Basisly

Guide 2

What a cost segregation study does

How component classifications, cost support and depreciation schedules fit together.

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

> **In short**
>
> A cost segregation study analyzes a property's components and allocates cost among them to support depreciation treatment. It is particularly useful where records show a combined price rather than separate asset costs. A study supports the analysis; it does not make every component eligible for accelerated depreciation.

Why asset classes matter

Under the general depreciation system, residential rental buildings generally use 27.5 years and nonresidential buildings generally use 39 years, with straight-line depreciation. Qualifying equipment, furniture and fixtures may use shorter periods, such as 5 or 7 years. Some land improvements use 15 years, subject to the applicable activity and asset classifications. Land itself is not depreciable.

These are general examples, not classifications for a particular property. Alternative depreciation system requirements, historical rules, special property categories and the asset's actual use may change the result. An item's label or its presence inside a building does not by itself determine its recovery period.

What a useful study contains

A useful report explains the property, the preparer and reviewer, the methodology, the inspection approach and any material limitations. It identifies components and allocated costs, supports classification reasoning, explains estimates and indirect costs, and reconciles the allocation to the applicable basis. Supporting schedules record relevant dates, recovery periods, methods and conventions.

Actual records and stated assumptions must remain distinguishable. A cost estimate is not a documented invoice amount, and remote review should not be described as an in-person inspection. Missing information and unresolved differences should be visible to the CPA firm.

Terms used in studies

A take-off measures quantities from plans or other property information for costing. A look-back study concerns property already placed in service. Bonus depreciation is an additional first-year deduction

under section 168(k), when available. A section 481(a) adjustment prevents amounts from being omitted or counted twice when an accounting method changes; it can increase or decrease taxable income.

Methods and limitations

Chapter 3 of the IRS audit guide describes six approaches: detailed engineering using actual cost records; detailed engineering estimates; surveys or letters; residual estimation; sampling or modeling; and rule-of-thumb allocations. A study may combine approaches.

Listing an approach does not mean the IRS endorses it. The guide criticizes unsupported rule-of-thumb percentages. Methods must fit the property and provide support for the costs and classifications. Software output or an industry percentage, by itself, is not a substitute for property-specific evidence and analysis.

What Basisly provides

Basisly supplies cost allocations, component classifications and supporting schedules for CPA review. Basisly does not independently appraise the property or land; the firm supplies or confirms the basis and land allocation used. Some acquired-property allocations require valuation evidence, which the firm must evaluate and obtain from an appropriate source when needed.

The firm retains sole professional responsibility and final authorization for tax advice, elections, return positions and filings. A report does not guarantee a deduction, a refund, a particular reclassification percentage or acceptance by a tax authority. Accelerating depreciation generally changes its timing and reduces remaining depreciable basis; disposition or a change in use may create recapture or other tax consequences.

Frequently asked questions

Is a separate study always required to depreciate a building?

No universal requirement applies to every building. Adequate records and support are still necessary. A study can help where combined costs must be allocated or existing classifications need analysis.

Does a study produce a cash saving equal to the deduction?

No. A deduction reduces taxable income; it is not a dollar-for-dollar reduction of tax. Its current benefit depends on applicable rates, limitations, elections and the taxpayer’s circumstances.

Who decides whether to use the schedules?

The CPA firm independently evaluates the supporting material and authorizes any tax position. Basisly’s review does not replace that judgment.

General information for CPA firms. Not tax, legal or accounting advice.

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.
>
> Learn more about Basisly: hello@basisly.ai
>
> Published by Basisly Inc., a Delaware C corporation registered as a foreign corporation in California, doing business as Basisly (“Basisly”).