What CPAs Need to Know About Cost Segregation Studies

By Timothy C. Franklin · July 14, 2026 · 7 min read

A client walks into your office. They own a $2 million commercial building. They have owned it for three years. You have filed accurate returns every year.

They are overpaying by six figures. Every year.

Not because of anything you did wrong. Not because of any error in the return. Because there is a federal tax strategy sitting inside their building that nobody ever looked for. Not you. Not the previous preparer. Nobody.

It is called cost segregation. And if your commercial real estate clients do not have a study on file, the conversation is worth having.

What Most CPAs Know. And What Nobody Told Their Clients.

Cost segregation is not a gray area. It is not aggressive tax planning. It sits inside Section 168 of the Internal Revenue Code, and Congress put it there deliberately.

When a client buys a commercial building, the IRS assigns it a 39-year depreciation schedule. Straight line. Slow. Thin. A $2 million building depreciates at roughly $51,000 a year. That is the default.

A cost segregation study changes the default.

A qualified engineer analyzes the building. Every component gets reclassified. The specialty electrical. The flooring. The plumbing fixtures. The parking lot. The landscaping. Each one moves from 39-year property to 5-year, 7-year, or 15-year property under MACRS (the IRS classification system for business assets).

Shorter depreciation schedules mean larger deductions now. Not spread across four decades. Now.

With 100% bonus depreciation restored in 2025, those shorter-life components can often be written off entirely in the year placed in service. Not over time. In the year placed in service.

Same building. Same purchase price. Same IRS rules. Very different outcome.

Why It Is Not On Your Plate

This is not a criticism of how you practice. It is a description of what the job is.

A cost segregation study requires a licensed engineer to physically analyze the property, review construction documentation, and apply IRS-accepted methodology to cost allocation. The IRS is explicit about this. A study that does not meet those standards is vulnerable on audit.

This is engineering work. It is not something tax software produces. It is not a form your staff completes. It sits at the intersection of construction, real estate valuation, and tax law — a discipline that developed separately from the compliance side of the profession.

Your job is to file accurate returns. You do that well. This is a different job.

Most clients do not know to ask for it. Most CPAs do not have the capacity to deliver it. So it goes unasked and undelivered. Year after year. On building after building.

That is not a villainous outcome. It is just a gap. And gaps can be closed.

THE IRS STANDARD FOR A VALID STUDY

The IRS Cost Segregation Audit Techniques Guide identifies what a valid study requires: the preparer must have knowledge of both the construction process and the applicable tax law. Engineering and construction backgrounds are specifically cited. A study that does not hold up on audit creates a problem for your client that is worse than not having one at all. A qualified specialist produces a report with an asset detail schedule, component-by-component cost allocation, a methodology narrative, and documentation supporting each classification.

What Your Client Is Leaving Behind

The numbers are consistent enough to say plainly: on most commercial properties valued at $500,000 or more, a cost segregation study produces meaningful first-year savings. The typical range is 20% to 40% of the depreciable basis reclassified into shorter-life property.

$1.5M Purchase Price	$250K+ Year-One Deduction	~$88K Tax Savings
Standard depreciation: ~$38,000/year over 39 years	With a cost segregation study and bonus depreciation	At a 35% effective rate on the incremental deduction

The study fee on a property of this size runs $4,000 to $8,000. The net return in year one is not close.

And the analysis is not limited to recent acquisitions. A lookback study captures prior-year deductions on properties your client has owned for years. No amended returns required. A Section 481(a) adjustment filed with a Form 3115 handles it. The deductions were always there. They were just sitting uncaptured.

If you have clients who acquired commercial real estate in the last five to seven years without a study on file, that is worth a conversation.

How We Work With You

We do not replace the CPA relationship. We extend it.

You stay exactly where you are. Compliance. The return. Audit support. Year-end reconciliation. All of it.

We handle the engineering analysis. We produce the asset detail schedule, the component-by-component cost allocation, and the methodology narrative. We deliver everything your client needs to file the deduction and defend it if questioned.

Then you file it.

It works like this. We screen the property first. Type, acquisition date, purchase price, depreciable basis. We tell you and your client honestly whether the study makes sense before any work begins. If the numbers do not support moving forward, we say so.

We do the analysis. Four to six weeks. Site review, construction documentation, IRS-accepted methodology throughout.

We deliver the report. Asset detail schedule, methodology narrative, full documentation supporting every classification.

You file the return. The depreciation schedule flows in exactly as it should. We are available for questions at any point.

That is the whole process. You bring the client relationship. We bring the engineering. Your client gets a deduction they would not otherwise have.

Cost Segregation Is Often the Starting Point

For clients who own commercial real estate and run an active business, cost segregation frequently opens a larger conversation.

The same client who qualifies for accelerated depreciation may also qualify for R&D; tax credits if their business improves products, processes, or systems through experimentation. If they have made upgrades to lighting, HVAC, or building envelope, they may qualify for the Section 179-D energy deduction, now up to $5.65 per square foot.

Three separate federal programs. Three separate sections of the code. Three separate qualification tests.

They do not compete. They stack.

Most clients only ever discover one. The ones who know about all three tend to have someone looking at the full picture alongside their CPA.

> *We are not trying to replace the CPA. We are trying to make sure your client is not paying taxes they are not legally required to pay. That is the job. It is just a different part of it than yours.*

Where to Start

Tell us about a client. Property type. Approximate purchase price. Year acquired. Whether the property was acquired through a 1031 exchange. Whether a study has been done.

We will tell you honestly whether there is an opportunity and what the likely range of savings looks like. No fee. No commitment. If the numbers do not support moving forward, we say so.

If they do, we move at a pace that works for your client's timeline. Study typically complete in four to six weeks.

The window is open. The call is free. And if the numbers are there, your client will be glad you asked.

IRS OFFICIAL REFERENCE

IRS Publication 946: How to Depreciate Property (IRS.gov)

Official IRS guidance on MACRS depreciation, asset classification, and bonus depreciation elections under Section 168(k).

Let Us Be a Resource for Your Practice

A quick conversation is all it takes. Tell us about a client and we will tell you honestly whether cost segregation applies and what it is likely worth.

triplestarstrategy.com/contact