



Cost segregation studies can reveal substantial tax savings

Businesses that own commercial real property may be sitting on an overlooked treasure chest of tax savings — and a cost segregation study can be the key to unlocking it. This is a strategic tool that combines accounting and engineering techniques to identify building costs that are properly allocable to tangible personal property rather than real property. A cost segregation study may allow you to accelerate depreciation deductions on certain items, thereby deferring taxes and boosting cash flow.

Timing counts when depreciating assets

Commercial rental properties and buildings used for business purposes are generally depreciated over 39 years under federal tax law. But such properties may include a wide range of components with much shorter depreciation recovery periods. These can include parts of various systems such as HVAC, plumbing, electrical, fire protection, alarm and security, as well as:

- Drywall,
- Doors,
- Fixtures,
- Data and communication ports,
- Flooring, and

- Cabinetry.

These assets could have useful lives of five, seven or 15 years — all significantly less than 39 years. By segregating such assets, you can claim greater depreciation deductions sooner. You'll claim the same total amount of depreciation on the assets over time but reduce your tax bill in the short term, providing greater cash flow.

OBBBA changes add value

Recent tax law changes under the One Big Beautiful Bill Act (OBBBA) enhanced these benefits by increasing first-year depreciation write-offs. The two most widely relevant provisions relate to:

1. Bonus depreciation. The OBBBA restored 100% first-year bonus depreciation deductions for eligible assets acquired and placed in service after January 19, 2025. While commercial real properties aren't eligible for first-year bonus depreciation, segregated building components with shorter recovery periods may be eligible. There are no phaseout limits for bonus depreciation, which is helpful for larger companies.

2. Section 179 expensing. For tax years beginning in 2025, the OBBBA increased the maximum amount of eligible assets you can immediately deduct under the Sec. 179 expensing election to \$2.5 million. A phaseout reduces the maximum Sec. 179 deduction if, during the year, you place in service eligible assets in excess of \$4 million. Both figures are adjusted annually for inflation. For 2026, they're \$2.56 million and \$4.09 million, respectively. Again, commercial real properties aren't eligible for Sec. 179 expensing, but segregated building components with shorter recovery periods may be eligible.

Additionally, if your business involves manufacturing or certain agricultural activities, you may be eligible for a new depreciation-related tax break. The OBBBA introduced a 100% deduction for the cost of qualified production property (QPP). To be eligible, among other requirements, a qualifying real property's construction must begin after January 19, 2025, and before January 1, 2029, and it must be placed in service before 2031. This break allows eligible businesses to immediately deduct the cost of QPP that otherwise would be depreciable over 39 years.

The QPP deduction makes cost segregation studies less relevant for qualifying property. But it's subject to several specific requirements and exceptions that may prevent you from claiming it.

Ready, set, save

A cost segregation study can significantly lower your taxes, but it isn't a do-it-yourself project. Although this strategy has been consistently upheld in the courts, the IRS closely monitors deductions based on cost segregation studies. And the rules can be confusing.

So, it's prudent to hire experienced professionals to help you identify various building components and break down write-off periods for them. Contact us to discuss whether a cost segregation study could potentially save you taxes. We can determine reasonable cost allocations to help withstand IRS scrutiny.

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