



# Cost Segregation:

Simplify Tax Savings  
and Boost Cash Flow

For real estate investors and commercial property owners, tax liabilities can represent a significant financial burden. Despite careful planning and strategic investments, a substantial portion of income is often lost to taxes, limiting liquidity and slowing business growth.

This reduction in available capital means fewer resources for property acquisitions, renovations, and operational improvements. Without an effective tax strategy, investors may find themselves missing out on valuable tax deductions, leaving money on the table that could be reinvested into expanding their portfolios or enhancing their properties.

Cost segregation is a tax-deferral strategy designed to accelerate depreciation deductions, allowing property owners to reduce taxable income, enhance cash flow, and reinvest savings into their business. By identifying and reclassifying specific building components into shorter depreciation schedules, investors can unlock 4-8% in immediate tax savings while ensuring full compliance with IRS regulations.

### **In this guide, we'll break down:**

- What cost segregation is and how it works
- The tax-saving opportunities with cost segregation
- The step-by-step cost segregation study process
- Which assets qualify for cost segregation
- How a cost segregation study fits into your overall tax strategy

Whether you're a real estate investor, small business owner, or CPA/tax professional, this guide will provide actionable insights to help you maximize tax savings.





## What Is Cost Segregation?

Imagine having the ability to significantly reduce your taxable income, improve cash flow, and reinvest savings back into your business—all while remaining fully compliant with IRS regulations. This is precisely what cost segregation enables commercial property owners and real estate investors to achieve.

Cost segregation is an IRS-approved tax strategy that accelerates depreciation deductions. It uses an engineering study to reclassify building components into shorter depreciation schedules. Instead of depreciating an entire building over 27.5 or 39 years, property owners can segregate specific assets into shorter depreciation periods, unlocking substantial tax savings.

## How Cost Segregation Works

Every commercial property has different components—some that wear out faster than others. While traditional tax depreciation treats a building as a single entity, cost segregation breaks it down into individual assets, allowing owners to recover costs more quickly.

Here's how depreciation categories typically look:

- 5-Year Assets** – Carpet, decorative fixtures, specialized lighting, molding, interior windows, shelving, and electrical components
- 7-Year Assets** – office furniture, movable items and some equipment
- 15-Year Assets** – Land improvements such as paving, landscaping, and site utilities

By accelerating depreciation, property owners can reduce taxable income in the early years of ownership, leading to immediate cash flow improvements. These savings can then be reinvested into property upgrades, new acquisitions, or debt reduction.

According to the Journal of Accountancy, cost segregation is a highly effective method for increasing cash flow. As highlighted in their August 2004 issue, *"A taxpayer can substantially increase cash flow by segregating property costs."*

## A Strategic Tax Deferral, Not a Loophole

It is important to understand that cost segregation creates a tax deferral, meaning that while taxes are reduced in the short term, depreciation recapture taxes may apply upon the sale of the property. However, in many cases, the ability to reinvest tax savings in the present far outweighs the deferred tax liability, making it a highly strategic financial decision for property owners looking to maximize profitability.

Is cost segregation the right tax strategy for your property? [Schedule a Free Consultation](#) to find out.

## Who Benefits from Cost Segregation?

Cost segregation can be applied to any building purchased or built since 1986, including renovations. Cost segregation can occur any time after the building is constructed or acquired. Here are common profiles of those who benefit from this tax strategy:

- **Real Estate Investors** – Minimize tax liabilities and increase return on investment.
- **Commercial Property Owners** – Improve cash flow for reinvestment.
- **Small Business Owners** – Optimize deductions for leased or owned spaces.
- **CPAs & Tax Professionals** – Offer advanced tax planning strategies for clients.



# Benefits of Cost Segregation

## 1. Significant Tax Savings & Accelerated Depreciation

Instead of waiting 27.5 to 39 years to realize full depreciation, property owners can accelerate deductions and immediately reduce taxable income. This can result in significant tax savings upfront.

Actual Savings Generated by Cost Segregation Studies			
Building Type	Total Property Cost	First Year Cash Flow from Tax Savings	Five Year Cash Flow from Tax Savings
Office	\$480,000	\$12,783	\$31,229
Condo	\$540,000	\$9,934	\$38,179
Restaurant	\$663,000	\$6,962	\$36,124
Medical Facility	\$1,400,000	\$53,751	\$131,569
Leasehold Improvements	\$3,600,000	\$57,540	\$286,372
Warehouse	\$15,000,000	\$236,763	\$570,288
Apartments	\$22,300,000	\$379,796	\$848,160

## 2. Increased Cash Flow & Reinvestment Opportunities

Managing cash flow in real estate or business ownership can feel like an endless balancing act. Property-related expenses pile up, mortgage payments never stop, and growth opportunities often take a backseat due to limited capital.

Perhaps you seek to expand your portfolio, renovate your property, or pay down debt faster—but high tax liabilities are holding you back. Every dollar you send to the IRS is a dollar you can't reinvest into your business or properties. Over time, this lost capital slows growth, limits profitability, and keeps you from making the strategic moves you know could take your investments to the next level.

Cost segregation changes the game by lowering your tax **liabilities and freeing up immediate cash flow**. Here is cost segregation explained for property owners:

- **Reinvest in new properties** to expand your portfolio
- **Upgrade existing facilities** for higher tenant satisfaction and value
- **Pay down mortgage debt faster** and build equity
- **Deduct the study fee as a business expense**, making the process even more cost-effective

## 3. IRS Compliance & Risk Mitigation

Navigating tax laws is overwhelming, and the fear of an IRS audit keeps many property owners from taking advantage of tax-saving strategies. The last thing you want is to claim deductions incorrectly and face compliance risks.

The complexity of IRS regulations can leave even the most experienced investors and tax professionals second-guessing their approach. Misclassifying assets or failing to follow proper procedures could trigger audits, penalties, or lost tax-saving opportunities. Plus, having to amend previous tax returns adds another layer of stress.

A professionally conducted **cost segregation study is fully compliant with IRS regulations**, reducing audit risks while maximizing your benefits. Best of all, **there's no need to amend past tax returns**—you can claim the deductions retroactively. When done right, cost segregation is one of the most potent real estate tax compliance strategies and a smart financial move.

# The Cost Segregation Process

## Step-by-Step Breakdown

Here is a quick walkthrough of our analysis process.

### Step 1 – Request a Free Cost Segregation Analysis

You can complete the form and schedule it in less than a minute [on this link](#).

### Step 2 – Share Your Tax Info

Send TPTM your **federal tax depreciation schedule** and property addresses so we can start the evaluation.

### Step 3 – Initial Analysis

We'll review your property details to determine:

1. If a Tangible Property Regulation (TPR) study is needed.
2. How much you could save through cost segregation.

This helps you make an informed decision

### Step 4 – Get Started

Once you decide to proceed, we'll send you an **engagement letter and require a 50% deposit to begin the study**.

### Step 5 – Gather Documentation

To complete the study, we'll need documents like appraisals, blueprints, closing documents, cost breakdowns, depreciation schedules, and property photos.

### Step 6 – On-Site Inspection

A **site visit** will be scheduled to thoroughly inspect and photograph your property. This ensures our engineers have accurate, detailed information for the study.

### Step 7 – Final Report & Tax Filing

**Your cost segregation study will be completed within just a few weeks.** If needed, we'll also prepare the IRS 3115 Form (Change of Accounting Method) and have it signed by our CPA or yours.

### The Importance of Professional Guidance

A **properly conducted cost segregation study** requires engineering, construction, and tax law expertise. Engaging a team of CPAs and engineers ensures accuracy and IRS compliance.





## Common Assets That Qualify for Cost Segregation

### Types of Properties That Benefit

- Commercial office buildings
- Apartment complexes & multifamily properties
- Retail spaces & shopping centers
- Hotels & hospitality properties
- Manufacturing & industrial facilities
- Medical & dental offices

## Cost Segregation Study Requirements

### What's Included in a Study?

A **comprehensive cost segregation study** includes:

- Detailed property and asset classification
- Engineering-based analysis of building components
- Depreciation reallocation for tax reporting
- IRS-compliant documentation

### Key Documents Needed

- Depreciation schedules
- Purchase agreements & closing documents
- Blueprints & property records
- Renovation costs & improvement invoices

## How Cost Segregation Fits Into Your Tax Strategy

### 1. Bonus Depreciation & Section 179

Recent tax laws allow for 100% bonus depreciation, meaning property owners can immediately deduct qualified assets in the year they are placed in service.

- **Bonus depreciation** applies to assets with a 20-year or shorter depreciation period.
- **Section 179** allows small businesses to deduct eligible property expenses upfront.

### 2. Tangible Property Regulations (TPRs) & Compliance

The IRS **Tangible Property Regulations (TPRs)** outline guidelines for expensing vs. capitalizing improvements. Cost segregation studies help identify deductible repairs while ensuring compliance with IRS rules.

### 3. When Cost Segregation May Not Be Ideal

- **If you plan to sell the property within a few years**, depreciation recapture taxes may offset benefits.
- **If your property is already in a net operating loss (NOL) position**, benefits may be limited.

## FAQs on Cost Segregation

### **Q: Is cost segregation only for large properties?**

A: No! Cost segregation benefits any commercial property owner, including small businesses and real estate investors.

### **Q: What's the ROI on a cost segregation study?**

A: Most studies deliver 4-8% in tax savings, often resulting in a 10x return on investment.

### **Q: Can I do a cost segregation study on a property I bought years ago?**

A: Yes! Cost segregation can be applied retroactively without amending previous tax returns.

### **Q: How long does a cost segregation study take?**

A: Typically 4-6 weeks, depending on property complexity.

### **Q: How do I apply my cost segregation study after the property has been placed into service?**

A: If your property is already in service, you can still apply a cost segregation study retroactively without amending previous tax returns. To claim missed depreciation from prior years, we will submit Form 3115 with your current year's tax return. This allows you to catch up on depreciation deductions without having to amend past returns. Also, we'll apply the 481(a) Adjustment to claim the cumulative depreciation you should have taken in previous years as a one-time deduction in the current tax year. This can lead to a significant reduction in taxable income.



## Ready to Reap the Benefits of Cost Segregation?

Cost segregation is one of the most effective real estate tax strategies for maximizing cash flow and reducing tax liabilities. Whether you're a real estate investor, small business owner, or CPA, understanding cost segregation can unlock thousands (or millions) in tax savings.

Ready to maximize your tax savings? [Schedule a Free Cost Segregation Study with Our Experts.](#)

## Cost Segregation Resources

Here are additional resources to help you further explore cost segregation in detail:

- Want to learn more about how each building asset is considered under the law? [Cost Segregation and Land Value Considerations](#)
- Questions about the bonus depreciation and recent law changes? [The Continuing Evolution of Bonus Depreciation – TCJA Changes to Section 168 of 2017 and Potential Changes of 2024](#)
- Are you wondering about Tangible Property Regulations? [Everything on Tangible Property Regulations](#)
- Have you completed your Cost Segregation Analysis with TPTM and want to know how to best implement? Here is a [step-by-step guide](#).
- Curious about specific IRS regulations? [Take a look at the IRS cost segregation guide.](#)

