NAD83 · SANTA ROSA BEACH, FL 32459 · DATUM REFERENCE

COST SEG SMART

IRS AUDIT TECHNIQUES GUIDE–ALIGNED METHODOLOGY

Cost Segregation Analysis Report

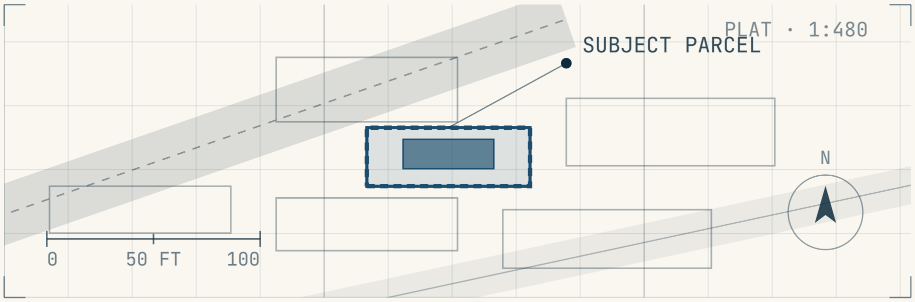
ENGINEERING-METHOD COST SEGREGATION STUDY

SUBJECT PROPERTY

63 Tradewinds Dr

Santa Rosa Beach, FL 32459

SHORT-TERM RENTAL PROPERTY



ACCELERATED RECLASSIFICATION

assets moved from 27.5/39-year classes

$238,845

22.0% OF BASIS RECLASSIFIED

REFERENCE YEAR-1 DEPRECIATION

federal estimate — CPA to confirm filing treatment

$255,504

23.6% ESTIMATED FIRST-YEAR IMPACT

$1,084,600 DEPRECIABLE BASIS

Estimated tax results depend on placed-in-service date, bonus rules, entity structure, elections, and taxpayer circumstances.

PREPARED FOR

REVIEWED BY Cost Seg Smart Technical Review

Sample Property Owner

REPORT

ISSUED JUNE 14, 2026
REPORT NO. CSS-20260614-17987
REVISION 1.0

VERIFY
costsegsmart.com/verify
june 14, 2026

Table of Contents

Engineering-Method Cost Segregation Report

CSS-WP-010

Dear Sample Property Owner,

Cost Seg Smart was engaged to perform an engineering cost segregation study for the property located at 63 Tradewinds Dr, Santa Rosa Beach, FL 32459.

The procedures involved an engineering cost analysis utilizing construction cost manuals, IRS asset classification guidance, and property characteristics derived from public records and taxpayer-provided information. This analysis was conducted in accordance with the IRS Cost Segregation Audit Techniques Guide (ATG).

The study identified a total of $238,845 in accelerated depreciation, with specific allocations to 5-year and 15-year recovery periods. The applicable bonus depreciation rate for assets placed in service in 2025 is 100% under IRC §168(k).

The study was conducted based on information provided by the taxpayer, and the results are subject to the accuracy of this data. The findings are contingent upon the completeness and accuracy of the information supplied.

The scope of this study was limited to the identification and classification of assets for depreciation purposes and does not constitute a valuation. It is recommended that these findings be reviewed with a qualified tax advisor.

Report No.: CSS-20260614-17987

Sincerely,

Cost Seg Smart costsegsmart.com

If your CPA has questions about this report, they can reach us directly at support@costsegsmart.com.

1. Executive Summary

Short-Term Rental Property

CSS-WP-100

The study identified $238,845 of assets eligible for accelerated depreciation — 22.0% of the property's depreciable basis.

The subject property is classified as Residential Rental Property under IRC §168(e)(2), with a default recovery period of 27.5 years under the Modified Accelerated Cost Recovery System (MACRS). The purpose of this study is to identify and reclassify components of the property to shorter recovery periods where applicable, thereby accelerating depreciation deductions.

Given the property's use as a short-term rental, material participation considerations under IRC §469 may apply. The analysis focused on identifying tangible personal property, such as furniture, fixtures, and equipment (FF&E), which are typically subject to shorter recovery periods. The study identified 22.0% of the property's depreciable basis as eligible for accelerated depreciation.

This technical analysis distinguishes between unit-level components, such as FF&E and appliances, and structural systems, ensuring compliance with applicable tax regulations.

Scope of Work

This cost segregation study identifies property components eligible for accelerated depreciation under MACRS (IRC §168). The analysis applies an engineering-method cost approach using construction cost data, public records, and taxpayer-provided information.

All cost allocations represent estimates derived from construction cost data, property characteristics, and applicable tax guidance. Standard professional disclaimers, including the taxpayer-advisor relationship and the limits of this engineering-method analysis, are stated in full in the Disclaimers section.

Reclassification Results

Our analysis identified **$238,845** (22.0% of depreciable basis) in building systems eligible for reclassification into shorter MACRS recovery periods.

This study identified **$238,845** of building components eligible for shorter MACRS recovery periods, which may generate a first-year deduction of up to **$238,845** assuming full expensing of eligible assets under IRC §168(k), as amended by Pub. L. 119-21 (OBBBA, 2025) for qualified property acquired and placed in service after January 19, 2025 as in effect at report issuance, subject to the taxpayer's individual tax circumstances and any subsequent change in law.

Tax Timing Impact

This analysis assumes full expensing of eligible assets based on applicable bonus depreciation provisions. For assets placed in service in 2025, the applicable bonus depreciation rate depends on applicable law for the placed-in-service year under IRC §168(k), contingent on current law for the placed-in-service year.

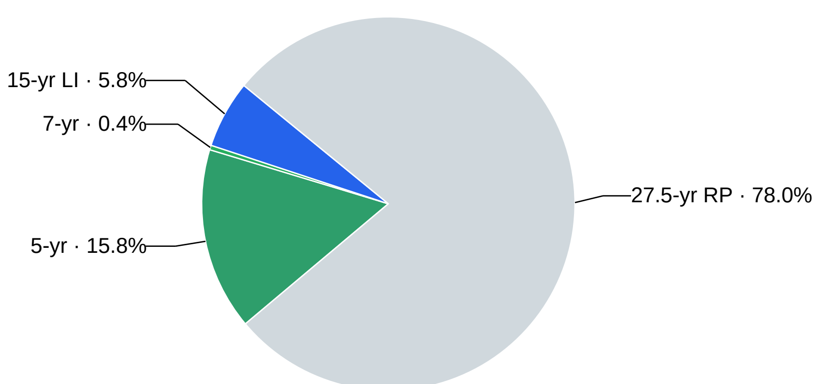
Engineering Analysis Summary

Based on the wood frame residential construction typical of 2015-era builds in the Santa Rosa Beach, FL market, our analysis identified component-level allocations consistent with properties of this age, construction class, and quality tier. This short-term rental property includes hospitality-grade furnishings, fixtures, and equipment (FF&E) classified as 5-year personal property under Rev. Proc. 87-56. FF&E items identified include furniture, electronics, linens, kitchen smallwares, and decorative items subject to accelerated recovery periods.

Gulf-coast properties in the 30A corridor reflect coastal-weather hardening throughout the depreciable basis — hurricane-rated windows and doors, salt-corrosion-resistant FF&E, and pressure-treated decking with elevated wear cycles. Site improvements (decking, dune-walk paths) are 15-year land improvements under Rev. Proc. 87-56.

Metric	Value
Purchase Price	$1,450,000
Land Value (Non-Depreciable)	$365,400
Total Depreciable Basis	**$1,084,600**
5-Year Personal Property	$171,182 (15.8%)
15-Year Land Improvements	$63,406 (5.8%)
27.5-Year Real Property	$845,755 (78.0%)
Total Accelerated Asset Reclassification	**$238,845 (22.0%)**

Depreciable Basis Allocation by MACRS Class



Estimated First-Year Tax Savings (Full Expensing Assumed)

Tax Bracket	Additional Year-1 Deduction	Estimated Tax Savings
24%	$234,140	$56,194
32%	$234,140	$74,925
37%	$234,140	$86,632

Replacement Cost New (RCN) estimates were developed using industry construction cost databases and calibrated to the subject property's market-implied improvement value. The resulting cost allocation is reconciled to the taxpayer's depreciable basis of **$1,084,600** so that all component-level costs collectively equal the recorded acquisition price less land value, consistent with the cost approach methodology described in IRS Pub 5653, Chapter 3 §C.2. Market acquisition pricing often reflects factors beyond construction cost, including land scarcity, location premiums, and market demand.

Industry Benchmarks

This study identified 22.0% accelerated depreciation, more conservative than the 26%-36% typically observed for short-term rental properties. The property's component mix, site-improvement intensity, and construction characteristics produced a lower-than-average accelerated allocation — a measured engineering result reflecting the components actually identified in the analysis (FF&E; at $88,280 (8.1% of basis) and Site Work at $59,494 (5.5% of basis) and Electrical at $22,380 (2.1% of basis)), not a conservative adjustment. A higher allocation would require reclassifiable components the analysis did not find.

Short-term rentals in coastal luxury markets commonly produce reclassification percentages in the 25%–32% range, driven by hospitality-grade furnishings and the FF&E; intensity required to compete at the nightly rate the property commands.

This allocation profile is consistent with short-term rental properties of comparable size and vintage in the Santa Rosa Beach market.

State conformity. Florida has no personal income tax. Federal acceleration is the only tax impact relevant to this study.

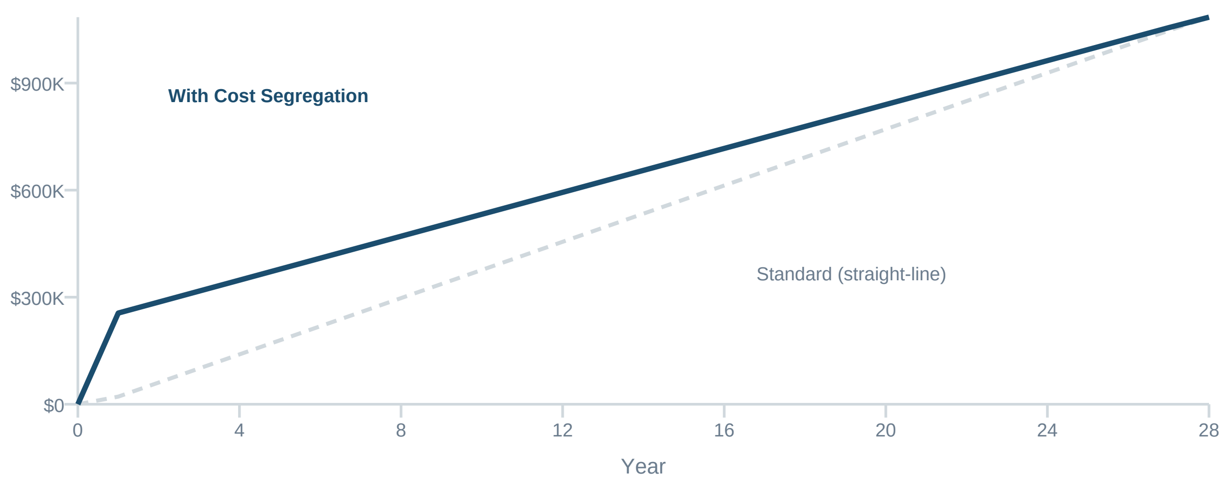
Year 1 Tax Impact Analysis

The following analysis compares first-year depreciation under standard straight-line treatment versus accelerated depreciation with cost segregation and applicable bonus depreciation provisions.

Scenario	Total Year 1 Depreciation (All Classes)
Without Cost Segregation	$21,363 (straight-line: basis / 27.5)
With Cost Segregation	**$255,504** (accelerated + remaining straight-line)
Additional First-Year Benefit	**$234,140**

Year 1 Depreciation Comparison

Cumulative Depreciation Over Time



Cost segregation accelerates depreciation into earlier years without changing total lifetime depreciation. The benefit derives from the time value of deductions.

This analysis accelerates **$234,140** of additional deductions into Year 1. Total lifetime depreciation remains unchanged; the benefit derives from timing.

Selected ATG Concepts Addressed

The following table maps selected concepts from the IRS Cost Segregation Audit Techniques Guide to the procedures applied in this study. The complete element-by-element conformance review appears in Appendix B.

IRS ATG Quality Element	Procedure Applied
Preparation methodology	Engineering cost approach applied using standardized cost data, public records, and documented classification procedures aligned with the IRS Cost Segregation ATG
Component identification	50+ building and site component categories evaluated and classified
Cost estimation method	Engineering cost approach using construction cost data
Legal authority citations	IRC §§1245, 1250; Rev. Proc. 87-56; case law (Whiteco, Hospital Corp.)
Reconciliation to basis	All allocations reconcile to depreciable basis without material variance
Asset classification rationale	Written engineering-method rationale for each component category
Depreciation schedules	MACRS schedules provided for all recovery periods

This study is designed to align with the documentation standards described in IRS Pub 5653 (Feb 2025).

Allocation Bridge

Purchase Price to MACRS Classification

The following table presents a reconciliation of the total acquisition cost of the subject property to its classification under the Modified Accelerated Cost Recovery System (MACRS). This bridge illustrates how the depreciable basis is allocated across asset classes based on the analysis described in this report.

Step	Amount	Notes
Purchase Price	$1,450,000	Total acquisition cost
Less: Land Value	($365,400)	Non-depreciable
Depreciable Basis	**$1,084,600**	**Basis subject to depreciation**
5-Year Personal Property	$171,182	Interior finishes, fixtures, removable components
7-Year Property	$4,257	Equipment and specialized fixtures
15-Year Land Improvements	$63,406	Site improvements, landscaping, hardscape

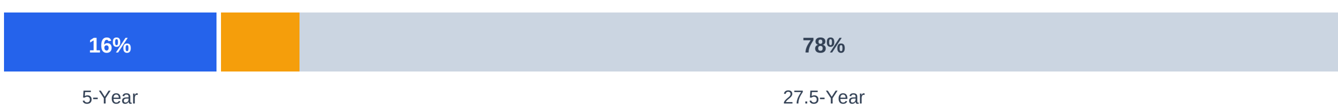
27.5-Year Real Property	$845,755	Structural building components
Total Allocated	**$1,084,600**	**Reconciles to depreciable basis**

All component allocations reconcile exactly to the total depreciable basis of the property.

Allocation Summary by Class

Asset Class	Amount	% of Basis
5-Year Property	$171,182	15.8%
7-Year Property	$4,257	0.4%
15-Year Property	$63,406	5.8%
27.5-Year Property	$845,755	78.0%
Total	**$1,084,600**	**100.0%**

Where the Depreciation Comes From



This study identified **22.0%** of depreciable basis as accelerated property; refer to the engineering rationale section for the comparable-property context.

CPA Quick-Reference Summary

Property Facts

Property Address	63 Tradewinds Dr, Santa Rosa Beach, FL 32459
Property Type	Short-Term Rental
Year Built	2015
Purchase Price	$1,450,000
Land Value (Non-Depreciable)	$365,400
Depreciable Basis	**$1,084,600**
Placed in Service	2025-06-15

Basis Allocation Summary

Asset Class	Amount	% of Basis
5-Year Personal Property	$171,182	15.8%
7-Year Personal Property	$4,257	0.4%
15-Year Land Improvements	$63,406	5.8%
27.5-Year Real Property	$845,755	78.0%
Total Accelerated Property	**$238,845**	**22.0%**

Estimated Year-1 Depreciation (100% Bonus)

Asset Class	Accelerated Basis	Bonus Rate	Year-1 Deduction
5-Year Property	$171,182	100%	$171,182
7-Year Property	$4,257	100%	$4,257
15-Year Property	$63,406	100%	$63,406
Total Year-1 Deduction			**$238,845**

Estimated Tax Savings

Based on the additional Year-1 deduction from cost segregation ($234,140), computed as (Year-1 with cost seg) minus (Year-1 without cost seg), applying the IRS mid-month convention for the 27.5/39-yr structural portion.

Tax Bracket	Additional Year-1 Deduction	Estimated Tax Savings
24%	$234,140	$56,194
32%	$234,140	$74,925
37%	$234,140	$86,632

Reclassification rates for short-term rental properties commonly fall in a range of approximately 26%–36% of depreciable basis, based on Cost Seg Smart's internal observations from prior studies and general industry experience, with meaningful variation driven by construction era, finish level, renovation history, and site-improvement intensity. The **22.0%** allocation identified in this study falls below that range. Reclassification rates below the typical short-term rental band most often reflect one or more of: older construction with limited tenant fit-out, a higher-than-typical structural-shell share of basis, or low site-improvement intensity (e.g., minimal parking, landscaping, or specialty MEP). The engineered classification reflects the actual component composition observed; it is not adjusted to hit a benchmark band.

Method Summary

• Engineering cost approach using construction cost data and public records

• Allocation following the engineering-method approach (Pub 5653, Ch. 3 §C.2)

• Asset classifications supported by IRC §168, Rev. Proc. 87-56, and relevant case law

CPA Filing Sheet

Property: 63 Tradewinds Dr, Santa Rosa Beach, FL 32459

Placed in Service: 2025-06-15

Total Depreciable Basis: $1,084,600

Accelerated Asset Schedule

Asset Class	Amount	Recovery Period	Convention	Bonus Eligible
Personal Property	$171,182	5 years	Half-year	Yes (100%)
Personal Property (7-yr)	$4,257	7 years	Half-year	Yes (100%)
Land Improvements	$63,406	15 years	Half-year	Yes (100%)
Building (27.5-yr)	$845,755	27.5 years	Mid-month	No

Depreciation Software Entry Instructions

Enter the following assets in your depreciation software (Lacerte, ProSeries, Drake, UltraTax, or equivalent):

Asset 1 — Personal Property (5-Year)
Basis: $171,182
Life: 5 years | Method: 200% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 2 — Personal Property (7-Year)
Basis: $4,257
Life: 7 years | Method: 200% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 3 — Land Improvements (15-Year)
Basis: $63,406
Life: 15 years | Method: 150% DB | Convention: Half-year
Bonus Depreciation: 100%

Asset 4 — Building (27.5-Year)
Basis: $845,755
Life: 27.5 years | Method: Straight-line | Convention: Mid-month
Bonus Depreciation: Not eligible

Note: These entries reflect the reclassification identified in this study. The taxpayer should file Form 3115 (Change in Accounting Method) if the property was placed in service in a prior tax year. Consult with your tax advisor regarding the appropriate filing method.

2. Property Summary

CSS-WP-200

Property Detail	Information
Owner	Sample Property Owner
Property Address	63 Tradewinds Dr, Santa Rosa Beach, FL 32459
Property Type	Short-Term Rental
Date of Acquisition	2025-06-15
Placed in Service	2025-06-15
Purchase Price	$1,450,000
Building Area	2,480 SF
Year Built	2015
Bedrooms / Bathrooms	4 BR / 3.5 BA
Construction Type	Wood Frame Residential
Property Features	Standard

Property Data Sources

Property Fact	Value	Source
Purchase price	$1,450,000	Owner-provided
Square footage	2,480 SF	Owner-provided
Bedrooms	4	Owner-provided
Bathrooms	3.5	Owner-provided
Year built	2015	Owner-provided
Land allocation	25.2% ($365,400)	Statistical estimate (regional market data)

Sources reflect the data reviewed for this study. County / MLS figures are drawn from third-party public-records APIs; owner-reported figures should be confirmed against the taxpayer's records and closing documents.

Property Classification

This property is classified as **Residential Rental Property** under IRC Section 168(e)(2)(A). The default recovery period for the building structure is **27.5 years** under the General Depreciation System (GDS) of MACRS. Through cost segregation, certain components are reclassified to shorter recovery periods as permitted by the Internal Revenue Code.

Property Observation & Classification Support

Publicly available imagery and property data were reviewed to support identification of site improvements and non-structural components. These observations are used as supporting visual evidence in conjunction with cost modeling, public records, and taxpayer-provided information to inform component identification and classification decisions.

Aerial view (based on available imagery) — visible site improvements include landscaped areas, hardscape, and paved surfaces. These features support classification of land improvements depreciated over 15 years under IRC §168(e)(4).

Component Evidence & Tax Treatment

Each component is tagged with its evidence basis so the reviewer can see exactly what supports it: **Owner-documented** (actual cost from invoices or inventory), **Photo-corroborated** (existence verified in the property photographs; cost modeled), or **Modeled estimate** (engineering cost estimate per Pub 5653 Ch. 3 §C.2). Classifications are based on the component's function, construction, and relationship to the building structure.

Observable Feature	Classification	Recovery	Evidence	Rationale
Bedroom Furniture (Beds, Dressers, Nightstands)	Personal property	5-year	Modeled estimate	Non-structural, removable; not permanently affixed to building
Living Area Furniture (Sofas, Tables, Chairs)	Personal property	5-year	Modeled estimate	Non-structural, removable; not permanently affixed to building
Appliances	Personal property	5-year	Modeled estimate	Non-structural, removable; not permanently affixed to building

Concrete Paving & Walks	Land improvement	15-year	Modeled estimate	Site improvement; not integral to building structure
Wood Deck/Porch	Land improvement	15-year	Modeled estimate	Site improvement; not integral to building structure
Landscaping	Land improvement	15-year	Modeled estimate	Site improvement; not integral to building structure
Framing	Real property	27.5-year	Modeled estimate	Structural building component; inherently permanent

Interpretation: Observable site and exterior features support the presence of non-structural components that are separable from the building and appropriately classified as shorter-life property. These observations corroborate modeled allocations derived from cost estimation methods. Visual observations are consistent with the component allocations presented in Section 4 of this report.

These observations are based on publicly available imagery and are used to support reasonable cost allocations. They do not constitute a physical inspection.

3. Cost Allocation Summary

CSS-WP-210

$238,845 of the property's $1,084,600 depreciable basis was reclassified into shorter recovery periods.

The following table summarizes the allocation of the property's depreciable basis among the various MACRS recovery period categories. Components have been classified based on their function, construction, and relationship to the building per IRS guidelines.

Asset Category	IRS Recovery Period	Allocated Cost	% of Basis
Personal Property	5-Year MACRS	$171,182	15.8%
Personal Property	7-Year MACRS	$4,257	0.4%
Land Improvements	15-Year MACRS	$63,406	5.8%
Real Property (Building)	27.5-Year Straight Line	$845,755	78.0%
Total Depreciable Basis		**$1,084,600**	**100.0%**
Total Accelerated (Reclassified)		**$238,845**	**22.0%**

The 7-year personal property figure ($4,257) is small by design: the large majority of reclassified personal property falls in the 5-year class, while 7-year covers only specific items such as decorative furnishings and artwork (Rev. Proc. 87-56 asset class 00.11).

This study identifies shorter-life personal property and land improvements eligible for accelerated depreciation from the property's total depreciable basis. Modeled replacement cost components are reconciled to actual basis so that total allocated costs tie to the taxpayer's transaction price less land. Detailed component support appears in Sections 4 and 5; cost derivation methodology is documented in Appendix A.

Key Accelerated Components

The following table summarizes the principal components reclassified to shorter recovery periods. Items below 1% of total accelerated basis are grouped into category subtotals.

Component	Allocated Cost	MACRS Class
Bedroom Furniture (Beds, Dressers, Nightstands)	$33,800	5-Year
Living Area Furniture (Sofas, Tables, Chairs)	$19,700	5-Year
Appliances	$13,800	5-Year
Light Fixtures	$12,800	5-Year
Carpet & Pad	$10,000	5-Year
Removable Kitchen Fixtures	$8,600	5-Year
Kitchen Smallwares & Cookware	$8,400	5-Year
Outdoor Furniture & Accessories	$7,100	5-Year
Vinyl/Laminate Flooring	$6,600	5-Year
Televisions & Electronics	$5,800	5-Year
Linens, Bedding & Towels	$5,700	5-Year
Bathroom Accessories & Fixtures	$4,900	5-Year
Window Treatments	$4,500	5-Year
Removable Laminate Surfaces	$3,800	5-Year
Closet Shelving	$3,700	5-Year
Dining Furniture	$3,500	5-Year
Door Hardware & Accessories	$3,300	5-Year
Ceiling Fans	$3,000	5-Year
Doorbell & Low-Voltage Wiring	$2,600	5-Year

Other 5-Year Components (5 items)	$9,500	5-Year
Subtotal — 5-Year	**$171,182**	
Decorative Items & Artwork	$4,300	7-Year
Subtotal — 7-Year	**$4,257**	
Concrete Paving & Walks	$15,500	15-Year
Wood Deck/Porch	$11,900	15-Year
Landscaping	$10,700	15-Year
Fencing	$9,200	15-Year
Irrigation System	$4,500	15-Year
Exterior Lighting	$3,900	15-Year
Storm Drainage & Grading	$3,800	15-Year
Retaining Walls	$3,000	15-Year
Other 15-Year Components (1 item)	$700	15-Year
Subtotal — 15-Year	**$63,406**	
Total Accelerated (Reclassified)	**$238,845**	

Property Characterization (IRC §1245 / §1250)

Asset Category	IRC Section	Recapture Treatment	Amount
5-Year Personal Property	§1245	Ordinary income recapture	$171,182
7-Year Personal Property	§1245	Ordinary income recapture	$4,257
15-Year Land Improvements	§1250	Excess over straight-line recaptured as ordinary income; balance is unrecaptured §1250 gain (≤25%)	$63,406
27.5-Year Real Property	§1250	25% unrecaptured §1250 gain	$845,755

15-year land improvements are §1250 property but are depreciated under an accelerated MACRS method (150% declining balance); on disposition, depreciation claimed in excess of straight-line is recaptured as ordinary income under §1250, and the remaining depreciation-related gain is unrecaptured §1250 gain (maximum 25% rate). Actual recapture depends on the method elected, holding period, and gain at disposition — the taxpayer's CPA should confirm characterization.

Tax Impact Analysis

Tax Scenario	Amount
Year 1 Depreciation WITHOUT Cost Segregation	$21,363
Year 1 Depreciation WITH Cost Segregation + 100% Bonus	**$255,504**
Additional First-Year Deduction	**$234,140**
Estimated Federal Tax Reduction (37% marginal rate)	**$86,632**
Estimated Federal Tax Reduction (32% marginal rate)	$74,925
Estimated Federal Tax Reduction (24% marginal rate)	$56,194

Two figures to keep distinct: the **total reclassified assets** ($238,845) is the dollar value moved from the long-life recovery class into 5-, 7-, and 15-year classes by this study. The **incremental Year-1 benefit from cost segregation** ($234,140) is the additional first-year deduction generated *over and above* the $4,705 those reclassified assets would have received under standard straight-line depreciation regardless of the study, applying the IRS mid-month convention for the placed-in-service month.

First-Year Depreciation Comparison

Cost segregation increases first-year depreciation by $234,140, concentrating the majority of tax benefits in Year 1 through bonus depreciation.

4. Detailed Component Breakdown

CSS-WP-220

34 components reclassified into accelerated categories; 16 structural components itemized at their default recovery period.

The following tables provide a detailed breakdown of all building components identified in this study, organized by MACRS recovery period. Each component has been assessed based on its function, construction type, and applicable IRS asset classification. Direct asset costs and indirect cost allocations are shown separately for full transparency.

Component costs are estimated using unit-cost data from published construction cost references (industry-standard square-foot costs with BLS Producer Price Index time-index) keyed to the property's classification, size, and finish level. The component set reflects Cost Seg Smart's standardized engineering cost model calibrated to properties of comparable size, age, construction class, and quality tier — line items are presented as modeled allocations rather than direct field observations. Regional cost adjustment of approximately 6% below the national baseline is applied uniformly across components to reflect local labor and materials pricing in the property's metro market.

5-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Source	Asset Cost	Indirect	Total Basis
Carpet & Pad	Interior floor coverings, non-structural	Reg 1.48-1	Modeled cost estimate	$5,000	$1,300	$10,000
Vinyl/Laminate Flooring	Non-structural finish flooring	Reg 1.48-1	Modeled cost estimate	$3,300	$800	$6,600
Removable Kitchen Fixtures	Non-permanent kitchen installations	Reg 1.48-1	Modeled cost estimate	$4,300	$1,100	$8,600
Bathroom Accessories & Fixtures	Removable bathroom fittings	Reg 1.48-1	Modeled cost estimate	$2,500	$600	$4,900
Removable Laminate Surfaces	Non-permanent decorative surfaces	Reg 1.48-1	Modeled cost estimate	$1,900	$500	$3,800
Appliances	Freestanding kitchen equipment	00.11	Modeled cost estimate	$7,000	$1,700	$13,800

Window Treatments	Non-permanent window coverings	Reg 1.48-1	Modeled cost estimate	$2,200	$600	$4,500
Door Hardware & Accessories	Non-structural door components	Reg 1.48-1	Modeled cost estimate	$1,700	$400	$3,300
Light Fixtures	Decorative and specialty lighting	00.11	Modeled cost estimate	$6,400	$1,600	$12,800
Ceiling Fans	Removable ventilation fixtures	00.11	Modeled cost estimate	$1,500	$400	$3,000
Removable Plumbing Trim	Non-structural plumbing accessories	Reg 1.48-1	Modeled cost estimate	$1,200	$300	$2,300
Smoke/CO Detectors	Life safety detection devices	00.11	Modeled cost estimate	$500	$100	$1,000
Closet Shelving	Removable storage systems	Reg 1.48-1	Modeled cost estimate	$1,900	$500	$3,700
Decorative Millwork	Non-structural decorative elements	Reg 1.48-1	Modeled cost estimate	$1,100	$300	$2,200
Doorbell & Low-Voltage Wiring	Doorbell, security, cable, phone, and data cabling	00.12	Modeled cost estimate	$1,300	$300	$2,600
Bathroom Hardware	Removable bathroom accessories	Reg 1.48-1	Modeled cost estimate	$1,000	$200	$1,900
Kitchen Hood & Ventilation	Kitchen exhaust equipment	00.11	Modeled cost estimate	$1,000	$200	$2,000
Living Area Furniture (Sofas, Tables, Chairs)	Personal property — shorter recovery	00.11	Modeled cost estimate	$15,800	$3,900	$19,700
Dining Furniture	Personal property — shorter recovery	00.11	Modeled cost estimate	$2,800	$700	$3,500
Outdoor Furniture & Accessories	Personal property — shorter recovery	00.11	Modeled cost estimate	$5,700	$1,400	$7,100

Bedroom Furniture (Beds, Dressers, Nightstands)	Personal property — shorter recovery	00.11	Modeled cost estimate	$30,700	$3,100	$33,800
Linens, Bedding & Towels	Personal property — shorter recovery	00.11	Modeled cost estimate	$5,100	$500	$5,700
Televisions & Electronics	Personal property — shorter recovery	00.11	Modeled cost estimate	$5,300	$500	$5,800
Kitchen Smallwares & Cookware	Personal property — shorter recovery	00.11	Modeled cost estimate	$7,600	$800	$8,400
Subtotal				**$116,824**	**$21,898**	**$171,182**

7-Year Personal Property (IRC Section 1245)

Component	Description	Classification	Source	Asset Cost	Indirect	Total Basis
Decorative Items & Artwork	Equipment — shorter recovery	00.11	Modeled cost estimate	$3,400	$900	$4,300
Subtotal				**$3,405**	**$851**	**$4,257**

15-Year Land Improvements (IRC Section 1250)

Site improvement allocations below reflect typical 15-year land-improvement composition for properties of comparable size, age, and construction class. Classifications are limited to components supported by the documentation reviewed; the underlying engineering cost model is calibrated to the property's classification and quality tier, with regional and time-index adjustments described in Section 9.

Component	Description	Classification	Source	Asset Cost	Indirect	Total Basis
Concrete Paving & Walks	Exterior hardscape improvements	00.3	Modeled cost estimate	$7,800	$1,900	$15,500
Fencing	Exterior boundary improvements	00.3	Modeled cost estimate	$4,600	$1,200	$9,200
Landscaping	Exterior plantings and grading	00.3	Modeled cost estimate	$5,400	$1,300	$10,700

Irrigation System	Landscape watering infrastructure	00.3	Modeled cost estimate	$2,300	$600	$4,500
Exterior Lighting	Outdoor illumination fixtures	00.3	Modeled cost estimate	$2,000	$500	$3,900
Retaining Walls	Site grade management structure	00.3	Modeled cost estimate	$1,500	$400	$3,000
Wood Deck/Porch	Exterior recreational structure	00.3	Modeled cost estimate	$6,000	$1,500	$11,900
Storm Drainage & Grading	Site water management	00.3	Modeled cost estimate	$1,900	$500	$3,800
Mailbox & Site Accessories	Exterior site amenities	00.3	Modeled cost estimate	$400	$94	$700
Subtotal				**$31,834**	**$7,958**	**$63,406**

27.5-Year Real Property (IRC Section 1250)

The following components constitute the structural building envelope and core building systems that remain classified as residential rental property under IRC §168(e)(2)(A). These components — including foundation, framing, roofing, exterior envelope, core HVAC, plumbing, and electrical distribution — are inherently permanent and integral to the building's operation. They are depreciated over 27.5 years using the straight-line method.

Component	Description	Classification	Source	Asset Cost	Indirect	Total Basis
Foundation	Structural building foundation	§1250	Modeled cost estimate	$39,000	$9,800	$77,700
Framing	Structural wood/steel framing	§1250	Modeled cost estimate	$61,800	$15,400	$175,500
Roofing	Structural roof system	§1250	Modeled cost estimate	$27,300	$6,800	$54,300
Exterior Walls & Siding	Building envelope	§1250	Modeled cost estimate	$28,500	$7,100	$56,800

Windows & Exterior Doors	Building envelope openings	§1250	Modeled cost estimate	$24,900	$6,200	$49,700
Insulation	Thermal building envelope	§1250	Modeled cost estimate	$12,700	$3,200	$25,300
Drywall & Finishing	Interior wall surfaces	§1250	Modeled cost estimate	$31,200	$7,800	$62,200
Interior Paint	Interior wall finishes	§1250	Modeled cost estimate	$10,000	$2,500	$19,900
Kitchen Cabinets (Built-in)	Permanently affixed cabinetry	§1250	Modeled cost estimate	$13,600	$3,400	$27,100
Bathroom Vanities (Built-in)	Permanently affixed vanities	§1250	Modeled cost estimate	$3,600	$900	$7,200
Interior Doors	Structural interior partitions	§1250	Modeled cost estimate	$3,700	$900	$7,400
Tile Flooring	Permanent floor surfaces	§1250	Modeled cost estimate	$2,400	$600	$4,800
Plumbing Systems	Core building plumbing	§1250	Modeled cost estimate	$44,200	$11,000	$88,000
Electrical Systems	Core building electrical	§1250	Modeled cost estimate	$48,600	$12,100	$96,700
HVAC Systems	Central heating and cooling	§1250	Modeled cost estimate	$38,800	$9,700	$77,200
Permanently Affixed Countertops	Built-in surface installations	§1250	Modeled cost estimate	$8,000	$2,000	$16,000
Subtotal				**$398,319**	**$99,580**	**$845,755**

4b. Indirect Cost Allocation

Construction costs include both direct costs (labor and materials for individual components) and indirect costs (overhead expenses necessary for the overall construction project). Indirect costs are allocated proportionally across all building components based on their direct cost share, consistent with the engineering cost estimate approach.

Indirect Cost Category	% of Direct Costs	Allocated Amount
Architectural & Engineering Fees	3.8%	$20,846
General Conditions & Supervision	5.2%	$28,663
Equipment Rentals & Tools	3.3%	$18,240
Permits & Inspections	1.9%	$10,423
Insurance & Bonding	2.4%	$13,029
Contractor Overhead & Profit	4.7%	$26,058
Miscellaneous Indirects	2.4%	$13,029
Total Indirect Costs	**23.7%**	**$130,288**

Total direct costs: $550,382. Indirect cost rate applied: 23.7% of direct costs. Indirect costs are allocated pro-rata to each component based on its share of total direct costs.

4c. Reconciliation of Costs

Pub 5653, Chapter 4 §C.10, requires that estimated costs be reconciled back to actual costs or purchase price. The following reconciliation demonstrates that all allocated costs sum to the property's actual depreciable basis, with no unexplained variance.

A. Basis Determination

Item	Amount	Notes
Purchase Price / Total Project Cost	$1,450,000	Per closing statement
Less: Land Value (25.2%)	($365,400)	Land allocation per statistical
Depreciable Basis	**$1,084,600**	**= Total Project Cost - Land**

B. Cost Segregation Allocation

Asset Category	Recovery Period	Allocated Cost
Non-Depreciable Land	N/A	$365,400
Personal Property	5-Year MACRS	$171,182
Personal Property	7-Year MACRS	$4,257
Land Improvements	15-Year MACRS	$63,406
Real Property (Building)	27.5-Year Straight Line	$845,755
Total		**$1,450,000**

C. Reconciliation Verification

Reconciliation Item	Amount
A. Total Project Cost (Purchase Price)	$1,450,000
B. Total Allocated per Cost Segregation Study	$1,450,000
Variance (A - B)	**$0**

All allocated costs reconcile to the property's total project cost without material variance. The total project cost ties to the sum of land and depreciable component allocations.

5. Engineering Rationale by Category

CSS-WP-230

The following narratives describe the engineering-method rationale for reclassifying specific building components from the default recovery period to accelerated MACRS classes. Each classification is supported by IRS guidance, Treasury Regulations, and relevant Tax Court precedent.

Certain classifications involve professional judgment applying the removability, permanency, and functional-use tests under Treas. Reg. §1.48-1(e)(1) and the Whiteco six-factor framework (Whiteco Industries, Inc. v. Commissioner, 65 T.C. 664 (1975)). The classifications below reflect Cost Seg Smart's engineering-method assessment for the property type and construction class; the taxpayer's CPA may reach different conclusions for specific components based on installation method, condition, or facts not visible in the documentation reviewed.

Floor Coverings

Floor coverings such as carpet, vinyl, and laminate are classified as 5-year property based on their nature as tangible personal property under Treas. Reg. §1.48-1(e)(1). The classification is supported by the Whiteco six-factor test, considering factors such as the typical 5-10 year replacement cycle and the lack of permanent attachment to the building structure.

Cabinetry

Removable cabinetry is classified as 5-year property due to its method of attachment and lack of functional interdependence with the building structure. Built-in cabinetry, which is affixed permanently and serves a structural function, is classified as 27.5-year property.

Electrical

Decorative and specialized electrical components, such as light fixtures and ceiling fans, are classified as 5-year property under Rev. Proc. 87-56 Asset Classes 00.11 and 00.12. These components are distinct from the core building electrical system, which is integral to the building's operation and classified as 27.5-year property.

Plumbing Fixtures

Removable plumbing accessories, such as bathroom hardware, are classified as 5-year property due to their non-permanent nature and lack of integration with the building's plumbing infrastructure, which is classified as 27.5-year property.

Site Work

Site improvements such as concrete paving, fencing, and landscaping are classified as 15-year property under IRC §168(e)(4). These improvements are identified as land improvements distinct from the building structure.

Appliances

Appliances are classified as 5-year personal property based on their freestanding nature, consistent with IRS ATG guidance. This classification distinguishes them from built-in systems, which are integral to the building structure.

Finishes

Finish materials such as removable laminate surfaces and decorative millwork are classified as 5-year property due to their decorative nature and lack of permanent attachment. Permanently affixed surfaces are classified as 27.5-year property.

FF&E

In the context of a short-term rental, FF&E is classified as 5-year property under Rev. Proc. 87-56 Asset Class 00.11. Hospitality-grade furnishings, such as living area and bedroom furniture, are considered tangible personal property distinct from structural improvements.

FF&E Substantiation Note: The FF&E values in this study are estimated using per-square-foot cost models calibrated to hospitality-industry furnishing standards, not from a physical inventory or purchase receipts. If the taxpayer maintains itemized FF&E purchase records, invoices, or a furnished-unit inventory list, those actual costs should be substituted for the estimates in this report. Actual cost documentation strengthens the defensibility of FF&E allocations under IRS examination. The taxpayer's CPA should review FF&E totals against available records before filing.

6. MACRS Depreciation Schedules

CSS-WP-300

With 100% bonus depreciation, the estimated first-year depreciation deduction on reclassified assets is $238,845.

The following schedules show the annual depreciation deductions under MACRS for each asset category. The 5-year, 7-year, and 15-year property schedules assume full expensing of eligible assets under IRC §168(k), based on applicable bonus depreciation rates for the placed-in-service year.

5-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$171,182	$171,182	$0
2	$0	$171,182	$0
3	$0	$171,182	$0
4	$0	$171,182	$0
5	$0	$171,182	$0
6	$0	$171,182	$0

7-Year Personal Property (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$4,257	$4,257	$0
2	$0	$4,257	$0
3	$0	$4,257	$0
4	$0	$4,257	$0
5	$0	$4,257	$0
6	$0	$4,257	$0
7	$0	$4,257	$0
8	$0	$4,257	$0

15-Year Land Improvements (with 100% Bonus)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$63,406	$63,406	$0

2	$0	$63,406	$0
3	$0	$63,406	$0
4	$0	$63,406	$0
5	$0	$63,406	$0
6	$0	$63,406	$0
7	$0	$63,406	$0
8	$0	$63,406	$0
9	$0	$63,406	$0
10	$0	$63,406	$0
11	$0	$63,406	$0
12	$0	$63,406	$0
13	$0	$63,406	$0
14	$0	$63,406	$0
15	$0	$63,406	$0
16	$0	$63,406	$0

27.5-Year Real Property (Straight-Line, mid-month convention)

Year	Annual Deduction	Cumulative	Remaining Basis
1	$16,659	$16,659	$829,096
2	$30,755	$47,414	$798,341
3	$30,755	$78,168	$767,587
4	$30,755	$108,923	$736,832
5	$30,755	$139,678	$706,077
6	$30,755	$170,432	$675,323
7	$30,755	$201,187	$644,568
8	$30,755	$231,942	$613,813
9	$30,755	$262,697	$583,058
10	$30,755	$293,451	$552,304
11	$30,755	$324,206	$521,549
12	$30,755	$354,961	$490,794
13	$30,755	$385,716	$460,039
14	$30,755	$416,470	$429,285

15	$30,755	$447,225	$398,530
16	$30,755	$477,980	$367,775
17	$30,755	$508,734	$337,021
18	$30,755	$539,489	$306,266
19	$30,755	$570,244	$275,511
20	$30,755	$600,999	$244,756
21	$30,755	$631,753	$214,002
22	$30,755	$662,508	$183,247
23	$30,755	$693,263	$152,492
24	$30,755	$724,018	$121,737
25	$30,755	$754,772	$90,983
26	$30,755	$785,527	$60,228
27	$30,755	$816,282	$29,473
28	$29,473	$845,755	$0

8. Depreciation Recapture Considerations

CSS-WP-320

Cost segregation accelerates when deductions are taken, not how much — total lifetime depreciation remains the same.

Depreciation recapture considerations for this property involve IRC §1245 for personal property and §1250 for real property. Cost segregation accelerates depreciation timing without creating additional depreciation. The economic benefit derives from the time value of money, and property-specific recapture planning should be discussed with a CPA.

Recapture Categories

Category	Amount	Recapture Type	Max Rate
5-Year Property & 7-Year Property	$175,439	IRC §1245 — Ordinary Income	37%
15-Year Property	$63,406	IRC §1250 — Unrecaptured Gain	25%
27.5-Year Property	$845,755	IRC §1250 — Unrecaptured Gain	25%

Key Considerations

Depreciation recapture applies only to the extent of actual gain realized upon sale. If the property is sold at or below adjusted basis, no recapture tax is owed. Section 1245 property (5-year and 7-year personal property) is recaptured as ordinary income up to the amount of depreciation claimed. Section 1250 property (15-year land improvements and 27.5-year real property) is generally subject to a maximum 25% rate on unrecaptured depreciation under IRC §1(h)(1)(E). Recapture is fact-specific: the §1245 versus §1250 character of particular land improvements, the portion recaptured as ordinary income versus unrecaptured §1250 gain, and the applicable rate depend on the asset, the depreciation method used, and the taxpayer's circumstances at disposition — these should be confirmed with the taxpayer's CPA at the time of sale.

The economic benefit of cost segregation derives from the time value of money: deductions taken earlier are worth more than deductions taken later, even after accounting for recapture at disposition. The NPV analysis in Section 7 quantifies this timing benefit. Actual recapture liability depends on the sale price, adjusted basis, and the taxpayer's marginal rate at the time of sale. We recommend consulting your CPA for property-specific recapture planning.

Sensitivity Considerations

The following factors may materially affect component classification and allocation results. This section is provided to assist the taxpayer and their tax advisor in evaluating the study results in context.

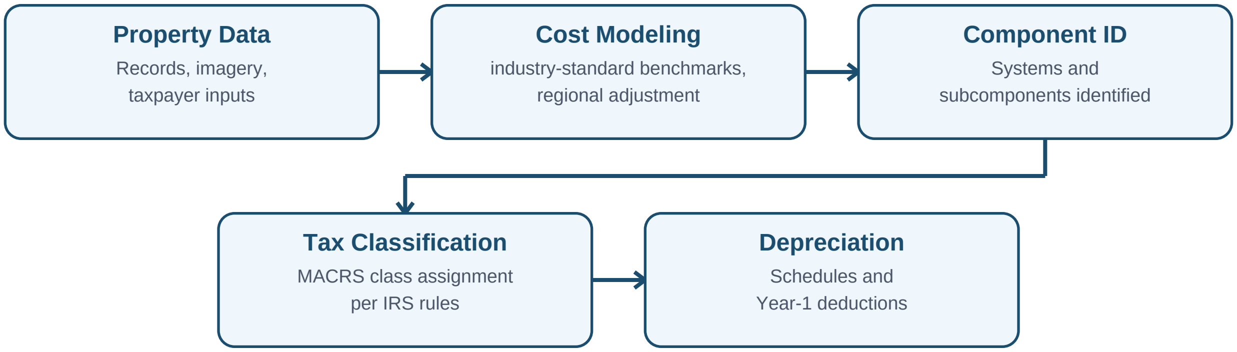
Factor	Potential Impact
Detailed contractor invoices available	May refine or increase 5-year personal property allocations based on actual costs
Major renovations or improvements	Increases short-life property share; renovated components may qualify for accelerated treatment
Higher-end or custom finishes	Shifts allocation toward personal property; premium finishes increase 5-year component values
Limited FF&E documentation	May reduce supportability of personal property allocations under examination
Property condition differs from age-based assumptions	Significant deferred maintenance or recent upgrades may shift allocation proportions
Furnished vs unfurnished status	FF&E allocations assume hospitality-grade furnishing; unfurnished units would reduce 5-year property

Because this is a remote (desktop) analysis prepared without a physical site visit, its audit supportability is somewhat lower than a study backed by complete on-site documentation and contemporaneous cost records. The methodology is defensible under the engineering-method approach and IRS Pub 5653, and supplying the documentation described in the Data Sources section materially strengthens the engagement file.

The allocations presented represent a reasonable estimate based on available data and standard cost segregation practices. Taxpayers with additional documentation (invoices, contractor records, renovation receipts) may provide this information for potential refinement of specific component allocations.

9. Methodology & Basis of Analysis

CSS-WP-400



This study applies the engineering-method approach described in Pub 5653, Chapter 3 §C.2.

Cost estimates were developed using construction cost data, public records, and taxpayer-provided information, consistent with IRS cost segregation guidance.

Cost Approach Methodology

This cost segregation study employs the engineering-method cost approach using construction cost data, public records, and taxpayer-provided information, consistent with the methodology described in IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 3 §C.2 — Detailed Engineering Cost Estimate Approach. Under this approach, component-level cost estimates are developed from industry-standard construction cost references and observed property characteristics, then reconciled to the total acquisition or project cost. This is the second of the six approaches enumerated in Pub 5653 Ch. 3, and is the methodology most commonly applied by national engineering and accounting firms when complete actual-cost records for every building component are not available, as is typical for acquired real property.

No physical site inspection was conducted for this study. Property observations were derived from remote data sources as described below. The IRS Cost Segregation Audit Techniques Guide does not require a physical site inspection; it requires a defensible engineering methodology and detailed documentation of cost derivations. This study satisfies those requirements through calibrated construction cost databases, verified property characteristics, and component-level cost allocation with source references.

Preparation Team & Qualifications

This cost segregation study was prepared by **Cost Seg Smart LLC** (EIN 42-2738626; D-U-N-S 144528479), a firm dedicated to engineering-method cost segregation studies for U.S. real estate investors. The firm's study team applies the engineering-method process across residential rental, short-term rental, multifamily, and small commercial property classes and maintains familiarity with the principal elements of a quality cost segregation study set forth in IRS Publication 5653, Chapter 4. Component classifications in this report are developed under the framework of IRC §168, Treasury Regulation 1.48-1, Revenue Procedure 87-56, and the Whiteco six-factor functional test, with additional reference to the published case law collected in Appendix D.

Cost Seg Smart LLC has no contingent interest in the tax outcome of this study; the engagement is performed under a fixed flat fee disclosed in the engagement letter. See the Certification section at the end of Section 12 for the firm's formal certification under IRS Publication 5653, Chapter 4 §D.8.

Engineering provenance (for audit reproducibility): this study was produced by the Cost Seg Smart cost-segregation engine ***v3.4.0*** *(released 2026-06-13), applying construction cost data calibrated to* ***Industry-standard 2026 construction cost data****. The engine version and configuration are retained in the engagement workpaper record so the allocation can be reproduced on examination.*

Data Sources & Observation Methodology

Property observations were derived from aerial imagery, street-level photography, county assessor records, property listing data, taxpayer-provided inputs, and third-party API data sources. Engineering cost estimates were developed using nationally-recognized construction cost references (U.S. Census construction-cost data and the BLS Producer Price Index) and observed property characteristics derived from these sources. Pub 5653, Chapter 3 §C.2 recognizes that cost estimates may be developed from available records, construction cost databases, and property characteristics observable through public data.

Sources consulted include:

• County assessor and parcel records — assessed values, land/improvement ratios, property characteristics, and building descriptions

• Aerial and street-level imagery — building footprint, exterior materials, site improvements, and observable property condition

• Property listing and transaction data — features, finishes, renovation history, and comparable property characteristics

• Third-party property data APIs — building metadata, year built verification, square footage confirmation, and geospatial attributes

• Industry construction cost databases — national and regional cost benchmarks by building type, quality tier, and geographic location

• IRS classification guidance — Revenue Procedure 87-56, IRC §§168, 1245, 1250, and the Cost Segregation Audit Techniques Guide

This study reflects the records available at the time of preparation. The taxpayer may strengthen it by providing additional documentation — the closing settlement statement, contractor invoices or pay applications, appraisals, and dated property photographs. Such records can refine individual component allocations and, where they substantiate a specific asset, upgrade it from a modeled estimate to an owner-documented (observed) cost in a reissued study.

Cost Basis & Source Provenance

Every component cost in this study has a documented, public-source provenance. High-impact items (flooring, site improvements, FF&E, and commercial specialty systems) are derived bottom-up from public data; the remaining components are calibrated to public aggregate construction-cost benchmarks and reconciled to the building total. **No proprietary or licensed cost database is embedded — all cost data traces to public, nationally-recognized sources.** Cost data is grounded in:

• U.S. Census Bureau — Survey of Construction and Value of Construction Put in Place (whole-building $/SF magnitude by property type)

• U.S. Bureau of Labor Statistics — Producer Price Index (materials) and OEWS wages (labor); U.S. Dept. of Labor Davis-Bacon prevailing wages

• State DOT bid tabulations (site-work unit costs); GSA schedules and observed federal procurement pricing (equipment / specialty systems)

• NAHB cost-of-construction stage shares (system-level allocation framework)

• IRS Revenue Procedure 87-56 and Publication 5653 (recovery-class classification)

Component costs are reconciled to the property's actual depreciable basis (purchase price less land) through a single normalization scalar. This anchors the study to the arms-length purchase price while preserving the engineered relative allocation between recovery classes — so the result depends on the component *mix* and its classification, both documented above, rather than on any single absolute unit cost. Modeled costs are held at or below published cost ranges (a deliberately conservative posture). Published commercial construction surveys are used only as reasonableness checks, never as the cost basis.

Information Sources & Interviews Documentation

Evidence reviewed	Status
Property photographs	Not provided
Supporting documents	Not provided
Contractor invoices / pay applications	Not provided
Taxpayer intake questionnaire	Completed
Renovation documentation	Not applicable

Cost Provenance Summary

Source	Basis	Share
Observed — owner-documented at actual cost (inventory items, contractor invoices, renovation pay applications)	$0	0.0%
Modeled — engineering cost estimate per Pub 5653, Chapter 3 §C.2 (industry-standard unit costs, BLS PPI time-index, regional adjustment)	$1,084,600	100.0%
Total depreciable basis	**$1,084,600**	**100.0%**

The Detailed Component Breakdown in Section 4 marks each line item's source. Owner-documented costs are accepted at actual cost without indirect markup or remaining-life adjustment; engine-modeled costs are derived from the engineering cost estimate approach *described in Section 5 and calibrated to the taxpayer's depreciable basis.*

As provided by IRS Publication 5653, Chapter 4 §C.4, a quality study documents the interviews and information exchanges conducted with the appropriate parties. For this engagement the following information sources were reviewed in lieu of (or in addition to) in-person interviews:

• The taxpayer's intake questionnaire responses, capturing property facts (address, acquisition date, purchase price, square footage, year built, intended use), renovation scope, and any owner-supplied component detail.

• Scope-of-work correspondence with the taxpayer (or the taxpayer's representative) confirming intended use of the property, ownership structure, and any related-party transactions material to the study.

Cost Allocation Summary by Category

The following table summarizes the primary categories of property components identified and the basis used to allocate costs.

Component Category	Recovery	Allocation Basis
Furniture, Fixtures & Equipment (FF&E)	5 years	Hospitality-grade furnishings, electronics, linens, kitchen smallwares, and decorative items per Rev. Proc. 87-56 Asset Class 00.11
Interior Finishes & Fixtures	5 years	Removable cabinetry, decorative lighting, floor coverings, window treatments, appliances, and specialty electrical/plumbing components not structurally integrated
Land Improvements	15 years	Exterior improvements including driveways, walkways, landscaping, fencing, retaining walls, and site drainage per Rev. Proc. 87-56 asset class 00.3
Building Structure	27.5 years	Remaining structural building components — foundation, framing, roofing, exterior walls, core mechanical/electrical/plumbing systems

Common Nomenclature & Standard Numbering System

Component descriptions in this report use terminology consistent with construction-industry convention and, where contractor pay applications were reviewed, with the descriptions on those documents. This satisfies the common-nomenclature requirement of IRS Publication 5653, Chapter 4 §C.5, which discourages “creative” descriptions that disguise the true nature of an asset.

The Classification Reference column in the Detailed Component Breakdown (Section 4) follows the Construction Specifications Institute (CSI) MasterFormat Division numbering system, the standard numbering convention identified in IRS Publication 5653, Chapter 4 §C.6. CSI MasterFormat categorizes costs by building system or component (e.g., Division 11 — Equipment; Division 03 — Concrete; Division 22 — Plumbing). Use of CSI numbering allows direct cross-reference between this study's component list and the contractor bid documents, pay applications, and invoices retained in the engagement file.

Component Extraction Framework

The study applies a systematic component extraction process: (1) identification of all building systems and sub-systems from property characteristics, public records, and taxpayer-provided information; (2) classification of each component under IRC §1245 (tangible personal property), IRC §1250 (real property and land improvements), and Revenue Procedure 87-56 asset classes; (3) estimation of Replacement Cost New (RCN) for each component using industry-standard cost databases adjusted by BLS PPI time index; (4) physical depreciation / remaining life is tracked per component for context (allocation is based on RCN); and (5) reconciliation of total component costs to the taxpayer's actual depreciable basis.

Cost Reference Databases

Component cost estimates are derived from and cross-referenced against the following industry-standard construction cost databases and references:

• Industry construction cost databases — national construction cost benchmarks by building type, quality tier, and geographic region

• industry-standard square-foot costs — per-building-type cost benchmarks with quality tier variants and regional cost factors

• Bureau of Labor Statistics Producer Price Index (PPI) — construction cost time index applied to adjust base cost schedules from anchor date to current period

• IRS Pub 5653 (Feb 2025) — component percentage allocation guidelines and classification criteria (Chapters 6-8)

Regional cost adjustments are applied using public price-level indices to account for geographic variation in labor and material costs. Quality tier adjustments reflect the property's value per square foot relative to regional construction cost averages. A BLS Producer Price Index (PPI) time adjustment inflates base cost schedules from their anchor date to the current period. This report should be reviewed by the taxpayer's CPA or qualified tax professional prior to filing.

Replacement Cost New (RCN) Derivation Workflow

The following table summarizes the five-step derivation from base replacement cost to final allocated depreciable basis for this property:

Step	Description	Factor	Result
1	Modeled Replacement Cost New (all components)	$274.46/SF	$680,670
2	Market Reconciliation Factor	× 1.59	**$1,084,600**

Note: The final allocated basis equals the property's depreciable basis (purchase price less land value). Component-level RCN estimates are calibrated to the taxpayer's actual cost basis using cost approach normalization.

Replacement Cost New (RCN) estimates were developed using industry construction cost databases. Each component retains the same proportional share of depreciable basis. The aggregate modeled cost is normalized to equal the taxpayer's actual depreciable basis, consistent with the engineering cost estimate approach.

Land Value Allocation

The land allocation of 25.2% for this property in Santa Rosa Beach, FL, is based on county-level assessor data and comparable sales analysis. This allocation is consistent with the median land-to-improvement ratios for residential properties in the area, adjusted for the property's price-per-square-foot relative to the local market.

This allocation is consistent with the cost approach methodology described in Pub 5653, Chapter 3 §C.2, which permits the use of assessor data and market-derived inputs when direct land valuation data is not available.

Cost Estimation Sources & Databases

Component costs are derived from a proprietary cost database calibrated against industry-standard square-foot costs (current edition) and publicly available construction cost indices published by the Bureau of Labor Statistics. Regional cost multipliers are based on regional construction cost index data adjusted for local construction market conditions. Quality tier adjustments reflect property value per square foot relative to regional averages.

Square Footage Allocation & Reconciliation

Base component costs are estimated on a per-square-foot basis using the property's gross building area. Per-unit cost estimation derived from industry-standard construction cost references is consistent with the Detailed Engineering Cost Estimate Approach described in IRS Publication 5653 (Feb 2025), Chapter 3 §C.2, and with the unit-cost determination element required by Chapter 4 §C.8. Component costs are calibrated against industry-standard square-foot costs for the applicable building type and quality tier, with BLS Producer Price Index time-index applied to the placed-in-service date.

Metric	Value
Gross Building Area	2,480 SF
Purchase Price	$1,450,000
Land Value Allocation	$365,400 (25.2%)
Depreciable Basis	**$1,084,600**
Implied Cost per SF	**$437.34/SF**
Accelerated Reclassification per SF	$96.31/SF
27.5-Year Property per SF	$341.03/SF

Cost Calculation Methodology

For each building component, the following calculation methodology is applied:

Step 1 - Base Cost Estimation: Component costs are estimated on a per-square-foot basis using construction cost data appropriate for the property type, construction class, and quality tier.

Step 2 - Regional Adjustment: Base costs are adjusted using regional cost multipliers that reflect local construction costs relative to the national average.

Step 3 - Indirect Costs: A 25% indirect cost factor is applied to account for contractor overhead, profit, architectural and engineering fees, and other soft costs. Indirect-cost percentages reflect standardized construction cost relationships embedded within the underlying industry-standard construction cost database and are applied proportionally to direct cost allocations. Industry studies indicate residential indirect costs range between 20%–30%, consistent with industry-standard contractor markup benchmarks and the engineering-method framework for indirect-cost treatment.

Step 4 - Remaining Life Adjustment:

For an 11-year-old property, the remaining useful life of components is adjusted to reflect physical depreciation. While newer properties may have components at or near full remaining life, older properties require consideration of wear and tear in the cost allocation process.

Step 5 - Premium/Discount Reconciliation:

The reconciliation factor of 1.59 indicates a market premium, reflective of location, market conditions, and buyer competition. This factor suggests that the replacement cost exceeds the depreciable basis, aligning with the property's market value.

Asset Classification Criteria

Each component is classified into the appropriate MACRS recovery period based on IRS guidelines, Revenue Rulings, and relevant Tax Court decisions. Classification criteria include the six-factor functional interdependence test established in *Whiteco Industries v. Commissioner* (65 T.C. 664):

(1) Whether the property is capable of being moved without damage to the building; **(2)** Whether the property is designed for permanent installation; **(3)** Whether there are permanent connections to utility systems; **(4)** Whether the property is designed for a specific purpose; **(5)** Whether removal would cause damage to the property or the building; **(6)** The weight and size of the property relative to the building.

Components meeting the functional test for personal property under Treas. Reg. 1.48-1(e)(1) are classified as 5-year or 7-year MACRS property per Rev. Proc. 87-56. Land improvements are classified under IRS Asset Class 00.3 (15-year recovery). Structural components integral to the building are classified as real property under IRC §1250 with a recovery period of 27.5 years (residential rental).

Placed-in-Service & Depreciation Eligibility

This property was placed in service on 2025-06-15 for purposes of IRC §167 and §168. Based on the placed-in-service year of 2025, eligible reclassified assets may qualify for bonus depreciation under IRC §168(k) under current federal tax law.

This property is classified as residential rental property under IRC §168(e)(2)(A), with structural components assigned a 27.5-year recovery period under MACRS. The property must be held for use in a trade or business or for the production of income (IRC §167(a)) and must be 'placed in service' — available and ready for its intended use. For short-term rental properties, the taxpayer must materially participate in the rental activity or qualify under the real estate professional exception to claim current-year depreciation deductions against ordinary income.

10. Legal Authority for Asset Classification

This cost segregation study was performed using the engineering cost estimate approach described in IRS Pub 5653 (Feb 2025). Asset classifications were established based on the following authorities:

Authority	Description
IRC §168	Modified Accelerated Cost Recovery System (MACRS) — establishes recovery periods for tangible depreciable property
IRC §1245	Tangible personal property classification — property not inherently permanent or structural in nature
IRC §1250	Real property classification — structural components and land improvements
Rev. Proc. 87-56	Asset class recovery periods — assigns MACRS lives by asset class (e.g., 00.11 Office Furniture, 00.3 Land Improvements)
IRC §168(k)	Bonus depreciation — allows first-year deduction of qualifying property placed in service in the applicable tax year
Pub. L. 119-21	2025 federal tax legislation (OBBBA) — amended IRC §168(k) to permanently restore 100% bonus depreciation for qualifying property acquired and placed in service after January 19, 2025, terminating the prior 2023–2026 phase-down schedule.
Treas. Reg. §1.48-1(e)(1)	Defines the functional interdependence test for distinguishing personal property from structural components
IRS ATG (2022)	Cost Segregation Audit Techniques Guide — IRS reference for reviewing cost segregation studies, including methodology standards and quality elements

Assets classified as **5-year property** represent tangible personal property that is not structural in nature, including removable fixtures, appliances, cabinetry, decorative finishes, and specialty electrical and plumbing components.

Assets classified as **15-year property** represent land improvements such as landscaping, walkways, paving, fencing, and site drainage consistent with Rev. Proc. 87-56 asset class 00.3.

All remaining building components are depreciated as **27.5-year residential rental property** under MACRS.

This report is intended to support the taxpayer's depreciation treatment and may be provided to tax advisors or taxing authorities upon request.

11. Schedule for Fixed Asset Ledger Entry

CSS-WP-500

This schedule can be entered directly into your CPA's tax preparation software — no manual reclassification required.

The following schedule is provided for direct entry into the taxpayer's fixed asset ledger or tax preparation software. Each line item represents a reclassified asset with the applicable MACRS method, convention, recovery period, and allocated cost.

Asset Description	Method	Conv.	Life	PIS Date	Cost Basis
Bedroom Furniture (Beds, Dressers, Nightstands)	200DB	HY	5 yr	2025-06-15	$33,788
Living Area Furniture (Sofas, Tables, Chairs)	200DB	HY	5 yr	2025-06-15	$19,741
Appliances	200DB	HY	5 yr	2025-06-15	$13,846
Light Fixtures	200DB	HY	5 yr	2025-06-15	$12,841
Carpet & Pad	200DB	HY	5 yr	2025-06-15	$10,011
Removable Kitchen Fixtures	200DB	HY	5 yr	2025-06-15	$8,587
Kitchen Smallwares & Cookware	200DB	HY	5 yr	2025-06-15	$8,359
Outdoor Furniture & Accessories	200DB	HY	5 yr	2025-06-15	$7,149
Vinyl/Laminate Flooring	200DB	HY	5 yr	2025-06-15	$6,583
Televisions & Electronics	200DB	HY	5 yr	2025-06-15	$5,781
Linens, Bedding & Towels	200DB	HY	5 yr	2025-06-15	$5,661
Bathroom Accessories & Fixtures	200DB	HY	5 yr	2025-06-15	$4,930
Window Treatments	200DB	HY	5 yr	2025-06-15	$4,460
Removable Laminate Surfaces	200DB	HY	5 yr	2025-06-15	$3,790
Closet Shelving	200DB	HY	5 yr	2025-06-15	$3,725
Dining Furniture	200DB	HY	5 yr	2025-06-15	$3,546
Door Hardware & Accessories	200DB	HY	5 yr	2025-06-15	$3,299
Ceiling Fans	200DB	HY	5 yr	2025-06-15	$3,047
Doorbell & Low-Voltage Wiring	200DB	HY	5 yr	2025-06-15	$2,580
Removable Plumbing Trim	200DB	HY	5 yr	2025-06-15	$2,345
Decorative Millwork	200DB	HY	5 yr	2025-06-15	$2,187

Kitchen Hood & Ventilation	200DB	HY	5 yr	2025-06-15	$1,959
Bathroom Hardware	200DB	HY	5 yr	2025-06-15	$1,931
Smoke/CO Detectors	200DB	HY	5 yr	2025-06-15	$1,037
Decorative Items & Artwork	200DB	HY	7 yr	2025-06-15	$4,257
Concrete Paving & Walks	150DB	HY	15 yr	2025-06-15	$15,478
Wood Deck/Porch	150DB	HY	15 yr	2025-06-15	$11,927
Landscaping	150DB	HY	15 yr	2025-06-15	$10,745
Fencing	150DB	HY	15 yr	2025-06-15	$9,213
Irrigation System	150DB	HY	15 yr	2025-06-15	$4,542
Exterior Lighting	150DB	HY	15 yr	2025-06-15	$3,912
Storm Drainage & Grading	150DB	HY	15 yr	2025-06-15	$3,833
Retaining Walls	150DB	HY	15 yr	2025-06-15	$3,007
Mailbox & Site Accessories	150DB	HY	15 yr	2025-06-15	$748
Remaining 27.5-Year Real Property	SL	MM	27.5 yr	2025-06-15	**$845,755**
TOTAL DEPRECIABLE BASIS					**$1,084,600**

Legend: 200DB = 200% Declining Balance; 150DB = 150% Declining Balance; SL = Straight-Line; HY = Half-Year Convention; MM = Mid-Month Convention; PIS = Placed in Service.

Note: Assets with recovery periods of 20 years or less qualify for 100% bonus depreciation under IRC §168(k). Apply bonus depreciation before entering the remaining basis into MACRS schedules.

CPA Filing Note

Most CPAs incorporate the results of this study into the taxpayer's return by entering the asset schedule above directly into their depreciation software (Lacerte, ProSeries, Drake, UltraTax, or equivalent) and applying the bonus depreciation calculation to qualifying assets. For lookback studies where the property was placed in service in a prior year, the report includes Form 3115 catch-up calculations so the CPA can file a change of accounting method. If the taxpayer's CPA has questions about this report, they may contact us directly at support@costsegsmart.com.

CPA Review Considerations

The following items are provided for review by the taxpayer's CPA or tax advisor:

- **Form 3115 (Lookback Study) — if applicable:** This property was placed in service in 2025. **If the taxpayer has already filed the 2025 federal return without the benefit of this study**, accelerated depreciation can still be claimed via Form 3115 (Application for Change in Accounting Method) with the current-year return; the Section 481(a) adjustment captures all prior-year missed depreciation in a single year. **If the 2025 return is still open** (not yet filed, or on extension), the accelerated depreciation can be claimed directly on Form 4562 with that return — no Form 3115 needed.
- **Post-Acquisition Improvements:** Capital improvements placed in service after the original acquisition date should be evaluated separately for depreciation treatment. These may qualify for bonus depreciation or repair expense treatment under applicable regulations.
- **Passive Activity Limitations:** Accelerated depreciation deductions may be subject to passive activity loss rules under IRC §469. The taxpayer's ability to utilize these deductions depends on their participation level and other income sources.
- **State Tax Conformity:** State-level conformity to federal bonus depreciation rules should be reviewed for FL. Not all states conform to federal bonus depreciation provisions.
- **Bonus Depreciation:** The applicable bonus depreciation rate should be confirmed with the taxpayer's tax advisor based on the placed-in-service year and current federal tax law.

This study provides the asset classification framework; final tax treatment should be confirmed based on the taxpayer's specific filing position.

12. Conclusion

Based on the analysis performed, it is our opinion that the subject property at **63 Tradewinds Dr, Santa Rosa Beach, FL 32459** contains identifiable components that qualify for accelerated depreciation under applicable federal tax law.

Using an engineering cost approach, this study allocated **$238,845** of the property's **$1,084,600** depreciable basis to shorter recovery periods, including 5-year, 7-year, and 15-year property classifications, in accordance with the Internal Revenue Code and supporting authority. All allocations reconcile to the total depreciable basis of the property.

Under the bonus depreciation provisions in effect for the property's placed-in-service year (IRC §168(k)), the **$238,845** in reclassified assets may qualify for accelerated first-year deductions depending on bonus-depreciation eligibility, the taxpayer's individual tax circumstances (entity structure, passive activity status, real estate professional qualification), and the state's conformity to IRC §168(k).

The allocations presented represent a reasonable and supportable classification of property components, consistent with IRS guidance, applicable case law, and standard cost segregation practices.

This report is intended to assist the taxpayer and their tax advisor in calculating depreciation deductions, preparing federal income tax filings (including Form 4562), and supporting accounting positions related to asset classification. This report may be relied upon by the taxpayer and their tax advisor for tax reporting purposes. Final tax treatment should be determined in consultation with a qualified tax professional.

Audit Support. In the event of an IRS inquiry, Cost Seg Smart will provide supplementary documentation, cost derivation workpapers, and methodology explanations to support the classifications and allocations in this report at no additional cost.

Certification

Cost Seg Smart LLC certifies that the analysis, opinions, and conclusions set forth in this cost segregation study were developed by the firm's study team under the engineering-method process described in Section 9. The study was prepared in accordance with the principal elements of a quality cost segregation study set forth in IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 4.

The fee for the preparation of this study was a **fixed flat fee** agreed in the engagement letter prior to commencement of work. The firm's compensation is not contingent on the amount of accelerated depreciation identified, on any tax benefit claimed by the taxpayer, or on any other tax outcome. Cost Seg Smart LLC has no contingent interest in the results of this study.

The firm has no ownership interest, personal interest, or business relationship with the subject property, the taxpayer, or any related party beyond the professional engagement under which this study was prepared. Workpapers supporting the analysis are retained in the engagement file and available to the taxpayer and the taxpayer's tax representatives upon request.

Cost Seg Smart LLC
EIN 42-2738626 · D-U-N-S 144528479 · costsegsmart.com
Study Date: June 14, 2026

A. Appendix A — Cost Derivation Summary

CSS-WP-510

The following table summarizes the cost derivation methodology applied to each major component category. Replacement Cost New (RCN) estimates are adjusted for regional factors, PPI time index, and market reconciliation to equal the property's actual depreciable basis. Physical depreciation / remaining life is tracked per component for context; allocation is based on RCN.

Category	RCN (Pre-Recon)	Avg RLF (Info)	Recon. Factor	Final Allocated Basis
5-Year Personal Property	$138,722	0.39	× 1.59	$221,040
7-Year Personal Property	$4,257	0.45	× 1.59	$6,783
15-Year Land Improvements	$39,792	0.63	× 1.59	$63,404
27.5-Year Real Property	$497,899	0.80	× 1.59	$793,352
Total Depreciable Basis				**$1,084,600**

Location Cost Index: 0.94 (state level — Santa Rosa Beach, FL). Applied to modeled RCN to reflect local construction cost conditions.

Reconciliation: Component-level RCN estimates are normalized to the property's depreciable basis so that all allocated costs collectively equal the recorded acquisition price less land value. Remaining life factors (RLF) are shown for transparency but are not applied to component costs pre-reconciliation.

Land Allocation Analysis

The IRS Cost Segregation ATG (Chapter 4) requires that cost segregation studies clearly identify and support the land allocation. The following methods were considered in determining the land value for this property:

Method	Result	Description	Weight
A.1 County Tax Assessor Allocation	N/A	County assessor data not available for this property. When available, assessor allocations provide a recognized IRS-accepted benchmark per ATG Chapter 4.	Not Available
A.2 Statistical Market Analysis	25.2%	Metro-area land ratio analysis based on median land-to-value ratios for the Santa Rosa Beach, FL submarket, calibrated against comparable property sales data and construction cost indices.	Primary
A.3 Replacement Cost Residual	25.2%	Purchase price less estimated replacement cost of improvements (industry-standard square-foot costs with regional cost factor adjustment). The residual represents the implied land value under the cost approach.	Corroborating

A.4 Comparable Sales Analysis	—	Vacant land sales in the immediate submarket would provide direct market evidence. This method is referenced for completeness but was not independently performed for this study.	Not Performed
A.5 Purchase Agreement Allocation	—	If the purchase contract or HUD-1/ALTA settlement statement contains a land/improvement allocation, that buyer-seller negotiated split may be used. Not provided for this study.	Not Provided
A.6 Adopted Land Allocation	**25.2%**	Based on the statistical market analysis as the primary method, corroborated by replacement cost residual analysis. Land value of $365,400 (25.2% of purchase price) is adopted for this study.	**Adopted**

B. Appendix B — IRS ATG Quality Elements

CSS-WP-600

IRS Publication 5653 (Feb 2025), Cost Segregation Audit Techniques Guide, Chapter 4 §C.1–C.13, identifies the 13 principal elements of a quality cost segregation study. The left column below restates each element using the IRS publication's own headings; the right column identifies where this report addresses the element.

ATG Element	How Addressed
C.1 Preparation by an Individual with Expertise and Experience	Section 9 — Preparation Team & Qualifications identifies the preparer (Cost Seg Smart LLC) and describes the firm's experience preparing cost segregation studies under the engineering-method approach.
C.2 Detailed Description of the Methodology	Section 9 — Methodology & Basis of Analysis describes the engineering-method cost approach (Pub 5653 Ch. 3 §C.2), the data sources reviewed, and the cost reconciliation process.
C.3 Use of Appropriate Documentation	Section 9 (Data Sources subsection) and Appendix E (Audit Documentation & Support) enumerate the contemporaneous documents reviewed: contractor pay applications, county assessor records, purchase agreements, and property photographs.
C.4 Interviews Conducted with Appropriate Parties	Section 9 — Information Sources & Interviews Documentation records the taxpayer intake questionnaire responses, photograph set reviewed, contractor invoice review, and scope-of-work correspondence used in lieu of a physical site visit.
C.5 Use of Common Nomenclature	Section 9 — Common Nomenclature & Standard Numbering System confirms that component descriptions use terminology consistent with construction-industry convention and the property's contractor pay applications.
C.6 Use of a Standard Numbering System	Section 4 (Detailed Component Breakdown) renders each component's CSI MasterFormat Division reference in the Classification Ref column. The use of CSI MasterFormat is documented in the Common Nomenclature subsection of Section 9.
C.7 Explanation of the Legal Analysis	Section 5 (Engineering Rationale by Category) cites authorities for each classification; Section 10 (Legal Authority for Asset Classification) sets out the statutory and regulatory framework; Appendix D (Case Law & IRS Rulings) collects supporting precedent.
C.8 Determination of Unit Costs and Engineering "Take-off"	Section 4 (Detailed Component Breakdown) shows component-level unit costs; Appendix A (Cost Derivation Summary) documents the take-off and the unit-cost reconciliation.
C.9 Organization of Assets Into Lists or Groups	Section 4 organizes assets by recovery period (5-, 15-, and 27.5- or 39-year classes). Section 11 (Schedule for Fixed Asset Ledger Entry) lists assets in a format that ties to the taxpayer's fixed asset ledger.
C.10 Reconciliation of Total Allocated Costs to Total Actual Costs	Section 4c (Reconciliation of Costs) demonstrates that the sum of allocated costs equals the total depreciable basis. Separately-acquired §1245 property (e.g., FF&E acquired outside the project cost) is listed distinctly to prevent duplication, consistent with Pub 5653 Ch. 4 §C.10(2).
C.11 Explanation of the Treatment of Indirect Costs	Section 4b (Indirect Cost Allocation) identifies indirect cost categories, explains the allocation method applied, and reconciles the indirect-cost treatment to the direct-cost basis.

C.12 Identification and Listing of §1245 Property	Section 4 separately lists §1245 property (5-year and 7-year classes) from §1250 structural components. Items originally classified as §1250 that have been reclassified to §1245 under the functional-test analysis are highlighted.
C.13 Consideration of Related Issues (§263A, Change in Accounting Method, Sampling Techniques)	§263A (UNICAP) treatment of pre-placement renovation costs is addressed in Sections 3 and 4. Change-in-accounting-method considerations and Form 3115 / §481(a) catch-up adjustments (where applicable to lookback studies) are addressed in Section 11 and Section 12. Sampling techniques are not applicable to this study (single property; population of one).

C. Appendix C — Revenue Procedure 87-56 & IRC Framework

CSS-WP-610

This cost segregation study is prepared in accordance with the following Internal Revenue Code sections, Treasury Regulations, and IRS guidance:

Reference	Application
IRC §167	Depreciation deduction for property used in trade/business or production of income.
IRC §168	Modified Accelerated Cost Recovery System (MACRS) — recovery periods by asset class.
IRC §168(e)(2)(A)	Residential rental property: 80%+ gross income from dwelling units. Recovery: 27.5 years.
IRC §168(e)(2)(B)	Nonresidential real property. Recovery: 39 years.
IRC §168(k)	Bonus depreciation — rates vary by placed-in-service year. Confirm applicable rate with tax advisor.
IRC §1245	Personal property: accelerated depreciation subject to ordinary income recapture.
IRC §1250	Real property: structural components subject to unrecaptured §1250 gain (25%).
Treas. Reg. §1.48-1(e)(1)	Tangible personal property: all tangible property except land, land improvements, buildings, and structural components.
Treas. Reg. §1.1250-1(e)(2)	Building: any structure enclosing a space within walls and covered by a roof.
Rev. Rul. 68-4	Criteria for structural component vs. tangible personal property classification.
Rev. Proc. 87-56	Class lives and recovery periods for depreciable assets under MACRS.
IRS ATG (Rev. 2022)	Cost Segregation Audit Techniques Guide — 13 elements of a quality study.

D. Appendix D — Case Law & IRS Rulings

CSS-WP-620

The following court decisions and IRS rulings establish the legal framework for component classification in cost segregation studies:

Case / Ruling	Citation	Significance
Hospital Corp. of America v. Commissioner	109 T.C. 21 (1997)	Established that items which are affixed to a building may still constitute personal property if they serve the taxpayer's business activity rather than the building itself.
Whiteco Industries v. Commissioner	65 T.C. 664 (1975)	Established the six-factor test for determining whether property is a structural component or tangible personal property: (1) manner of affixation, (2) whether designed to be permanently affixed, (3) damage upon removal, (4) function of the property, (5) relationship to building operation, (6) intent at installation.
Scott Paper Co. v. Commissioner	74 T.C. 137 (1980)	Reinforced that the 'intent at time of installation' is a relevant factor in determining whether property is personal or structural.
Morrison Inc. v. Commissioner	T.C. Memo 1986-129	Applied the Whiteco factors to restaurant properties, finding that decorative items, specialty lighting, and removable kitchen equipment qualify as personal property.
Meyers Parking System Inc. v. Commissioner	T.C. Memo 1991-18	Addressed the classification of site improvements and their treatment as land improvements with a 15-year recovery period.
IRS Cost Segregation ATG, Chapter 3	Rev. 2022	Provides detailed guidance on the engineering approach to cost segregation, including acceptable methodologies (detailed engineering, residual estimation, sampling/modeling) and the 13 principal elements of a quality study.

E. Appendix E — Audit Documentation & Support

This section provides guidance for audit documentation preparedness and documentation retention in support of the cost segregation reclassifications contained in this study.

Workpaper Retention

Cost Seg Smart maintains complete workpapers for this study, including component-level cost calculations, classification rationale, and reconciliation documentation. These workpapers are retained for the applicable IRS statute of limitations period (generally three years from the filing date, or six years if gross income is understated by more than 25%). The taxpayer should retain a copy of this report and all supporting documentation for the same period.

Component-Level Allocation Methodology

Each component category in this study has been analyzed, classified, and costed using the detailed engineering cost approach. This methodology satisfies the IRS requirement for component-level analysis as described in the Cost Segregation Audit Techniques Guide (ATG), Chapter 4. The study provides:

• Individual component identification with IRS asset class assignment

• Cost estimation per component using industry-standard cost databases

• Classification rationale citing IRC sections, Treasury Regulations, and case law

• Reconciliation of modeled costs to actual taxpayer basis

• IRS asset class assignment with supporting legal citations for each classification

IRS ATG Compliance Affirmation

This cost segregation study has been prepared in compliance with the 13 principal elements of a quality cost segregation study as identified in the IRS Cost Segregation Audit Techniques Guide (ATG), Chapter 4.4. These elements include: preparation by an individual with appropriate expertise; use of appropriate documentation and methodology; identification of the property analyzed; description of the analytical approach; determination of all direct and indirect costs; identification and classification of each asset; an explanation of the legal analysis; and a clear summary of allocations and conclusions.

Recordkeeping Recommendations

To support audit defensibility, the taxpayer should maintain the following documentation in addition to this report:

• Purchase agreement and closing statement (HUD-1 / ALTA settlement statement)

• Property photographs documenting building systems and site improvements

• Construction plans, specifications, or renovation invoices (if available)

- County tax assessor records showing land and improvement values
- Any independent appraisal or environmental reports
- Insurance policy declarations page showing replacement cost estimates

For questions regarding audit documentation or support, contact Cost Seg Smart at support@costsegsmart.com.

7. NPV Analysis (Illustrative Only)

CSS-WP-310

This section is provided for illustrative purposes only and is not part of the cost segregation allocation. Actual tax outcomes depend on the taxpayer's specific circumstances, income, and applicable tax rates.

Accelerating deductions into earlier years increases their present value — a dollar of tax savings today is worth more than one spread over decades.

The NPV analysis assumes a 5% discount rate and a 37% marginal tax rate, highlighting that accelerated deductions in earlier years are more valuable in present-value terms. Actual savings depend on the taxpayer's specific rate and circumstances.

Cost segregation does not change the total depreciation allowed over the life of the property. It accelerates deductions into earlier years, increasing the present value of the associated tax savings.

Scenario	NPV of Tax Savings from Depreciation
Without Cost Segregation (Straight-Line)	$210,880
With Cost Segregation + Bonus Depreciation	**$248,606**
NPV Benefit of Cost Segregation	**$37,725**

Assumptions: Discount rate: 5.0% | Marginal tax rate: 37% (illustrative — actual rate depends on taxpayer's specific situation) | 100% bonus depreciation applied to eligible 5-year, 7-year, and 15-year property (per IRC §168(k) for placed-in-service year) | Half-year convention applied to first and last years of all MACRS schedules. This analysis does not account for passive activity loss limitations, depreciation recapture, or state tax variations.

F. Appendix F — Exhibits & Supporting Documentation

CSS-WP-700

The following exhibits and supporting documentation are maintained for audit documentation purposes.

Property Photo Documentation

Exterior photographs (front, rear, and side elevations), interior photographs (kitchen, bathrooms, living areas, mechanical equipment), and photographs of specific features claimed in this study (pool, deck, landscaping, etc.) should be maintained in the taxpayer's records.

Property photographs should be included as a separate exhibit. Minimum recommended: 6-10 photos covering all building elevations and key interior spaces.

Aerial / Satellite Imagery

Aerial imagery of the subject property at 63 Tradewinds Dr, Santa Rosa Beach, FL 32459, obtained via Google Maps Static API.

Aerial View — Subject Property

Audit Documentation Checklist

Document	Status
Purchase/closing documentation (HUD-1 or settlement statement)	Recommended
Property tax assessment showing land/improvement split	Recommended
Property photographs (exterior and interior)	Recommended
This cost segregation study report	Required
IRS Form 3115 (if lookback study — change in accounting method)	If applicable
MACRS depreciation schedules (provided in this report)	Included
Component classification support (engineering narratives)	Included
IRS legal citations and regulatory framework	Included

Entity formation and ownership documentation	**Recommended**
Loan documents and financing records	**Optional**
Prior appraisal or inspection reports	**Optional**
Floor plans or architectural drawings	**Optional**

G. Appendix G — Disclaimers & Limitations

CSS-WP-800

Professional Review: This cost segregation study was prepared in accordance with the engineering cost approach outlined in the IRS Cost Segregation Audit Techniques Guide. Component classifications follow established IRS guidance, Treasury Regulations, and relevant Tax Court precedent. This report should be reviewed by a licensed Certified Public Accountant (CPA) or qualified tax professional prior to filing to ensure compatibility with the taxpayer's specific tax situation, including passive activity limitations, at-risk rules, and state conformity considerations.

Scope of Services: This report is provided for tax preparation and planning purposes. Cost Seg Smart provides engineering cost allocation analysis using proprietary cost databases and IRS-compliant classification methodology. This report does not constitute tax advice, legal advice, or accounting advice. The taxpayer's CPA or tax professional should apply these findings to the taxpayer's specific return.

CPA Review Note: This report is intended to assist the taxpayer and their tax advisor in determining appropriate depreciation treatment under applicable tax law. The allocations presented represent engineering cost estimates derived from construction cost references and applicable IRS guidance. Final tax treatment, including the decision to claim accelerated depreciation and the application of passive activity rules, remains at the sole discretion of the taxpayer's qualified tax professional.

Accuracy of Information: The accuracy of this study depends on the completeness and accuracy of the property information provided by the user. Cost Seg Smart makes no warranty regarding the accuracy of estimated component costs, as actual costs may vary based on specific construction details, materials, and conditions not captured in the standard input process.

IRS Audit Risk: While cost segregation is a well-established tax strategy recognized by the IRS, any depreciation deduction may be subject to IRS examination. The IRS may challenge the classification of specific components. Users should maintain supporting documentation including purchase agreements, inspection reports, and photographs for audit documentation.

Bonus Depreciation: This study applies 100% bonus depreciation, the rate in effect for the placed-in-service year shown on the cover. Historical §168(k) rates: 100% (2017–2022), 80% (2023), 60% (2024), 100% (2025 forward under current federal tax law). The §168(k) rate is set by statute and may change in future legislation; verify the applicable rate with your tax professional at the time of filing.

State Tax Considerations: Some states do not conform to federal bonus depreciation provisions. State depreciation deductions may differ from the federal amounts shown in this report. Consult your CPA regarding state-specific rules.

This report was prepared by Cost Seg Smart using engineering cost allocation methodology. For questions regarding this study, please contact support@costsegsmart.com.

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