Commercial Renovation Cost Segregation Study

Commercial Renovation

Prepared For: Property Owner

Project: Sample: Commercial Renovation with Partial Disposition (LPCS-SAMPLE-CRENO)

Renovation Period: January 2026 – June 2026

Date: September 1, 2026

Executive Summary

SmartCostSeg performed a renovation cost segregation analysis of the documented renovation spend for Sample: Commercial Renovation with Partial Disposition, covering work performed from January 2026 through June 2026. Every dollar below is an actual documented cost from the renovation records — no replacement-cost or residual estimates were introduced.

DOCUMENTED RENOVATION SPEND **$1,850,000**	CURRENTLY DEDUCTIBLE — NOT IN STUDY **$64,900**	CAPITALIZED STUDY BASIS **$1,785,100**
ESTIMATED FIRST-YEAR DEPRECIATION **$997,017**	ESTIMATED FIRST-YEAR TAX SAVINGS (ILLUSTRATIVE) **$368,896**	BONUS DEPRECIATION APPLIED **100%**

Illustrative only, at a 37% combined federal and state rate. Estimates are not guarantees; actual benefits depend on your specific tax situation.

8 lines are classified conservatively pending review — see the Classification Schedule and Missing Evidence sections for exactly what would change the answer.

Professional Fee — Renovation Study	**Extended / Custom — quoted per engagement**

No payment is collected through this report; an invoice is issued only upon completion of the engagement.

Renovation Scope

The renovation ran from January 2026 through June 2026 at Sample: Commercial Renovation with Partial Disposition, held as commercial property. The work below is presented under the owner's own cost nomenclature, exactly as documented.

Work Category (as documented)	Amount
Roofing	$320,000
Structural	$189,000
Electrical	$132,000
Site Work	$239,400
Demolition	$46,000
Drywall / interior work	$158,000
Ceiling	$54,000
Flooring	$100,000
Painting	$50,800
Plumbing	$60,500
Fire Protection	$66,000
Security	$24,000
Low Voltage	$29,000
Millwork	$37,000
Signage	$17,000
Glazing	$84,000
Elevator	$96,000
HVAC	$21,000
Doors	$9,600
Landscaping	$7,900
Building Materials	$15,600
Insulation	$93,200
Total Documented Renovation Spend	**$1,850,000**

Totals include both the capitalized study basis and amounts currently deductible outside the study; the two lanes are reconciled in the sections that follow.

Capitalize vs. Expense Analysis

Federal law splits renovation spending into two lanes. Amounts that improve the property — a **betterment**, an **adaptation** to a new use, or a **restoration** (the "BAR" tests of Reg. §1.263(a)-3(d)) — must be capitalized and depreciated. Amounts that merely keep the property in ordinary operating condition are repairs, deductible in full this year (Reg. §1.162-4). Three safe harbors can move qualifying amounts into the deductible lane even when the work looks like an improvement: the de minimis safe harbor (Reg. §1.263(a)-1(f)), the small-taxpayer safe harbor (Reg. §1.263(a)-3(h)), and the routine maintenance safe harbor (Reg. §1.263(a)-3(i)).

Deductible amounts are good news taken now — and they are deliberately excluded from the depreciation study so no dollar is counted twice.

Currently Deductible — Not in Study

Component	Deduction Lane	Authority	Amount
HVAC — quarterly servicing, filter and coil cleaning	Routine Maintenance Safe Harbor (Reg. §1.263(a)-3(i))	Reg. §1.263(a)-3(i) — routine maintenance safe harbor: activities reasonably expected more than once over a 10-year period (buildings); excluded for betterments and restorations.	$21,000
Plumbing — routine service calls and drain cleaning	Routine Maintenance Safe Harbor (Reg. §1.263(a)-3(i))	Reg. §1.263(a)-3(i) — routine maintenance safe harbor: activities reasonably expected more than once over a 10-year period (buildings); excluded for betterments and restorations.	$16,500

Capitalize vs. Expense Analysis (continued)

Currently Deductible — Not in Study (continued)

Component	Deduction Lane	Authority	Amount
Painting — touch-up painting in the common corridors	Deductible Repair (Reg. §1.162-4)	Reg. §1.162-4(a) — amounts paid for repairs and maintenance that do not improve the unit of property are generally deductible.	$11,800
Building Materials — consumable building materials and small tools	De Minimis Safe Harbor (Reg. §1.263(a)-1(f))	Reg. §1.263(a)-1(f) — de minimis safe harbor election: $5,000 per item/invoice with an applicable financial statement, $2,500 without.	$15,600
Total Currently Deductible			**$64,900**

Capitalize vs. Expense Analysis (continued)

Election Statements

Draft election language — your tax preparer attaches the statement to a timely filed original return (including extensions).

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Section 1.263(a)-1(f) De Minimis Safe Harbor Election
[TAXPAYER NAME]
[TAXPAYER ADDRESS]
[TAXPAYER TIN]
The taxpayer makes the de minimis safe harbor election under Reg. §1.263(a)-1(f) for the taxable
year [TAX YEAR]. Attach this statement to a TIMELY FILED ORIGINAL federal income tax return,
including extensions.
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Classification Schedule

Every component below keeps the owner's own nomenclature exactly as documented. Rows flagged "Requires review" are classified conservatively to the slowest recovery class until the listed evidence arrives — the classification can only improve from here.

Component	Amount	Class	Treatment	Authority	Confidence
Roofing — roof covering, full replacement	$320,000	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(k)(1)(vi) — capitalize the restoration/replacement of a major component or substantial structural part.	95%
Structural — structural repairs at the loading dock and column bases	$189,000	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(k)(1)(vi) — capitalize the restoration/replacement of a major component or substantial structural part.	95%
Electrical — electrical service and distribution upgrade	$132,000	15-Year QIP (straight-line)	Capitalize	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.	85%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Site Work — parking lot repaving and restriping	$167,200	15-Year Land Improvements	Capitalize	MACRS asset class 00.3 (Rev. Proc. 87-56) — land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year).	90%
Site Work — exterior site lighting and sidewalk bollards	$38,000	15-Year Land Improvements	Capitalize	MACRS asset class 00.3 (Rev. Proc. 87-56) — land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year).	90%
Site Work — landscaping and irrigation	$15,800	15-Year Land Improvements	Capitalize	MACRS asset class 00.3 (Rev. Proc. 87-56) — land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year).	90%
Demolition — interior demolition of drywall partitions and ceilings	$46,000	15-Year QIP (straight-line)	Capitalize	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.	90%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Drywall / interior work — new interior partitions and drywall	$158,000	15-Year QIP (straight-line)	Capitalize	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.	90%
Ceiling — suspended ceiling grid and acoustic panels	$54,000	15-Year QIP (straight-line)	Capitalize	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.	90%
Flooring — luxury vinyl plank flooring	$72,000	5-Year	Capitalize	IRS Cost Segregation Audit Techniques Guide (Pub. 5653), Ch. 7.H Exhibit A — residential rental property matrix (examiner no-adjustment classifications).	90%
Flooring — broadloom carpet in the office suites	$28,000	5-Year	Capitalize	IRS Cost Segregation Audit Techniques Guide (Pub. 5653), Ch. 7.H Exhibit A — residential rental property matrix (examiner no-adjustment classifications).	90%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Painting — interior repaint performed with the improvement	$39,000	15-Year QIP (straight-line)	Capitalize	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.	90%
Plumbing — restroom vanities and countertops with new rough-in	$44,000	15-Year QIP (straight-line)	Capitalize	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.	90%
Fire Protection — fire alarm and sprinkler system upgrade **REQUIRES REVIEW**	$66,000	15-Year QIP (straight-line)	Capitalize	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.	40%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Security — security and access control system REQUIRES REVIEW	$24,000	15-Year QIP (straight-line)	Capitalize	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.	40%
Low Voltage — structured data cabling REQUIRES REVIEW	$29,000	15-Year QIP (straight-line)	Capitalize	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.	40%
Millwork — millwork and casework at the reception area	$37,000	15-Year QIP (straight-line)	Capitalize	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.	90%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Signage — exterior and interior signage **REQUIRES REVIEW**	$17,000	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(d) — amounts paid to improve a unit of property (betterment, restoration, adaptation) must be capitalized.	40%
Glazing — storefront window replacement **REQUIRES REVIEW**	$84,000	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(d) — amounts paid to improve a unit of property (betterment, restoration, adaptation) must be capitalized.	40%
Elevator — elevator modernization **REQUIRES REVIEW**	$96,000	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(d) — amounts paid to improve a unit of property (betterment, restoration, adaptation) must be capitalized.	40%
HVAC — quarterly servicing, filter and coil cleaning	$21,000	Deductible (no recovery class)	Expense	Reg. §1.263(a)-3(i) — routine maintenance safe harbor: activities reasonably expected more than once over a 10-year period (buildings); excluded for betterments and restorations.	90%
Plumbing — routine service calls and drain cleaning	$16,500	Deductible (no recovery class)	Expense	Reg. §1.263(a)-3(i) — routine maintenance safe harbor: activities reasonably expected more than once over a 10-year period (buildings); excluded for betterments and restorations.	90%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Painting — touch-up painting in the common corridors	$11,800	Deductible (no recovery class)	Expense	Reg. §1.162-4(a) — amounts paid for repairs and maintenance that do not improve the unit of property are generally deductible.	90%
Doors — door hardware and closers **REQUIRES REVIEW**	$9,600	15-Year QIP (straight-line)	Capitalize	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.	40%
Site Work — asphalt crack sealing and patching on the driveway apron	$18,400	15-Year Land Improvements	Capitalize	MACRS asset class 00.3 (Rev. Proc. 87-56) — land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year).	90%
Landscaping — landscape maintenance during construction	$7,900	15-Year Land Improvements	Capitalize	MACRS asset class 00.3 (Rev. Proc. 87-56) — land improvements: paving, sidewalks, fencing, landscaping, drainage (15-year).	90%

Classification Schedule (continued)

Component	Amount	Class	Treatment	Authority	Confidence
Building Materials — consumable building materials and small tools **REQUIRES REVIEW** *Evidence needed: line-item receipts*	$15,600	Deductible (no recovery class)	Expense	Reg. §1.263(a)-1(f) — de minimis safe harbor election: $5,000 per item/invoice with an applicable financial statement, $2,500 without.	50%
Insulation — roof deck insulation and vapor barrier	$93,200	39-Year Nonresidential	Capitalize	Reg. §1.263(a)-3(k)(1)(vi) — capitalize the restoration/replacement of a major component or substantial structural part.	95%
Total Documented Spend	**$1,850,000**				

The reconciliation to basis by recovery class follows on the next page.

Classification Schedule (continued)

Reconciliation to Basis

Every capitalized dollar below is tied back to the study basis by recovery class. The engine refuses to emit a study that does not reconcile (Audit Techniques Guide quality element 10); this exhibit prints the proof.

Recovery Class	Components	Amount	Share of Basis
5-Year	2	$100,000.00	5.6%
15-Year Land Improvements	5	$247,300.00	13.9%
15-Year QIP (straight-line)	11	$638,600.00	35.8%
39-Year Nonresidential	6	$799,200.00	44.8%
Total Allocated	**24**	**$1,785,100.00**	**100.0%**
Capitalized Study Basis		$1,785,100.00	
Difference		$0.00	Reconciles to the cent

Bridge to documented spend: capitalized study basis $1,785,100.00 plus currently deductible $64,900.00 equals $1,850,000.00 of documented renovation spend.

Partial Disposition Schedule

When a renovation retires a structural component (an original roof, original flooring), Reg. §1.168(i)-8(d) lets the owner elect to recognize the retired component's remaining basis as a loss in the disposition year. The figures below are prepared Form 4797-ready, with proceeds of $0.

original roof covering (retired)

Form 4797 Input	Value
Description of property	original roof covering (retired)
Date acquired (building placed in service)	June 15, 2016
Date disposed	May 20, 2026
Gross sales price (proceeds)	$–
Cost or other basis, plus expense of sale	$179,712
Depreciation allowed or allowable	$45,698
Loss on disposition	**$134,014**

Elected by reporting the loss on the TIMELY FILED ORIGINAL return (including extensions) for the disposition year (Reg. §1.168(i)-8(d)(2)). No late-election path exists for voluntary renovations. Ask your CPA.

Removal costs: because the retired component's basis is recognized through this disposition, the cost of removing it is deductible rather than capitalized (Reg. §1.263(a)-3(g)(2)).

Depreciation Benefit

Full-recovery depreciation schedule of the capitalized study assets ($1,785,100 basis): 40 study years, with 100% bonus depreciation applied in year one where eligible. Every year of the longest recovery class is shown, combined and then class by class, on the pages that follow.

Bonus Depreciation Analysis

Bonus Input	Value
Acquisition date used	January 1, 2026
Placed in service	June 1, 2026
Bonus rate applied	100%
Bonus-eligible basis (recovery period of 20 years or less)	$985,900
Year-one bonus depreciation	**$985,900**

Acquired January 1, 2026 and placed in service June 1, 2026, both after January 19, 2025: 100% additional first-year depreciation under IRC §168(k) as amended by the 2025 legislation that restored permanent 100% bonus depreciation for property with a recovery period of 20 years or less.

- The engine treats the renovation start month (January 2026) as the acquisition date and the final month (June 2026) as the placed-in-service date. If a binding written contract predates the start month, tell us: the bonus rate turns on the acquisition date.
- Bonus depreciation applies automatically to eligible property unless the taxpayer elects out by property class for the tax year under IRC §168(k)(7), on a timely filed return (including extensions).
- For the first tax year ending after January 19, 2025, IRC §168(k)(10) permits an election to apply 40% instead of 100%; this study assumes no such election.
- Qualified improvement property (IRC §168(e)(6)) is 15-year property eligible for bonus depreciation and is recovered straight-line (IRC §168(b)(3)(G)).
- 39-Year Nonresidential building property is never bonus-eligible; it recovers straight-line under the mid-month convention (IRC §168(d)(4)(B)).
- The half-year convention applies to the personal-property classes (IRC §168(d)(4)(A)); the 40% mid-quarter test of IRC §168(d)(3) was not triggered.
- Federal treatment only. State conformity to federal bonus depreciation varies and state add-backs may apply.

Depreciation Benefit (continued)

Combined Schedule — All Classes

Year	Bonus Depreciation	Regular MACRS	Total Deduction	Cumulative
Year 1	$985,900	$11,117	**$997,017**	$997,017
Year 2	$–	$20,491	$20,491	$1,017,508
Year 3	$–	$20,491	$20,491	$1,037,999
Year 4	$–	$20,491	$20,491	$1,058,490
Year 5	$–	$20,491	$20,491	$1,078,981
Year 6	$–	$20,491	$20,491	$1,099,472
Year 7	$–	$20,491	$20,491	$1,119,963
Year 8	$–	$20,491	$20,491	$1,140,454
Year 9	$–	$20,491	$20,491	$1,160,945
Year 10	$–	$20,491	$20,491	$1,181,436
Year 11	$–	$20,491	$20,491	$1,201,927
Year 12	$–	$20,491	$20,491	$1,222,418
Year 13	$–	$20,491	$20,491	$1,242,909
Year 14	$–	$20,491	$20,491	$1,263,400
Year 15	$–	$20,491	$20,491	$1,283,891
Year 16	$–	$20,491	$20,491	$1,304,382
Year 17	$–	$20,491	$20,491	$1,324,873
Year 18	$–	$20,491	$20,491	$1,345,364
Year 19	$–	$20,491	$20,491	$1,365,855
Year 20	$–	$20,491	$20,491	$1,386,346
Year 21	$–	$20,491	$20,491	$1,406,837
Year 22	$–	$20,491	$20,491	$1,427,328
Year 23	$–	$20,491	$20,491	$1,447,819
Year 24	$–	$20,491	$20,491	$1,468,310
Year 25	$–	$20,491	$20,491	$1,488,801
Year 26	$–	$20,491	$20,491	$1,509,292
Year 27	$–	$20,491	$20,491	$1,529,783
Year 28	$–	$20,491	$20,491	$1,550,274
Year 29	$–	$20,491	$20,491	$1,570,765
Year 30	$–	$20,491	$20,491	$1,591,256

Depreciation Benefit (continued)

Combined Schedule — All Classes (continued)

Year (continued)	Bonus Depreciation	Regular MACRS	Total Deduction	Cumulative
Year 31	$–	$20,491	$20,491	$1,611,747
Year 32	$–	$20,491	$20,491	$1,632,238
Year 33	$–	$20,491	$20,491	$1,652,729
Year 34	$–	$20,491	$20,491	$1,673,220
Year 35	$–	$20,491	$20,491	$1,693,711
Year 36	$–	$20,491	$20,491	$1,714,202
Year 37	$–	$20,491	$20,491	$1,734,693
Year 38	$–	$20,491	$20,491	$1,755,184
Year 39	$–	$20,491	$20,491	$1,775,675
Year 40	$–	$9,407	$9,407	$1,785,082
Total Recovered	**$985,900**	**$799,182**	**$1,785,082**	

Amounts are rounded to whole dollars year by year (the engine's discipline), so a schedule total may differ from its basis by a few dollars of rounding; the classification schedule and reconciliation exhibit carry the exact cents.

Depreciation Benefit (continued)

Schedules by Recovery Class: 5-Year — $100,000 basis

Convention: half-year (IRC §168(d)(4)(A)). Year-one bonus depreciation $100,000. 6 recovery years.

Year	Deduction	Cumulative
Year 1	**$100,000**	$100,000
Year 2	$–	$100,000
Year 3	$–	$100,000
Year 4	$–	$100,000
Year 5	$–	$100,000
Year 6	$–	$100,000
Total Recovered	**$100,000**	

Depreciation Benefit (continued)

Schedules by Recovery Class: 15-Year Land Improvements — $247,300 basis

Convention: half-year (IRC §168(d)(4)(A)). Year-one bonus depreciation $247,300. 16 recovery years.

Year	Deduction	Cumulative
Year 1	**$247,300**	$247,300
Year 2	$–	$247,300
Year 3	$–	$247,300
Year 4	$–	$247,300
Year 5	$–	$247,300
Year 6	$–	$247,300
Year 7	$–	$247,300
Year 8	$–	$247,300
Year 9	$–	$247,300
Year 10	$–	$247,300
Year 11	$–	$247,300
Year 12	$–	$247,300
Year 13	$–	$247,300
Year 14	$–	$247,300
Year 15	$–	$247,300
Year 16	$–	$247,300
Total Recovered	**$247,300**	

Depreciation Benefit (continued)

Schedules by Recovery Class: 15-Year QIP (straight-line) — $638,600 basis

Convention: half-year (IRC §168(d)(4)(A)). Year-one bonus depreciation $638,600. 16 recovery years.

Year	Deduction	Cumulative
Year 1	**$638,600**	$638,600
Year 2	$–	$638,600
Year 3	$–	$638,600
Year 4	$–	$638,600
Year 5	$–	$638,600
Year 6	$–	$638,600
Year 7	$–	$638,600
Year 8	$–	$638,600
Year 9	$–	$638,600
Year 10	$–	$638,600
Year 11	$–	$638,600
Year 12	$–	$638,600
Year 13	$–	$638,600
Year 14	$–	$638,600
Year 15	$–	$638,600
Year 16	$–	$638,600
Total Recovered	**$638,600**	

Depreciation Benefit (continued)

Schedules by Recovery Class: 39-Year Nonresidential — $799,200 basis

Convention: mid-month (IRC §168(d)(4)(B)). Year-one bonus depreciation $–. 40 recovery years.

Year	Deduction	Cumulative
Year 1	**$11,117**	$11,117
Year 2	$20,491	$31,608
Year 3	$20,491	$52,099
Year 4	$20,491	$72,590
Year 5	$20,491	$93,081
Year 6	$20,491	$113,572
Year 7	$20,491	$134,063
Year 8	$20,491	$154,554
Year 9	$20,491	$175,045
Year 10	$20,491	$195,536
Year 11	$20,491	$216,027
Year 12	$20,491	$236,518
Year 13	$20,491	$257,009
Year 14	$20,491	$277,500
Year 15	$20,491	$297,991
Year 16	$20,491	$318,482
Year 17	$20,491	$338,973
Year 18	$20,491	$359,464
Year 19	$20,491	$379,955
Year 20	$20,491	$400,446
Year 21	$20,491	$420,937
Year 22	$20,491	$441,428
Year 23	$20,491	$461,919
Year 24	$20,491	$482,410
Year 25	$20,491	$502,901
Year 26	$20,491	$523,392
Year 27	$20,491	$543,883
Year 28	$20,491	$564,374
Year 29	$20,491	$584,865
Year 30	$20,491	$605,356

Depreciation Benefit (continued)

Schedules by Recovery Class: 39-Year Nonresidential — $799,200 basis (continued)

Year (continued)	Deduction	Cumulative
Year 31	$20,491	$625,847
Year 32	$20,491	$646,338
Year 33	$20,491	$666,829
Year 34	$20,491	$687,320
Year 35	$20,491	$707,811
Year 36	$20,491	$728,302
Year 37	$20,491	$748,793
Year 38	$20,491	$769,284
Year 39	$20,491	$789,775
Year 40	$9,407	$799,182
Total Recovered	**$799,182**	

Depreciation Benefit (continued)

Estimated first-year depreciation of **$997,017** yields estimated first-year tax savings of **$368,896** at a 37% combined federal and state rate.

Illustrative only — never a guarantee. Actual benefits depend on your basis, elections, passive-activity limitations, and specific tax situation; implementation belongs to your CPA or tax preparer.

Scenario Comparison

The documented spend was classified three times. Conservative is the rulebook as it stands: every ambiguous line stays in the building class until the evidence arrives. Middle of the Road applies the splits a comparable documented renovation study used for the same kinds of lines. Aggressive is the house upper bound. The Middle of the Road position is the one the schedules in this report print from.

Line	Conservative	Middle of the Road (stated)	Aggressive
5-Year	$100,000.00	$100,000.00	$100,000.00
15-Year Land Improvements	$247,300.00	$247,300.00	$247,300.00
15-Year QIP (straight-line)	$638,600.00	$638,600.00	$638,600.00
39-Year Nonresidential	$799,200.00	$799,200.00	$799,200.00
Capitalized study basis	**$1,785,100.00**	**$1,785,100.00**	**$1,785,100.00**
Estimated first-year depreciation	$997,017	$997,017	$997,017
Estimated first-year tax savings (illustrative, at 37%)	$368,896	$368,896	$368,896
Evidence-pending lines resolved by the position	0	0	0

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

Currently deductible amounts do not move between positions; only the classification of the capitalized spend does. Every position reconciles expensed plus capitalized to the documented spend to the cent.

P&L Reconciliation

The renovation cost detail was reconciled against the owner's books in both directions — renovation lines matched to book entries, and book entries matched back.

Matched

Renovation Line	Book Category	Match Basis	Amount
line-01	Roof Repairs	Exact amount	$320,000
line-02	Structural Repairs and Reinforcement	Exact amount	$189,000
line-04	Parking Lot Repaving	Exact amount	$167,200
line-05	Site Lighting and Bollards	Exact amount	$38,000
line-07	Interior Demolition	Exact amount	$46,000
line-08	Interior Partitions and Drywall	Exact amount	$158,000
line-09	Suspended Ceilings	Exact amount	$54,000
line-13	Plumbing Improvements	Exact amount	$44,000
line-14	Fire Alarm and Sprinklers	Exact amount	$66,000
line-15	Security and Access Control	Exact amount	$24,000
line-16	Structured Cabling	Exact amount	$29,000
line-17	Millwork and Casework	Exact amount	$37,000
line-19	Storefront Glazing	Exact amount	$84,000
line-20	Elevator Modernization	Exact amount	$96,000
line-03	Electrical Repairs	Keyword	$132,000
line-10	Flooring Repairs	Keyword	$72,000
line-11	Flooring Repairs	Keyword	$28,000
line-12	Painting, Capitalized	Keyword	$39,000
line-21	HVAC, Capitalized	Keyword	$21,000
line-22	Plumbing Improvements	Keyword	$16,500
line-23	Painting, Capitalized	Keyword	$11,800
line-28	Roof Repairs	Keyword	$93,200

P&L Reconciliation (continued)

In the Renovation Detail, Not Found in the Books

- line-06: $15,800
- line-18: $17,000
- line-24: $9,600
- line-25: $18,400
- line-26: $7,900
- line-27: $15,600

In the Books, Not Found in the Renovation Detail

None.

Misclassification Exposure

Booked to repairs & maintenance but classified here as capital: $415,000. Booked as capital but currently deductible here: $96,000. Either direction is fixable — but only before filing.

Reconciliation gap: $84,300. The books and the renovation detail do not yet tell the same story. Before anything is filed, book a call — we respond very fast.

Keep the books and the study telling one story. Send an updated P&L, a corrected ledger, or any question to smartcostsegteam@gmail.com, or visit https://smartcostseg.com to start a follow-up. Corrections are simple before filing and expensive after.

Evidence Exhibit

Each item below was screened for provenance before being relied upon. Only camera originals serve as primary evidence; screenshots and edited images may inform context but are never primary evidence, and AI-generated imagery is excluded outright.

Evidence	Provenance	Cost Segregation Relevance
Retired roof covering, tear-off in progress (site photo) *Inspection ref: 3.0 roof*	Camera original	Documents the removal of the original covering — supports both the restoration classification of the new roof and the partial disposition of the component retired with it.
Loading dock structural repair (site photo) *Inspection ref: 2.1 structure*	Camera original	Documents the structural work at the dock and column bases — supports the major-component restoration classification.
Tenant suite after interior fit-out (site photo) *Inspection ref: 6.0 interior finishes*	Camera original	Documents the completed interior work — supports the qualified improvement property classification of the interior scope.
Roofing subcontractor invoice (screen capture of emailed PDF)	Screenshot NOT PRIMARY EVIDENCE	Supports the roof replacement amount; a screen capture is corroborating only — the original invoice remains the primary record.

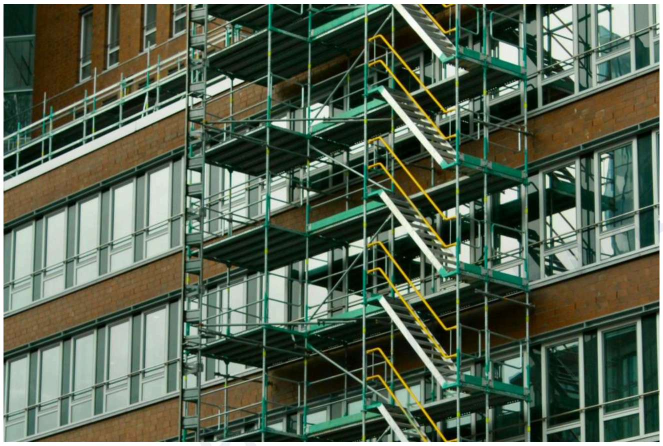
Missing Evidence

We would rather tell you what we do not have than paper over it. Each item below is listed with what it would change; classifications only improve when evidence arrives.

- Building Materials — consumable building materials and small tools: missing line-item receipts — 5/15-year components inside mixed purchases could be broken out with them.
- The producer price index ratio used for the discounted replacement cost method is illustrative in this sample. A filed study cites the specific BLS producer price index series and the two index months, and that citation replaces the illustrative ratio.
- Condition evidence for the retired roof covering at the building's placed-in-service date — the used-property condition factor is an input to the component basis, and photographs or an inspection report at acquisition would support it.
- A scope breakdown of the electrical distribution upgrade — dedicated equipment circuits would classify to 5-year property with it.

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 exhibit.

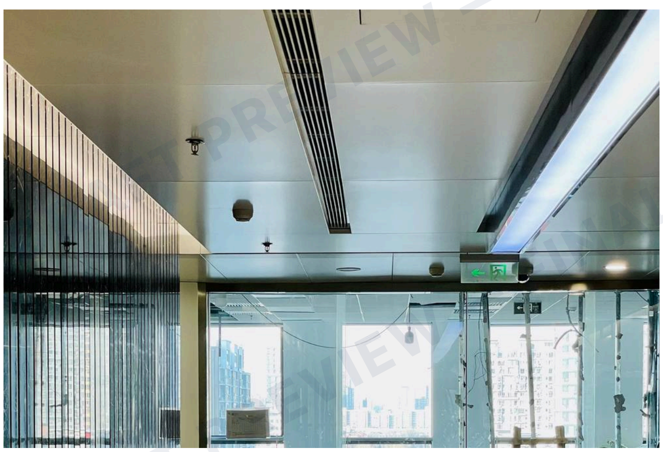


RP-1 A commercial building under renovation behind full height scaffolding. Representative of the building type; not this property.

Photo: Samara Grimm via Pexels (Pexels License).

RP-2 Roof work underway on an older masonry building, carried out from a lift. Representative of the building type; not this property.

Photo: Gundula Vogel via Pexels (Pexels License).



RP-3 The interior of a commercial floor during a refit, with ceiling services exposed and full height glazing. Representative of the building type; not this property.

Photo: Shuaizhi Tian via Pexels (Pexels License).

Methodology & Authorities

This is an actual-cost engineering study. Every amount classified is a documented dollar from the renovation records — invoices, draws, and the owner's cost detail — assigned to a recovery class through an ordered rulebook in which every rule cites its authority. Component descriptions keep the owner's own nomenclature throughout. Where documentation is thin, the study classifies to the slowest recovery class and says so, rather than estimating in the taxpayer's favor.

This study is built to the standards described in the IRS Cost Segregation Audit Techniques Guide (Pub. 5653).

Authorities

- Internal Revenue Code §§162, 263(a), and 168
- Treas. Reg. §1.263(a)-1(f) — de minimis safe harbor
- Treas. Reg. §1.263(a)-3 — improvements: betterment, adaptation, restoration
- Treas. Reg. §1.168(i)-8 — dispositions of MACRS property, including partial dispositions
- Hospital Corp. of America v. Commissioner, 109 T.C. 21 (1997)
- Rev. Rul. 73-410
- Rev. Proc. 87-56 — class lives and recovery periods

Assumptions & Limiting Conditions

- Classification relies on the renovation cost detail provided by ownership; component descriptions retain the owner's own nomenclature and were not independently re-described.
- Every amount is an actual documented cost — no replacement-cost, residual, or appraisal estimates were introduced.
- Lines flagged requires-review are classified conservatively to the slowest recovery class pending the evidence listed for them.
- Federal income tax treatment only; state conformity to bonus depreciation and to partial disposition losses varies.
- Elections (safe harbors, partial dispositions) take effect only when attached to or reported on a timely filed original return by your tax preparer.
- This report does not constitute tax return preparation or legal advice; implementation belongs to your CPA, tax preparer, or attorney.
- The spend was classified at the Conservative, Middle of the Road and Aggressive positions; the Middle of the Road position is the one the schedules print from, and the scenario comparison shows the other two. The Aggressive position is a house upper bound and requires engineering documentation before use on a return.

Acceptance

The undersigned accepts this Renovation Cost Segregation Study for Sample: Commercial Renovation with Partial Disposition, prepared for Property Owner. The professional fee for this engagement: Extended / Custom — quoted per engagement.

By signing below, the client authorizes SmartCostSeg to finalize the study, including review of the documentation received, and to request additional documentation as necessary.

Accepted and Agreed To:

Client / Authorized Representative

Property Owner

Printed Name

Title

Signature

Date

SmartCostSeg

Brad Thomas — Business Contact

Printed Name

Title

Signature

Date

SmartCostSeg.com — Cost Segregation for the Rest of Us™

Contact

Brad Thomas — Business Contact
Ashley Robinson — Preparer
smartcostsegteam@gmail.com

This renovation study was prepared by SmartCostSeg's analysis system and reviewed by Ashley Robinson. SmartCostSeg does not prepare tax returns or provide legal advice; results depend on your specific tax situation.

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