Basisly

Guide 1

Cost segregation for CPA firms

A practical introduction to cost allocation, study quality and the decisions that remain with your firm.

Updated October 20, 2026 · General information for CPA firms. Not tax, legal or accounting advice.

> **In short**
>
> A cost segregation study identifies property components and allocates their cost to support depreciation classifications. It can support earlier deductions for eligible assets, but does not establish a client's entitlement to a deduction or determine a filing position.

What a study does

A property purchase or construction project may combine land, buildings, equipment and improvements in a single price. A study separates those costs using supporting records and an explained methodology. Land is not depreciable. Under the general depreciation system, residential rental buildings generally have a 27.5-year recovery period and nonresidential buildings generally have a 39-year period. Certain other components may have shorter periods, depending on their function, use and applicable asset class.

Ways to deliver a study

A CPA firm may refer a client to a separate provider, engage a provider to prepare a report for the firm, or use software with professional review. These approaches can overlap; software and review may also be part of an outsourced engagement. Branding and preparation responsibilities depend on the engagement, not the label used for the delivery model.

Whichever approach is chosen, the CPA firm must independently assess the study before using it for tax advice or a filing. A referral or a firm-branded report does not remove that responsibility or the provider's responsibility for its own work.

How Basisly supports the firm

Basisly supplies cost-segregation schedules, component classifications and supporting data through a software-assisted process with human review. Deliverables identify the supporting sources, assumptions, methodology and limitations relevant to the work. Included services, branding and examination support are defined by the accepted order and agreement.

Your firm supplies or confirms basis, the land allocation and its support, relevant dates and other tax

inputs. It retains sole professional responsibility and final authorization for client tax advice, positions, elections and filings. Reviewer approval concerns the deliverable; it does not authorize a return position.

Study quality and provider selection

The IRS Cost Segregation Audit Technique Guide describes factors examiners consider when assessing studies. Its Chapter 4 identifies 13 elements, summarized here without suggesting that a checklist guarantees acceptance:

Preparer expertise and experience; a detailed methodology; appropriate documentation; interviews with relevant parties; consistent asset terminology; a standard numbering system; the legal reasoning behind classifications; supported unit costs and quantity take-offs; organized asset listings; reconciliation to actual costs; treatment of indirect costs; identification of section 1245 property; and consideration of related issues, including capitalization, accounting-method changes and sampling.

The guide describes no prescribed preparer qualifications for federal cost-segregation purposes, while emphasizing relevant construction, cost-estimating and tax knowledge. That observation does not waive professional licensing rules applicable to the services actually performed. A reviewer's signature alone does not establish study quality or IRS approval.

Questions to ask a provider

Who prepares and reviews the work, and what experience supports the assignment? Which methodology and inspection approach are used? Can costs be traced to records, calculations or identified assumptions? How are indirect costs, land and unreconciled differences handled?

Also ask how revisions are controlled, what examination support costs, what branding is permitted, and how client information is protected. US storage alone does not establish that access is limited to the United States.

Frequently asked questions

Does every study require an engineer?

The IRS guide does not impose a universal engineer requirement. Relevant expertise and adequate evidence matter, and applicable licensing requirements must be assessed for the work performed. Basisly does not provide sealed engineering services.

Is a study the same as tax advice?

Studies support tax analysis and may contain classification reasoning. Basisly provides supporting data and schedules rather than client-specific tax advice. Your firm evaluates the analysis and determines its use.

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Can previously acquired property be studied?

Yes. The proper treatment of any resulting change depends on the filing history and applicable rules. See Look back studies and Form 3115.

Sources

- IRS Publication 5653, Cost Segregation Audit Technique Guide, February 2025, Chapters 1, 3 and 4
- IRS Publication 946, How To Depreciate Property, 2025 edition

Sources reviewed October 20, 2026. Law and guidance may change. The IRS audit guide is an examination resource, not an official statement of law or binding IRS authority. No IRS endorsement is implied.

> Basisly provides cost allocations, classifications and schedules. It does not provide certified accounting, attest, legal or formal tax advice, appraisals or sealed engineering services. It does not prepare or file returns. This guide does not amend an engagement or expand a service commitment; the accepted agreement governs, subject to applicable law.
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