,915	\$55,373	\$73,830
15-Year Land Improvements	15	\$15,821	\$23,731	\$31,642
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 Acquisition Depreciable Basis		\$329,600	\$329,600	\$329,600
Short life share of this basis		16.0%	24.0%	32.0%
§168(k) allowance		\$42,190	\$63,282	\$84,377
First year depreciation		\$49,933	\$71,507	\$92,263

6. Major Renovation Analysis (1 of 3)

Renovation spend, Rear building		Currently deductible (1 line)	Excluded	Capitalized	Work began	Placed in service
\$68,540		\$1,900	\$0	\$66,640	June 1, 2023	October 1, 2023
Recovery Class		Life	Conservative	Middle of the Road (stated)		Aggressive
5-Year Personal Property (§1245)		5	\$16,055	\$25,783		\$30,647
15-Year Land Improvements		15	\$9,250	\$9,250		\$9,250
Qualified Improvement Property (15-Year, Straight-Line)		15	\$41,335	\$31,607		\$26,743
Total Capitalized Renovation Basis			\$66,640	\$66,640		\$66,640
Bonus eligible basis			\$66,640	\$66,640		\$66,640
§168(k) allowance			\$53,312	\$53,312		\$53,312
First year depreciation			\$53,565	\$53,646		\$54,809

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

Fact F60. Amounts paid to improve a unit of property (a betterment, a restoration or an adaptation to a new use) are capitalized; each building and its structural components is a unit of property; costs that directly benefit or are incurred by reason of an improvement are capitalized with it; and work done on a unit of property before it is placed in service is part of the cost of acquiring or producing it, not an improvement.

Fact F59. An addition or improvement to property is depreciated as separate property placed in service on the later of the date the improvement is placed in service and the date the improved property is placed in service, and over the same recovery period and method that would apply to the improved property if it were placed in service when the improvement was.

6. Major Renovation Analysis (2 of 3)

Receipts and Payments by Category

The 14 ledger lines of the renovation, added up by category, largest first; the total is the renovation spend of \$68,540.00. The Engineering Appendix, Part 13B, lists every line with its date, payee and reference as entered.

Category	Lines	Amount	Share of the spend	Treatment of its lines
General Contractor	1	\$16,800.00	24.5%	Capitalized
Cabinets	1	\$9,860.45	14.4%	Capitalized
Site Work	2	\$9,250.00	13.5%	Capitalized
Flooring	2	\$8,420.00	12.3%	Capitalized
Electrical	2	\$6,070.00	8.9%	Capitalized
Plumbing	2	\$5,455.00	8.0%	Capitalized
Appliances	1	\$4,214.55	6.1%	Capitalized
Building Materials	1	\$3,320.00	4.8%	Capitalized
Painting	1	\$3,250.00	4.7%	Capitalized
HVAC	1	\$1,900.00	2.8%	Currently deductible
All categories	14	\$68,540.00	100.0%	

Review Flags, Counted

- Evidence still required: a labor allocation across the work performed: lump-sum amounts stay conservatively in the building class without one. Raised by 3 entries: cabinet installer; plumbing services; flooring installer.
- Evidence still required: line-item receipts: 5/15-year components inside mixed purchases could be broken out with them. Raised by 1 entry: Building Materials.
- 2 ledger lines carry a different class at the Middle of the Road or Aggressive position than at the Conservative position: R01, R14.
- 10 renovation rows are flagged for review in the fixed asset schedule of the Engineering Appendix.

The Engineering Appendix, Part 13A, names each entry that raises an evidence flag and each line a position moves.

6. Major Renovation Analysis (3 of 3)

The Ten Largest Lines

The 10 largest of the 14 ledger lines by amount; together they carry \$60,630.00, 88.5% of the renovation spend of \$68,540.00.

Line	Category	Description	Amount	Treatment	Class at the Middle of the Road position
R01	General Contractor	lump sum renovation labor	\$16,800.00	Capitalized	5-Year Personal Property (§1245) and Qualified Improvement Property (15-Year, Straight-Line)
R02	Cabinets	kitchen cabinets and island	\$9,860.45	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R08	Site Work	asphalt paving of the parking area	\$6,900.00	Capitalized	15-Year Land Improvements
R04	Flooring	floating luxury vinyl plank throughout	\$6,240.00	Capitalized	5-Year Personal Property (§1245)
R10	Appliances	refrigerator, range and dishwasher	\$4,214.55	Capitalized	5-Year Personal Property (§1245)
R03	Plumbing	bath fixtures	\$3,975.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R06	Electrical	dedicated equipment circuits	\$3,420.00	Capitalized	5-Year Personal Property (§1245)
R14	Building Materials	lump sum materials basket	\$3,320.00	Capitalized	5-Year Personal Property (§1245) and Qualified Improvement Property (15-Year, Straight-Line)
R12	Painting	interior repaint following the renovation	\$3,250.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)
R07	Electrical	general electrical work	\$2,650.00	Capitalized	Qualified Improvement Property (15-Year, Straight-Line)

7. Bonus Depreciation Position

The additional first year depreciation rate this study applies to the acquisition is 80%, from the acquisition date of February 1, 2023 and the placed in service date of May 1, 2023. The renovation is separate property placed in service October 1, 2023 (Fact F59); the Major Renovation Analysis gives its allowance at each position. At the Middle of the Road position the eligible basis is \$145,744 and the allowance \$116,594, the renovation's included. The election out of the additional first year depreciation for a class of property rests, on these dates, on a rule no published fact states yet; the Engineering Appendix's Part 15 states it, and section 1 asks whether the filed return made it.

Recovery class (Middle of the Road position)	Cost	Recovery period of 20 years or less	\$168(k) allowance	First year depreciation
5-Year Personal Property (§1245)	\$81,156	yes	\$64,925	\$67,951
15-Year Land Improvements	\$32,981	yes	\$26,383	\$26,705
Qualified Improvement Property (15-Year, Straight-Line)	\$31,607	yes	\$25,286	\$25,338
27.5-Year Residential Rental Property	\$170,337	no	\$0	\$3,872
39-Year Nonresidential Real Property	\$80,159	no	\$0	\$1,287
All classes	\$396,240		\$116,594	\$125,153

At each position	Conservative	Middle of the Road (stated)	Aggressive
\$168(k) allowance	\$95,502	\$116,594	\$137,689
First year depreciation with the study	\$103,498	\$125,153	\$147,072

Fact F12. Bonus depreciation can apply to property that has a recovery period of 20 years or less, as long as the property also meets the other tests, such as the original use or used property rule. That covers the 5 year, 7 year and 15 year components a cost segregation study identifies. It does not cover the 27.5 year or 39 year building itself.

Fact F56. For qualified property acquired after September 27, 2017 and placed in service before January 1, 2023, the additional first year depreciation was 100 percent; for property placed in service in 2023 it was 80 percent.

Fact F13. Used property can qualify for bonus depreciation if the taxpayer never used it before acquiring it and the purchase meets the acquisition rules borrowed from section 179(d).

8. Form 3115 and the Section 481(a) Adjustment (1 of 2)

Year of change	2025	§481(a) adjustment	\$(118,627)
Placed in service	2023	Computed as of	December 31, 2024
Years caught up	2	Depreciation claimed	as entered from the filed returns

Section 481(a) Worksheet (Middle of the Road position), the Annual Correct Depreciation by Class

Tax year	5 year	15 year	QIP, 15 year	27.5 year	39 year	Allowable under the proposed method	Claimed under the present method	Difference
2023	\$67,951	\$26,705	\$25,338	\$3,872	\$1,287	\$125,153	\$9,120	\$(116,033)
2024	\$5,282	\$627	\$422	\$6,193	\$2,055	\$14,579	\$11,985	\$(2,594)
Total	\$73,233	\$27,332	\$25,760	\$10,065	\$3,342	\$139,732	\$21,105	\$(118,627)

At each position	Conservative	Middle of the Road (stated)	Aggressive
Allowable through December 31, 2024	\$117,081	\$139,732	\$162,271
Section 481(a) adjustment	\$(95,976)	\$(118,627)	\$(141,166)

Fact F33. Changing the depreciation method, period of recovery or convention of an asset for which a method has been adopted is a change in method of accounting. It therefore generally requires Form 3115 rather than an amended return. Before a method is adopted, an amended return can correct the depreciation.

Fact F34. The automatic change from an impermissible to a permissible method of accounting for depreciation is in section 6.01 of Rev. Proc. 2025-23, and its designated automatic accounting method change number is 7. It applies to property the taxpayer owns at the beginning of the year of change and for which the impermissible method was used in at least two tax years immediately before the year of change, with a special rule for property placed in service in the immediately preceding year. Section 6.01 also lists property it does not cover, and property disposed of before the year of change is handled in section 6.07.

Fact F36. A negative section 481(a) adjustment, which lowers taxable income, is taken in full in the year of change. A positive adjustment is generally spread over four tax years. The adjustment for a depreciation change equals the difference between depreciation actually taken and depreciation allowable for all years before the year of change.

8. Form 3115 and the Section 481(a) Adjustment (2 of 2)

The Change in Method

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). (Facts F33 and F34)

Present Method

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

Proposed Method

The 36 assets of the fixed asset schedule, 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. (Facts F12, F28 and F57)

The Property the Change Covers

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 Engineering Appendix's Part 14 Attachment prints the description in full, with the reason the proposed method is preferable (its authorities no published fact states yet), and the present and proposed method of every asset.

9. Fixed Asset Schedule by Class (1 of 4)

One Row per Asset, Grouped by Recovery Class (Middle of the Road position)

Every row of the Engineering Appendix's Part 10, condensed to its workpaper id, description, recovery class and life, cost at the Middle of the Road position and §168(k) eligibility (Fact F12, section 7). Each class closes with its subtotal, and the total of the 36 rows is \$396,240, the depreciable basis. The 19 renovation rows carry R in their ids and are placed in service October 1, 2023.

Workpaper ID	Description	Class and life	Cost	§168(k) eligibility
FIN-001	Carpet, vinyl and other removable floor coverings	5 year, §1245	\$13,596	Eligible, 80%
EQUIP-001	Kitchen and laundry appliances	5 year, §1245	\$8,652	Eligible, 80%
ELEC-001	Decorative and accent lighting fixtures	5 year, §1245	\$4,944	Eligible, 80%
ELEC-002	Electrical branch circuits and outlets dedicated to equipment	5 year, §1245	\$7,416	Eligible, 80%
PLMB-001	Plumbing connections dedicated to equipment and appliances	5 year, §1245	\$4,944	Eligible, 80%
FF&E-001	Window treatments (blinds, drapes and hardware)	5 year, §1245	\$2,472	Eligible, 80%
LOWV-001	Low-voltage security, access-control and data cabling	5 year, §1245	\$3,090	Eligible, 80%
FIN-002	Miscellaneous removable finishes and accessories	5 year, §1245	\$4,326	Eligible, 80%
EQUIP-002	Commercial kitchen equipment and connections	5 year, §1245	\$5,933	Eligible, 80%
EQUIP-R001	cabinet installer: 5-year share (50 percent, Middle of the Road)	5 year, §1245	\$3,600	Eligible, 80%
EQUIP-R002	plumbing services: 5-year share (50 percent, Middle of the Road)	5 year, §1245	\$2,700	Eligible, 80%
EQUIP-R003	flooring installer: 5-year share (50 percent, Middle of the Road)	5 year, §1245	\$2,100	Eligible, 80%
EQUIP-R004	Flooring: floating luxury vinyl plank throughout	5 year, §1245	\$6,240	Eligible, 80%
EQUIP-R005	Flooring: carpet in the bedrooms	5 year, §1245	\$2,180	Eligible, 80%
EQUIP-R006	Electrical: dedicated equipment circuits	5 year, §1245	\$3,420	Eligible, 80%
EQUIP-R007	Appliances: refrigerator, range and dishwasher	5 year, §1245	\$4,215	Eligible, 80%
EQUIP-R008	Building Materials: 5-year share (40 percent, Middle of the Road)	5 year, §1245	\$1,328	Eligible, 80%
Subtotal, 5-Year Personal Property (§1245) (17 rows)			\$81,156	

Each row's rationale, location, building system, asset class, quantity, source of cost and authority are in Part 10 of the Engineering Appendix; the fixed asset file carries each row's method, convention, §168(k) amount and first year deduction.

9. Fixed Asset Schedule by Class (2 of 4)

One Row per Asset, Grouped by Recovery Class (Middle of the Road position)

Workpaper ID	Description	Class and life	Cost	§168(k) eligibility
SITE-001	Parking lot paving, curbs and striping	15 year, §1250	\$8,306	Eligible, 80%
SITE-002	Sidewalks and exterior hardscape	15 year, §1250	\$2,373	Eligible, 80%
SITE-003	Landscaping, shrubbery and planting beds	15 year, §1250	\$5,933	Eligible, 80%
SITE-004	Site drainage, storm structures and retention	15 year, §1250	\$2,373	Eligible, 80%
SITE-005	Fencing, gates and retaining walls	15 year, §1250	\$2,373	Eligible, 80%
SITE-006	Site and parking-lot lighting (poles, bases, circuits)	15 year, §1250	\$2,373	Eligible, 80%
SITE-R001	Site Work: asphalt paving of the parking area	15 year, §1250	\$6,900	Eligible, 80%
SITE-R002	Site Work: exterior pole lighting along the walkway	15 year, §1250	\$2,350	Eligible, 80%
Subtotal, 15-Year Land Improvements (8 rows)			\$32,981	
FIN-R001	cabinet installer: building share (50 percent, Middle of the Road)	QIP, 15 year, §1250	\$3,600	Eligible, 80%
FIN-R002	plumbing services: building share (50 percent, Middle of the Road)	QIP, 15 year, §1250	\$2,700	Eligible, 80%
FIN-R003	flooring installer: building share (50 percent, Middle of the Road)	QIP, 15 year, §1250	\$2,100	Eligible, 80%

Each row's rationale, location, building system, asset class, quantity, source of cost and authority are in Part 10 of the Engineering Appendix; the fixed asset file carries each row's method, convention, §168(k) amount and first year deduction.

9. Fixed Asset Schedule by Class (3 of 4)

One Row per Asset, Grouped by Recovery Class (Middle of the Road position)

Workpaper ID	Description	Class and life	Cost	§168(k) eligibility
FIN-R004	Cabinets: kitchen cabinets and island	QIP, 15 year, §1250	\$9,860	Eligible, 80%
FIN-R005	Plumbing: bath fixtures	QIP, 15 year, §1250	\$3,975	Eligible, 80%
FIN-R006	Electrical: general electrical work	QIP, 15 year, §1250	\$2,650	Eligible, 80%
FIN-R007	Plumbing: water heater	QIP, 15 year, §1250	\$1,480	Eligible, 80%
FIN-R008	Painting: interior repaint following the renovation	QIP, 15 year, §1250	\$3,250	Eligible, 80%
FIN-R009	Building Materials: building share (60 percent, Middle of the Road)	QIP, 15 year, §1250	\$1,992	Eligible, 80%
Subtotal, Qualified Improvement Property (15-Year, Straight-Line) (9 rows)			\$31,607	
STRUCT-001	Building shell, Front building (27.5 year)	27.5 year, §1250	\$170,337	Not eligible: real property
Subtotal, 27.5-Year Residential Rental Property (1 row)			\$170,337	
STRUCT-002	Building shell, Rear building (39 year)	39 year, §1250	\$80,159	Not eligible: real property
Subtotal, 39-Year Nonresidential Real Property (1 row)			\$80,159	
All classes, total allocated (reconciles to the depreciable basis)			\$396,240	36 rows

Each row's rationale, location, building system, asset class, quantity, source of cost and authority are in Part 10 of the Engineering Appendix; the fixed asset file carries each row's method, convention, §168(k) amount and first year deduction.

9. Fixed Asset Schedule by Class (4 of 4)

By class, method and convention, as of January 1, 2025, the first day of the year of change, at the Middle of the Road position. The fixed asset file carries every row.

Recovery class	Method	Convention	Original basis	Accumulated through December 31, 2024	Adjusted basis	Depreciation in 2025
5-Year Personal Property (§1245)	200 percent declining balance	mid quarter	\$81,156	\$73,233	\$7,923	\$3,169
15-Year Land Improvements	150 percent declining balance	mid quarter	\$32,981	\$27,332	\$5,649	\$565
Qualified Improvement Property (15-Year, Straight-Line)	straight line	mid quarter	\$31,607	\$25,760	\$5,847	\$421
27.5-Year Residential Rental Property	straight line	mid month	\$170,337	\$10,065	\$160,272	\$6,194
39-Year Nonresidential Real Property	straight line	mid month	\$80,159	\$3,342	\$76,817	\$2,055
All classes, total allocated (reconciles to the depreciable basis)			\$396,240	\$139,732	\$256,508	\$12,404
Land	not depreciable	none	\$82,400	\$0	\$82,400	\$0
Total, land included			\$478,640	\$139,732	\$338,908	\$12,404
Depreciable basis	\$396,240		Unreconciled difference	\$0		

The schedule foots. Total allocated of \$396,240 equals the depreciable building basis of \$396,240 to the dollar.

Fact F28. Buildings (residential rental property and nonresidential real property) and qualified improvement property use the straight line method. Property in the 3, 5, 7 and 10 year classes generally uses the 200 percent declining balance method, switching to straight line when that gives a larger allowance. Property in the 15 year and 20 year classes, other than qualified improvement property, generally uses the 150 percent declining balance method.

10. 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, line for line as the Engineering Appendix maps it. The fixed asset file carries the same rows for the depreciation software, with the Conservative, Middle of the Road and Aggressive costs beside the stated one. Part numbers in this section are the Engineering Appendix's.

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 the taxpayer's CPA or tax preparer.

Resting on Fact F12 (section 7) and Fact F28 (section 9), each printed in full there.

11. Methodology, Documents Reviewed and Assumptions (1 of 5)

Preparer and Responsibilities

SmartCostSeg Team (SmartCostSeg LLC), Preparer and Reviewer: Prepared this study with SmartCostSeg's analysis system; Reviewed the inputs, the classification of each row and the reconciliation before release. The study names the team rather than an individual, so it states no individual credential; the Engineering Appendix's Part 3 sets out what the analysis system, the team and the return preparer each do.

The Land Method

Land was determined first, by owner-provided estimate, and removed from the purchase price of \$412,000: \$82,400, 20.0% of it. The land is held at that one value under all three positions, so the positions differ only in how the building basis of \$329,600 is classified; section 2 reconciles the adopted share against the 5 land sources listed. (Facts F27 and F53)

The Three Positions

The study runs the asset model and the MACRS engine three times on the one land value, at the Conservative, Middle of the Road and Aggressive positions. Every class table in this Study carries the three columns, and the Middle of the Road position is the one stated on the Form 4562 map, in the fixed asset schedule and in the fixed asset file.

Position	Short life share of the depreciable basis	Building shell	First year with the study
Conservative	30.1%	27.5 year	\$103,498
Middle of the Road (stated)	36.8%	27.5 year	\$125,153
Aggressive	43.4%	27.5 year	\$147,072

The Convention

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). (Fact F57)

11. Methodology, Documents Reviewed and Assumptions (2 of 5)

Costing Sources, Ranked Best Evidence First

The protocol ranks five sources of cost by the evidence behind them, best first; every row of the fixed asset schedule carries the source that produced its cost (the Engineering Appendix, Part 10, names it on the row).

Rank	Source of cost	Rows	Cost at the Middle of the Road position
1	Actual identifiable cost	19	\$66,640
2	Actual cost allocated through engineering analysis	0	\$0
3	Engineering quantity takeoff times supported unit cost	0	\$0
4	Replacement/reproduction cost estimate	0	\$0
5	Residual/pro-rata allocation	17	\$329,600
Every row of the fixed asset schedule		36	\$396,240

Nomenclature and Numbering

Every asset carries a workpaper Asset ID of the form SYSTEM-nnn, where SYSTEM is the building system prefix below and nnn a sequence within that system (ELEC-001, SIGN-001, SITE-001), and an IRS asset class column that prints the Rev. Proc. 87-56 class with a two digit workpaper sub code (57.0-08). The same asset keeps the same identifier across the Conservative, Middle of the Road and Aggressive positions, in the schedules, on the Form 4562 map and in the fixed asset CSV, so every dollar can be traced from the schedule to its source. Sub codes (for example 57.0-08) are SmartCostSeg workpaper identifiers appended to the Rev. Proc. 87-56 asset class; they are not IRS designations. Building component sub codes carry the prefix B because the IRS assigns no decimal asset class number to individual building components. The building system prefixes: STRUCT, structure and building envelope; ELEC, electrical distribution; PLMB, plumbing and fire protection; LOWV, low voltage, communications and security; FIN, interior finishes; FF&E, furniture, fixtures and equipment; EQUIP, process and specialty equipment; SITE, site improvements and site utilities. The Engineering Appendix's Part 7 gives the numbering rule in full and the class matrix, each Rev. Proc. 87-56 class with its class life and recovery period. (Fact F18)

11. Methodology, Documents Reviewed and Assumptions (3 of 5)

Legal Analysis

The Engineering Appendix's Part 8 states the legal analysis behind each classification under 13 headings: Framework: buildings, structural components and tangible personal property; the permanence factors applied to each building system (Structure and building envelope (STRUCT); Electrical distribution (ELEC); Plumbing and fire protection (PLMB); Low voltage, communications and security (LOWV); Interior finishes (FIN); Furniture, fixtures and equipment (FF&E); Process and specialty equipment (EQUIP); Site improvements and site utilities (SITE)); Distinctions the Audit Techniques Guide draws for this property group; Asset categories before activity categories; Land improvements (asset class 00.3) hold both characters; Preliminary classifications and the asterisk convention. Its sentences rest on authorities no published fact states yet, so the analysis prints there, and each row of its Part 10 names the authority that governs it.

Related Tax Considerations

- §168(k) used property acquisition requirements (related party and prior use): applies to this study on the facts recorded.
- Placed in service date: applies to this study on the facts recorded.
- Ground lease and leasehold interests: does not apply on the facts recorded.
- Ownership of tenant improvements: does not apply on the facts recorded.
- §263A uniform capitalization, kept apart from Treas. Reg. §1.263(a)-3: does not apply on the facts recorded.
- Accounting method and Form 3115: applies to this study on the facts recorded.
- Sampling methodology (Rev. Proc. 2011-42): does not apply on the facts recorded.
- Disposition and recapture: applies to this study on the facts recorded.

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. (Facts F27 and F53)
- 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. (Fact F59)

11. Methodology, Documents Reviewed and Assumptions (4 of 5)

Assumptions and Limiting Conditions (continued)

- 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)). (Fact F56)
- 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. (Facts F28 and F57)
- 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. (Fact F36)
- Year of change 2025, chosen by the taxpayer with the CPA; the catch up covers 2 completed tax years (2023 through 2024). (Facts F33 and F34)

Evidence Not Received

- No source documents were supplied; the study relies on the owner-provided inputs and the modeled schedule.

11. Methodology, Documents Reviewed and Assumptions (5 of 5)

Evidence Not Received (continued)

- 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.

The assumptions are the full study's, printed as it states them: the part numbers in them are the Engineering Appendix's, and the asterisk they name is the mark the appendix's Part 10 sets on a preliminary row's asset class.

Fact F57. Residential rental property and nonresidential real property use the mid month convention: the property is treated as placed in service at the midpoint of the month. Other MACRS property uses the half year convention unless more than 40 percent of the basis of all such property placed in service during the year is placed in service in the last three months, in which case the mid quarter convention applies. The first year percentage for 27.5 year property is 2.576 percent for an April placed in service month and 0.455 percent for November, and a full year is 3.636 percent; for 39 year property April is 1.819 percent and November 0.321 percent.

Fact F18. The IRS guide lists 13 principal elements of a quality study: preparation by an individual with expertise and experience; detailed description of the methodology; use of appropriate documentation; interviews with appropriate parties; common nomenclature; a standard numbering system; explanation of the legal analysis; determination of unit costs and engineering take off; organization of assets into lists or groups; reconciliation of total allocated costs to total actual costs; explanation of the treatment of indirect costs; identification and listing of section 1245 property; and consideration of related aspects such as section 263A, change in accounting method and sampling.

Also resting on Fact F27 (section 3), Fact F53 (section 3), Fact F59 (section 6), Fact F56 (section 7), Fact F28 (section 9), Fact F36 (section 8), Fact F33 (section 8) and Fact F34 (section 8), each printed in full there.

12. Photographs

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 section 11, Methodology, Documents Reviewed and Assumptions.



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).

13. ATG Scorecard: the Thirteen Principal Elements

Each line is the one the Engineering Appendix prints for the element, its status derived from the data in this study; a Partial or Not performed mark describes scope and hides no defect. Part numbers in the right column are the Engineering Appendix's.

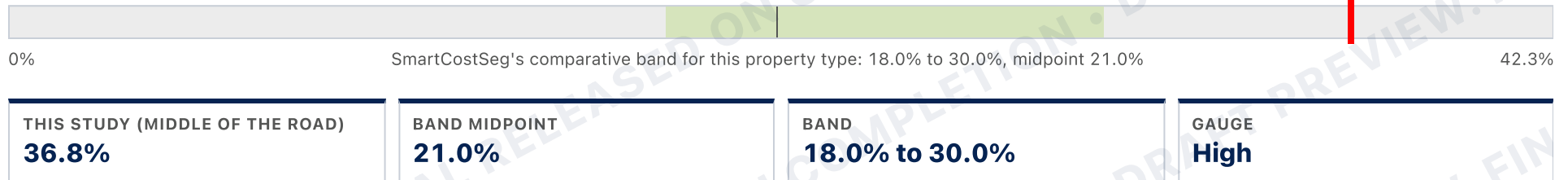
#	Principal element (Pub. 5653)	Status	What this study contains
1	Preparation by an Individual with Expertise and Experience	PARTIAL	Partial: this study is prepared and reviewed by the SmartCostSeg Team and names the team rather than an individual, so no individual credential or years of experience is 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- <i>nnn</i> 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.

Fact F20. The guide says there are no prescribed qualifications for cost segregation preparers, that there are currently no standards for preparing studies, and that the IRS does not prescribe a specific methodology. The guide does not contain a sentence saying the IRS approves or endorses any study or preparer.

Also resting on Fact F18 (section 11), printed in full there.

14. Audit Risk Gauge

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.



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. The final recommendation states the same reading.

15. Filing Notes and Cautions

Filing Notes

Fact F37. For an automatic change the original Form 3115 is attached to the timely filed federal income tax return (including extensions) for the year of change, and a signed copy is filed with the IRS no later than the date the original is filed. The IRS does not send acknowledgements for automatic change requests. The current Form 3115 instructions are the December 2022 revision.

Cautions

Fact F29. Section 1245 property is depreciable personal property plus certain other listed property. It generally does not include a building or its structural components. Since the 2025 law (Public Law 119-21), section 1245 property also includes qualified production property under section 168(n), which can be a building, when the taxpayer designates and elects it and places it in service after July 4, 2025. When section 1245 property is sold at a gain, the gain is ordinary income up to the depreciation allowed or allowable.

Fact F42. A passive activity is a trade or business in which the taxpayer does not materially participate, and it includes any rental activity except as provided for real estate professionals. An activity that falls outside the rental definition is tested under the material participation rules instead.

The Engineering Appendix's Part 14 Attachment carries the Form 3115 supporting statements: the description of the change in full (section 8 prints it condensed), the present and proposed method table, the fixed asset schedule, the filing notes and 7 cautions; their rule sentences cite authorities no published fact states yet, so they print there, and section 1 lists the open items among them.

SmartCostSeg does not prepare tax returns and does not provide legal advice; the taxpayer's CPA files the return and decides which elections to make. Section 10 maps this study onto Form 4562 line by line and section 16 sets out the steps for the return.

16. CPA Next Steps (1 of 2)

The steps the full study sets out for the taxpayer's CPA, in its numbering. Part numbers in this section are the Engineering Appendix's.

Section 1, Findings and Open Items, lists what the documents and the returns show, what this Study assumed meanwhile and who decides each item; the items it marks for the CPA are resolved with these steps.

The 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. (Facts F12 and F28)
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. (Facts F33, F34 and F38)
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. (Facts F42 and F45)
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. (Facts F29 and F31)
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. (Fact F13)

16. CPA Next Steps (2 of 2)

The Steps (continued)

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.

The Engineering Appendix prints step 3 (state conformity) and step 6 (the election out of additional first year depreciation by class) as well; each rests on a rule no published fact states yet, so this Study leaves them to the appendix.

Fact F38. Generally, a taxpayer adopts a depreciation method by using a permissible method on the first return or by using the same impermissible method on two or more consecutively filed returns. Once a method is adopted, the IRS guide says it cannot be changed by amended return unless specific guidance allows an exemption.

Fact F45. A taxpayer meets the real property business tests, often called real estate professional status, for a year if more than one half of the personal services the taxpayer performs in trades or businesses during the year are performed in real property trades or businesses in which the taxpayer materially participates, and the taxpayer performs more than 750 hours of services during the year in those real property trades or businesses. Personal services performed as an employee are not treated as performed in a real property trade or business unless the taxpayer owns more than 5 percent of the employer. On a joint return, one spouse alone must meet both requirements, counting only that spouse's own services, although a spouse's work still counts in deciding whether the taxpayer materially participates in an activity. Meeting the tests only lifts the automatic passive treatment of rental real estate: the taxpayer must still materially participate in each rental real estate activity, or, if the taxpayer elects to treat all interests in rental real estate as one activity, in that single combined activity.

Fact F31. Under section 1250, gain on section 1250 property is ordinary income only to the extent of additional depreciation. For property held more than one year, additional depreciation is the depreciation allowed or allowable above what the straight line method would have given. For corporations, section 291 treats a further part of the gain as ordinary income.

Also resting on Fact F12 (section 7), Fact F28 (section 9), Fact F33 (section 8), Fact F34 (section 8), Fact F42 (section 15), Fact F29 (section 15) and Fact F13 (section 7), each printed in full there.

17. Combined Summary: Acquisition and Renovation

Recovery class (Middle of the Road position)	Acquisition, in service May 1, 2023	Renovation, in service October 1, 2023	Combined
5-Year Personal Property (§1245)	\$55,373	\$25,783	\$81,156
15-Year Land Improvements	\$23,731	\$9,250	\$32,981
Qualified Improvement Property (15-Year, Straight-Line)	\$0	\$31,607	\$31,607
27.5-Year Residential Rental Property	\$170,337	\$0	\$170,337
39-Year Nonresidential Real Property	\$80,159	\$0	\$80,159
Total depreciable basis	\$329,600	\$66,640	\$396,240
Bonus eligible basis	\$79,104	\$66,640	\$145,744
First year depreciation	\$71,507	\$53,646	\$125,153

At each position	Conservative	Middle of the Road (stated)	Aggressive
Bonus eligible basis	\$119,376	\$145,744	\$172,112
Section 481(a) adjustment	\$(95,976)	\$(118,627)	\$(141,166)
Ongoing annual depreciation of the building shell	\$9,117	\$8,249	\$7,380

The Alternative Reading

Building	Recovery period under the alternative reading	First year depreciation	Section 481(a) adjustment
Rear building	27.5 years	\$100,819	\$(95,792)

Both readings are carried; the taxpayer's CPA chooses the recovery period that is filed.

18. Sources and Authorities (1 of 2)

Each fact is printed in full where this Study cites it; its citation is below. The authorities the Engineering Appendix applies follow by tier in short form (the shaded row); its Part 17 gives each in full with the parts it applies to.

Fact	Citation	Fact	Citation
Fact F57	IRC section 168(d)(1), (d)(2), (d)(3) and (d)(4); IRS Publication 946 (2022), chapter 4 and Appendix A, Tables A-6 and A-7a	Fact F36	Rev. Proc. 2015-13, 2015-5 I.R.B. 419, section 7.03(1); Rev. Proc. 2025-23 section 6.01(5); IRS Publication 946 (2025), chapter 1
Fact F27	Treas. Reg. section 1.167(a)-2; IRS Publication 527 (2025), chapter 2, What Rental Property Can't Be Depreciated	Fact F59	IRC section 168(i)(6)(A) and (B); IRS Publication 946 (2022), chapter 4, Additions and Improvements
Fact F33	Treas. Reg. section 1.446-1(e)(2)(ii)(d)(2)(i); IRS Publication 946 (2025), chapter 1	Fact F34	Rev. Proc. 2025-23, 2025-24 I.R.B. 1476, sections 6.01(1), 6.01(9) and 6.07
Fact F37	Instructions for Form 3115 (Rev. 12/2022), When and Where To File; Rev. Proc. 2015-13 section 6.03(1)	Fact F56	IRC section 168(k)(6)(A)(i) and (ii) as enacted by P.L. 115-97 section 13201(a)(2), before repeal by P.L. 119-21 section 70301(b)(1)(B); IRS Publication 946 (2022), chapter 3
Fact F21	IRC section 168(c) and (g)(2)(C); IRS Publication 946 (2025), chapter 4	Fact F46	IRC section 168(e)(2)(A)(i) and (ii)(I)
Fact F47	Treas. Reg. section 1.48-1(h)(2)(ii)	Fact F52	Treas. Reg. section 1.167(a)-10(b); IRS Publication 527 (2025), chapter 2, Placed in Service
Fact F53	Treas. Reg. section 1.167(a)-5; IRS Publication 527 (2025), chapter 2, Separating cost of land and buildings	Fact F22	IRC section 168(e)(1) and (e)(3)(C)(v)
Fact F25	IRC section 168(e)(3)(E)(vii); P.L. 116-136 (CARES Act) section 2307(a)(1)(A) and (b)	Fact F60	Treas. Reg. section 1.263(a)-3(d), (e)(2)(i) and (g)(1); Treas. Reg. section 1.263(a)-2(d)(1)
Fact F12	IRC section 168(k)(2)(A)(i)(I)	Fact F13	IRC section 168(k)(2)(A)(ii) and (E)(i)
Fact F28	IRC section 168(b)(1), (2) and (3)	Fact F18	IRS Publication 5653 (Rev. 2-2025), chapter 4, part C, paragraph (1)

18. Sources and Authorities (2 of 2)

Fact	Citation	Fact	Citation
Fact F20	IRS Publication 5653 (Rev. 2-2025), chapter 4, part C.1, paragraph (1); chapter 1, part C, paragraph (8); chapter 3, part E, paragraph (1)	Fact F29	IRC section 1245(a)(1) and (a)(3); IRS Publication 544 (2025), chapter 3 and What's New
Fact F42	IRC section 469(c)(1) and (c)(2)	Fact F38	IRS Publication 946 (2025), chapter 1, Adoption of accounting method defined; IRS Publication 5653 (Rev. 2-2025), chapter 6, part B.6, paragraph (2)
Fact F45	IRC section 469(c)(7)(A), (B) and (D)(ii); Treas. Reg. section 1.469-9(c)(4), (c)(5), (e)(1) and (g)	Fact F31	IRC section 1250(a)(1) and (b)(1); IRC section 291(a)(1); IRS Publication 544 (2025), chapter 3
1. Code: IRC §168(k); IRC §1245; IRC §1250; IRC §263A; IRC §179(d)(2)-(3); IRC §110; IRC §178. 2. Regulations: Reg. §1.48-1(e); Reg. §1.263(a)-3; Reg. §1.263(a)-2(f); Reg. §1.168(k)-2(b)(3)(iii); Reg. §1.167(a)-4; Reg. §1.168(i)-8; Reg. §1.167(a)-5. 3. Rev. Proc. 87-56: Rev. Proc. 87-56, 00.11; Rev. Proc. 87-56, 00.3; Rev. Proc. 87-56, 57.0. 4. Rulings and procedures: Rev. Proc. 87-57; Rev. Rul. 90-38; Rev. Proc. 2025-23; Rev. Proc. 2011-42; Rev. Rul. 2003-81. 5. Case law: HCA (1997); Whiteco (1975); Norwest (1998). 6. IRS guidance: Pub. 946; Cost Segregation ATG; ATG Retail Exhibit A; Pub. 527.			

19. 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 Study	Section 481(a) Adjustment	Ongoing Annual Depreciation
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.

20. Certification and Contact

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.

Reference LPCS-P30Q5L. Report SCS-LPCS-P30Q5L, version 1, issued September 1, 2026. The Engineering Appendix carries the same certification; the part numbers named above are its parts.

Reviewed by: _____ **SmartCostSeg Team** **Date:** _____

Contact

SmartCostSeg LLC, Business Contact. SmartCostSeg Team, Preparer and Reviewer. team@smartcostseg.com.

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.

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

