

Cost Segregation Workpaper

100 Example Lane

A workpaper for the taxpayer's tax preparer, prepared from information provided by the buyer.

Sample Owner LLC
100 Example Lane, Anytown, ST, 00000

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1.0 Introduction

This workpaper covers the property at 100 Example Lane, Anytown, ST, 00000 (the 'Property'). The depreciable basis of the Property is \$676,000, excluding land.

The purpose of this cost segregation workpaper is to allocate the depreciable basis of the Property among the recovery classes of the Modified Accelerated Cost Recovery System (MACRS), under Internal Revenue Code (IRC) Section 168 and the related Treasury Regulations, for the taxpayer's tax preparer to use in computing federal and state income-tax depreciation. The preparer of this workpaper worked from the documents and information the buyer provided.

The preparer of this workpaper first identified and costed the short-life property in the 5-, 7- and 15-year classes, then assigned the remainder of the depreciable basis to the building as 27.5-year residential rental real property, using the Residual Estimation Approach described in Chapter 3, Section C.4 of the IRS Cost Segregation Audit Techniques Guide, as described in the Cost Determination Method section.

2.0 Summary of Results

2.1 Recovery Classes and Year-1 Deduction

The preparer of this workpaper allocated the depreciable basis of \$676,000 among the MACRS recovery classes in the table below; the classes total the depreciable basis.

Recovery Class	Amount	% of Depreciable Basis
5-Year Personal Property	\$108,160	16.00%
15-Year Land Improvements	\$60,840	9.00%
27.5-Year Residential Rental Real Property	\$507,000	75.00%
Total Depreciable Basis	\$676,000	100.00%
Year-1 Deduction (all classes, incl. bonus depreciation)	\$183,595	

The Year-1 deduction of \$183,595 is the first-year depreciation of all classes for property placed in service in March 2025 (from the placed-in-service date the buyer provided), including bonus depreciation under IRC § 168(k) at 100% on the 5-, 7- and 15-year property, the rate for property acquired after January 19, 2025 (Section 2.2 gives the date used); the 27.5-year building class is depreciated straight-line under the mid-month convention, and the figure is stated before any owner-level limitation on using it.

At an assumed 37% federal income tax rate, and before any owner-level limitation on using the deduction, the Year-1 deduction is an estimated first-year tax benefit of \$67,930; it is a timing benefit, because the same basis is recovered over the building's life and depreciation is recaptured on a taxable sale.

Compared with depreciating all improvements as 27.5-year property under straight-line, which would yield \$117,788 of deductions over the first five years, this allocation, including bonus depreciation and before any owner-level limitation, moves approximately \$139,553 of additional deductions into the first five years, an estimated \$59,767 additional timing benefit at an assumed 42.83% blended federal and state rate.

The tax preparer can use these classifications and amounts to compute depreciation on IRS Form 4562.

2.2 Bonus Depreciation Rate — IRC § 168(k)

Bonus depreciation under IRC § 168(k) is applied to qualified 5-, 7-, and 15-year property at the TCJA default rate of 100%. The property was acquired — or, for self-constructed property, construction began — after January 19, 2025 (acquisition date March 14, 2025), so qualified 5-, 7-, and 15-year property is eligible for the permanent 100% bonus depreciation rate restored by the One Big Beautiful Bill Act of 2025 (IRC § 168(k); § 168(k)(2)(E)(i) for the acquired/begun test). All bonus-eligible property in this workpaper follows this single election.

Real property in the 27.5- and 39-year classes is recovered straight-line and is not eligible for bonus depreciation (IRC § 168(k)(2)(A)(i)).

3.0 Description of the Property

The Property, at 100 Example Lane, Anytown, ST, 00000, is a Fourplex property; the preparer of this workpaper describes it from the documents and photographs the buyer provided.

4.0 Sources of Information

The preparer of this workpaper used the documents and photographs the buyer provided:

- Closing statement
- Owner photographs

The preparer of this workpaper also referred to:

- IRS Publication 946, "How to Depreciate Property," including MACRS percentage tables
- IRS Cost Segregation Audit Techniques Guide

The preparer of this workpaper excluded land value from the depreciable basis.

5.0 Methodology

5.1 Cost Approach

This workpaper allocates historical cost among depreciable property classes using a cost approach, rather than a sales comparison or income capitalization approach.

For this workpaper, the preparer of this workpaper allocated the depreciable basis, exclusive of land, by first estimating the short-life property and then assigning the remainder of the basis to the building, as described in the Cost Determination Method section. The preparer of this workpaper assigned each item's category by its function, permanence and removability, consistent with tax law.

5.2 Procedures

The preparer of this workpaper followed these steps:

1. Document Review – The preparer of this workpaper reviewed the documents and photographs the buyer provided and determined land and the depreciable basis.
2. Asset Identification and Classification – The preparer of this workpaper identified short-life items from the documents and photographs and assigned each a MACRS recovery period (5, 7, or 15 years), with the building assigned to 27.5-year residential rental real property, consistent with the Cost Segregation ATG.
3. Allocation – The preparer of this workpaper costed short-life property from actual costs or documented estimates, and assigned the remainder of the basis to the building, as described in the Cost Determination Method section.
4. Depreciation Calculations – The preparer of this workpaper applied the standard MACRS percentage tables for each recovery class, using the half-year convention for 5-, 7- and 15-year property and the mid-month convention for the building, and calculated the Year-1 deduction.
5. Tax Benefit Analysis – The preparer of this workpaper applied an assumed blended tax rate and compared the accelerated MACRS deductions with a hypothetical straight-line 27.5-year treatment of all improvements.

5.2A Cost Determination Method — Residual Estimation (ATG Ch. 3, C.4)

This workpaper uses residual estimation (ATG Ch. 3, C.4 (p. 31)) with documented short-life estimates, as described in IRS Publication 5653, Cost Segregation ATG (rev. 2-2025).

The preparer of this workpaper costed short-life property — 5-year property (asset class 57.0) and 15-year land improvements (asset class 00.3) — first, and assigned the remainder of the depreciable basis, the residual, to the building as 27.5-year residential rental property.

The preparer of this workpaper determined land before any allocation and excluded it from the basis. Land value source: from the closing statement.

The preparer of this workpaper costed each short-life item in this order of preference: (1) its actual cost from an invoice, a receipt, or the purchase agreement's allocation to furnishings, used as recorded; (2) where there is no actual cost, an estimate — used only when it cites its source, the observed quantity and an age/condition factor; (3) otherwise the item stays in the residual, identified but not costed.

The preparer of this workpaper applied no pro-rata step-up factor to any amount to reach the purchase price (ATG Ch. 3, D(3)–(4) (pp. 32–33)).

The preparer of this workpaper aged an item with no document showing its age at half its published useful life, never older than the building.

Of the depreciable basis of \$676,000: actual costs total \$169,000 (9 items); documented estimates total \$0 (0 items); the preparer of this workpaper reports the residual of \$507,000 as unidentified costs in the 27.5-year class. The classes total the basis exactly.

The preparer of this workpaper assigned recovery classes from each item's description using written classification rules for the property type, rather than a line-by-line application of the ATG's residential rental property matrix (ATG Ch. 7, H, Exhibit A (pp. 296–322)).

Sources used

- Closing statement
- Owner photographs

6.0 Summary

This workpaper estimates that approximately 25.00% of the depreciable basis is 5-, 7- and 15-year property. On that estimate, about \$139,553 of additional deductions, including bonus depreciation and before any owner-level limitation (an estimated \$59,767 timing benefit at the assumed 42.83% blended rate), move into the first five years compared with depreciating all improvements over 27.5 years on the straight-line method.

The preparer of this workpaper prepared the allocation from the documents and photographs the buyer provided, using the method described in the Cost Determination Method section and the IRS Cost Segregation Audit Techniques Guide.

The Year-1 deduction in this workpaper reflects a single § 168(k) election — OBBBA (100%, acquired/begun after 1/19/2025).

Statement of Preparation

The preparer of this workpaper prepared it for the taxpayer's tax preparer from the documents and information the buyer provided, following the procedures described in this workpaper and the IRS Cost Segregation Audit Techniques Guide.

The taxpayer and the tax preparer decide whether and how to use the classifications and amounts in this workpaper on a tax return.

This workpaper is subject to the terms and limiting conditions in the addendum that follows, which are part of it.

Addendum: Terms and Limiting Conditions

1. This workpaper is intended solely for use in computing depreciation for federal and state income-tax purposes. It is not an appraisal of market value, an attestation or an audit, and may not be relied upon for financing, insurance, or financial reporting purposes.
2. The analysis assumes that the documents and information the Client provided are accurate and complete. The preparer of this workpaper did not independently verify quantities, costs or the land value.
3. This workpaper relies on the buyer's information for the placed-in-service date: the depreciation commencement dates used in this workpaper are the placed-in-service date in the information the buyer provided or, where the buyer gave none, the acquisition date the buyer provided. The preparer of this workpaper did not independently establish the date any component was first placed in a state of readiness and availability for use, and those dates remain the responsibility of the taxpayer and its advisors.
4. The preparer of this workpaper excluded land value from this workpaper and analyzed and classified only depreciable improvements.
5. The classifications and estimates are based on the Internal Revenue Code, Treasury Regulations, revenue rulings, court decisions and IRS guidance as of the date of this report, and are consistent with the preparer of this workpaper's understanding of real and personal property as defined by them; however, no assurance can be given that the Internal Revenue Service or another taxing authority will not review or challenge the classifications or the allocation. Future changes in law, regulations, or IRS interpretation may affect the tax treatment of certain assets.
6. This workpaper is not tax, legal, accounting or investment advice, and the preparer of this workpaper is not a tax advisor. It is provided for tax-planning and informational purposes only. The preparer of this workpaper recommends that the taxpayer's accounting firm review this report before the taxpayer files it or submits it with the Internal Revenue Service.
7. The preparer of this workpaper is not responsible for the implementation of these results on any tax return or for the tax positions ultimately taken by the taxpayer or its advisors.
8. The information in this workpaper is based on the documents and information the Client provided, and the preparer of this workpaper did not separately verify them.
9. The fee for this workpaper is not contingent on the amounts in it. Neither the preparer of this workpaper nor any member of the preparing firm has any financial interest or contemplated future interest in the property being analyzed.

10. The preparer of this workpaper renders no opinion as to legal title or fee ownership. The preparer of this workpaper disregarded prevailing liens, leases, or other encumbrances and analyzed the property as if free and clear, unless otherwise specifically stated.
11. SHAFT Master Services Company LLC dba ClickDrag ("ClickDrag") prepared this workpaper for the purpose stated, and it cannot be relied upon for any other purpose. It is for the use of the Client and the Client's tax preparer and, unless otherwise agreed, should not be disseminated to the public or to other third parties in any part or form without the written consent of ClickDrag.
12. Confidentiality and Retention. All Client data, documents, photographs, and other information provided to or obtained by ClickDrag in connection with this workpaper are treated as private and confidential; they are used to perform this engagement and are not disclosed to any third party without the Client's consent, except as required by law, although a de-identified record of the workpaper, with names, addresses, entity names, and uploaded documents removed, may be kept to maintain and improve the platform used to prepare it. Source documents uploaded for this workpaper are retained on the platform for up to seven (7) years from the date of upload and are then deleted automatically, and the Client may request their earlier deletion; the deliverables are retained for at least seven (7) years from the date they are generated. Seven years is longer than the general three-year period for IRS assessment under IRC §6501(a), but a longer period applies in some cases (for example, six years under IRC §6501(e) for a substantial omission of income), so the Client should keep its own copies of this workpaper and its source documents for as long as its tax position requires.
13. The preparer of this workpaper derived the total depreciable basis used in this workpaper from Client-provided source documents and used it as a cap on the classified components; it is an estimate, not a guaranteed figure. The component classifications and cost allocations are the work product of the preparer of this workpaper.
14. The preparer of this workpaper believes that the information others supplied and it considered comes from reliable sources, and assumes no further responsibility for its accuracy.
15. The preparer of this workpaper reserves the right to make such adjustments to the classifications and allocations in this workpaper as may be required by consideration of additional or more reliable information that may become available.
16. Testimony or attendance in court due to this workpaper shall not be required unless arrangements for such services have previously been made.
17. Neither all, nor any part, of this report is to be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of ClickDrag.
18. The preparer of this workpaper did not investigate the soil or structural conditions of the property that is the subject of this report, and ClickDrag and its consultants make no warranty as to those conditions.
19. Any electronic models, software, and other technology used to produce this workpaper are the sole property of ClickDrag, the provider of the platform on which the workpaper was prepared, and are retained as its work product. This workpaper conveys no interest in that technology to the Client or to any other party.
20. The descriptions in this workpaper reflect the documents and photographs as provided by the Client.
21. ClickDrag prepared this workpaper for the use of the Client and the Client's tax preparer. ClickDrag does not intend any other individual or party to rely upon this workpaper without its express written consent. If another individual or party relies on it, they shall indemnify and hold ClickDrag harmless for any damages, losses, or expenses they may incur as a result of its use.

22. Site Visit - the preparer of this workpaper did not visit the property. This workpaper is limited to what the documents and photographs provided by the Client show.
23. The preparer of this workpaper could not assess anything hidden from view in the documents and photographs, such as buried structures or building systems hidden in walls or floors.
24. The preparer of this workpaper did not perform any engineering design as part of this workpaper, nor did it conduct a comprehensive code compliance investigation or a quantity take-off from construction drawings. This workpaper is not to be considered a warranty of condition, and no warranty is implied.
25. Workpaper Preparation. This workpaper is an estimate prepared for the taxpayer's tax preparer from the documents and information provided by the Client. It is not signed, sealed or certified by anyone. It is provided for tax planning and informational purposes only. The preparer of this workpaper used software, including artificial intelligence, to prepare it from the documents and information the Client provided.
26. Responsibility for this Workpaper. ClickDrag prepared this workpaper from the information provided by the Client and is responsible for its content as delivered to the Client.
27. Client Responsibility; Tax and Filing Use. Client is solely responsible for determining, in consultation with its tax, legal, and other professional advisors, whether and how to use this workpaper in any tax return, filing, financial statement, transaction, or dispute.
28. Limitation and Indemnity. Client agrees to defend, indemnify, and hold harmless the preparer of this workpaper and its affiliates, managers, members, employees, contractors, and agents from and against any third-party claims, losses, liabilities, penalties, interest, costs, and expenses, including reasonable attorneys' fees, arising out of or relating to: (i) Client's use of the workpaper as if it were signed, sealed, certified or approved by anyone other than its stated preparer; (ii) any filing, submission, or representation by Client or its advisors that anyone other than its stated preparer signed, sealed or certified the workpaper; (iii) modifications to the workpaper made by Client or third parties; or (iv) tax positions taken by Client that differ from or go beyond the assumptions stated in the workpaper. This indemnity does not apply to losses finally determined by a court of competent jurisdiction to result from the preparer of this workpaper's gross negligence, willful misconduct, or fraud.
29. Bonus Depreciation Eligibility. Where this workpaper indicates that components may qualify for 100% bonus depreciation, that treatment applies only to property acquired after January 19, 2025. Under IRS Notice 2026-11 the acquired date turns on the written binding contract, not the closing: it is the latest of the dates the contract was signed, became enforceable, cleared its cancellation period and had its contingencies satisfied (Treas. Reg. §1.168(k)-2(b)(5)(ii)(B)); where the contract is not binding in that sense, the acquired date is generally when more than 10 percent of the total cost, excluding land and preliminary activities, has been paid or incurred (Treas. Reg. §1.168(k)-2(b)(5)(iii) and (v)); and self-constructed property is acquired when physical work of a significant nature begins, so property whose construction began after January 19, 2025 may qualify. Property acquired, or whose construction began, on or before that date remains subject to the bonus percentage in effect for the year it is placed in service, and the Client is responsible for establishing the contract dates or the date construction began.

30. **Recapture on Disposition.** If the property or any component is sold or otherwise disposed of in a taxable transaction, gain on components classified as personal property under IRC §1245 is recaptured as ordinary income to the extent of the depreciation claimed on them; gain on real property, including 15-year land improvements, is recaptured as ordinary income under IRC §1250 to the extent the depreciation claimed exceeded straight-line depreciation (as bonus depreciation does), and for a noncorporate taxpayer the remaining gain attributable to depreciation is unrecaptured §1250 gain under IRC §1(h)(6), taxed at a maximum federal rate of 25% plus the 3.8% net investment income tax under IRC §1411 where it applies; a corporation is subject to different rules, including IRC §291; and this workpaper does not address the tax consequences of any disposition.
31. **Passive Activity Limits.** The tax benefit of accelerated depreciation depends on the taxpayer's ability to use the deductions; for many taxpayers, rental real estate losses are passive activity losses under IRC §469 that may be limited or suspended unless the taxpayer qualifies for an exception, such as real estate professional status, and this workpaper does not determine whether those limits apply.
32. **Entity-Level Figures.** All figures in this workpaper, including the estimated tax savings, are entity-level and are stated before the owner-level limitations that determine whether a deduction can be used in a given year: the outside-basis limit (IRC §704(d)), the at-risk rules (IRC §465), the passive activity rules (IRC §469) and the excess business loss limitation (IRC §461(l)). Those tests apply separately to each owner, and this workpaper does not evaluate them. Where a property is held through a partnership or LLC, accelerated depreciation can reduce an owner's capital account below zero, with consequences on refinancing and on sale that are specific to each owner. Estimated tax savings is computed at an assumed rate, without regard to the alternative minimum tax or to a state's conformity to federal bonus depreciation, and is not a projection of what any owner will realise in any year.
33. **Estimates; Use of this Workpaper.** All amounts in this workpaper are estimates that depend on the completeness and accuracy of the information provided and on the application of federal and state tax law to the Client's facts; they are not guaranteed results. Except as stated in condition 28 and to the extent permitted by law, ClickDrag disclaims any liability arising from the use of this workpaper by the Client or any other party.