CostSegLogic
COST SEGREGATION. AUTOMATED.

● CPA-VERIFIED · §481(A)

LOOKBACK COST SEGREGATION WORKPAPER · CPA-VERIFIED

Engineering-based component reclassification of *$1,450,000* in depreciable basis.

LOOKBACK (§481(A) CATCH-UP) · CONDOMINIUM · TY 2026

PREPARED FOR
Demo Holdings LLC

PROPERTY
Manhattan, NY

STUDY DATE
June 26, 2026

PLACED IN SERVICE
April 10, 2019

MODEL FINGERPRINT
v6 · 9f2e4a7c8b5d…

STUDY TYPE
Residual Estimation Approach
ATG CHAPTER 4

● CPA-VERIFIED · §481(A)

Table of Contents

Read in order, or jump straight to a section. The five-minute read is §1 (Executive Summary). The CPA / examiner read is front to back. Methodology is §5; allocation detail is §8; year-by-year schedule is §9·D.

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● § 1 · COVER LETTER

JUNE 26, 2026

Demo Holdings LLC
Manhattan, NY
New York

Subject: Cost Segregation Analysis for Manhattan, NY

Dear Demo Holdings LLC,

This report contains a cost segregation study for the property located at **Manhattan, NY**, placed in service on **April 10, 2019**. The study applies the *Residual Estimation Approach* recognized in the IRS Cost Segregation Audit Techniques Guide, Chapter 4, to identify building components eligible for shorter MACRS recovery periods than the default 27.5-year residential rental treatment.

Cost segregation is an established tax planning methodology recognized by the Internal Revenue Service. By reclassifying components of a building into the appropriate Modified Accelerated Cost Recovery System (MACRS) asset classes — 5-year personal property, 15-year land improvements, and Section 179 immediately expensed property — the owner optimizes capital recovery through structural reclassification, materially increasing first-year deductions.

For the residential rental properties this platform is designed to serve, the methodology applied here meets the documentation standards of the IRS Audit Techniques Guide and is suitable for the depreciation positions claimed. We recommend reviewing this report with your certified public accountant or tax preparer before filing.

Sincerely,

CostSegLogic
COSTSEGLOGIC.COM

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§ 2 CostSegLogic Certification

METHODOLOGY · AUTHORITIES · COMPENSATION

The CostSegLogic engine certifies the following with respect to the methodology, data, and compensation arrangement underlying this study. Each point is structured to permit the taxpayer's preparer or, in the case of an examination, an Internal Revenue Service examiner, to audit the structural posture of the work product before consuming the dollar conclusions that follow.

01 Methodology.

The methodology applied in this study conforms to the IRS Cost Segregation Audit Techniques Guide (Chapter 4), specifically the *Residual Estimation Approach* combined with *Cost Estimation Using Industry Databases* — both methodologies explicitly recognized as acceptable approaches in that guide.

02 Asset Classification Authorities.

Asset classification rules applied in this study are sourced from Internal Revenue Code §168, Rev. Proc. 87-56 (1987-2 C.B. 674), and Treas. Reg. §1.167(a)-11. Class lives, recovery periods, and depreciation conventions are taken directly from those authorities; no extrapolation has been performed.

03 Cost Library Calibration.

The component cost library that underlies the within-class allocation percentages is calibrated against industry-standard cost-estimation references, including RSMeans methodology and the Marshall Valuation Service approach. The library is reviewed periodically against published cost data; the version in effect at the time of this study is recorded in the model_version footer of every page.

04 Compensation.

Compensation for the production of this study is fixed at the published tier price in effect at the time of intake. It is **not** contingent on the findings of the study, on the dollar amount of any deduction claimed, or on any other action by any party with respect to the study's conclusions.

05 Data Provenance.

The property data underlying this study — address, year built, square footage, basis, placed-in-service date, feature presence flags, and similar attributes — was certified by the taxpayer at the time of intake. The engine does not independently verify taxpayer-provided inputs; the integrity of the analysis depends on the accuracy of those inputs. See the Representations section.

06 Consistency and Lack of Bias.

The analysis applies the same set of classification rules, the same component library, and the same MACRS schedules to every property of the same archetype. The engine has no incentive to find any particular allocation outcome; the rules are applied identically whether the resulting Y1 deduction is large or small.

07 Workpaper Retention.

This study and the supporting workpapers should be retained by the taxpayer to substantiate the depreciation deductions claimed. Per IRC §6001 and Treas. Reg. §1.6001-1, taxpayers must keep records sufficient to establish the amount of any deduction shown on a return, generally for at least three years after the later of the return's due date or filing date and for the entire recovery period of any depreciable asset.

— COSTSEGLOGIC

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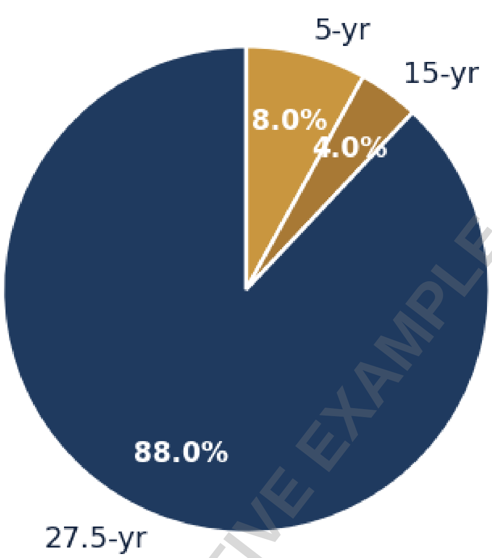
§ 3 Executive Summary

FIVE-MINUTE READ

Property Overview

PROPERTY ADDRESS	Manhattan, NY New York	PROPERTY TYPE	Condominium
PLACED IN SERVICE	April 10, 2019	DEPRECIABLE BUILDING BASIS	$1,450,000
STUDY TYPE	Residual Estimation Approach ATG CHAPTER 4	SCENARIO	Lookback (§481(a) catch-up)

Allocation by MACRS Class



Headline split of the customer's depreciable building basis by MACRS class. The per-component breakdown lives in §8·B; the §168(k) bonus + §179 stacking is detailed in §9·C.

Audit-Defensibility Profile

GREEN **Strong audit-defensibility profile.** Methodology, asset classification, and citations conform to the IRS Cost Segregation Audit Techniques Guide; data inputs are taxpayer-certified; no engineered site inspection in scope.

The pages that follow itemize the reclassification (§3.2), the federal Y1 tax shield (§3.3), and the methodology and authorities supporting both (§5). Customers seeking the per-component allocation table jump to §8·B.

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3.2 Reclassification Summary

ASSET CLASS	AMOUNT	% OF BASIS
5-Year Personal Property	$116,000	8.0%
15-Year Land Improvements	$58,000	4.0%
§179 Immediate Expense (Income-Limited)	$0	0.0%
27.5-Year Residential Rental	$1,276,000	88.0%
Total Depreciable Basis	$1,450,000	100.0%

3.3 Tax Impact Summary

BONUS RATE · §168(K)	Y1 — WITHOUT COST SEG	Y1 — WITH COST SEG
100.0%	$37,348	$177,955
TCJA §168(K) · PIS APRIL 10, 2019	SL · 27.5-YR · MID-MONTH	+$140,607 INCREMENTAL

Incremental Year-1 deduction of $140,607 is the difference between the with-cost-seg deduction and the straight-line baseline. It is a timing benefit; the cumulative deduction over the 28-year recovery period is identical to the without-cost-seg path.

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3.4 Estimated Tax Savings

METRIC	VALUE
Federal marginal rate assumed	37.0%
State marginal rate assumed (New York)	10.9%
Federal Y1 tax shield	$65,843
State Y1 tax shield	$5,058
Total estimated Year-1 tax benefit	**$70,901**

YEAR-1 FEDERAL TAX SHIELD

$65,843

$177,955 Y1 DEDUCTION × 37.0% FED MARGINAL RATE

NEW YORK CONFORMITY

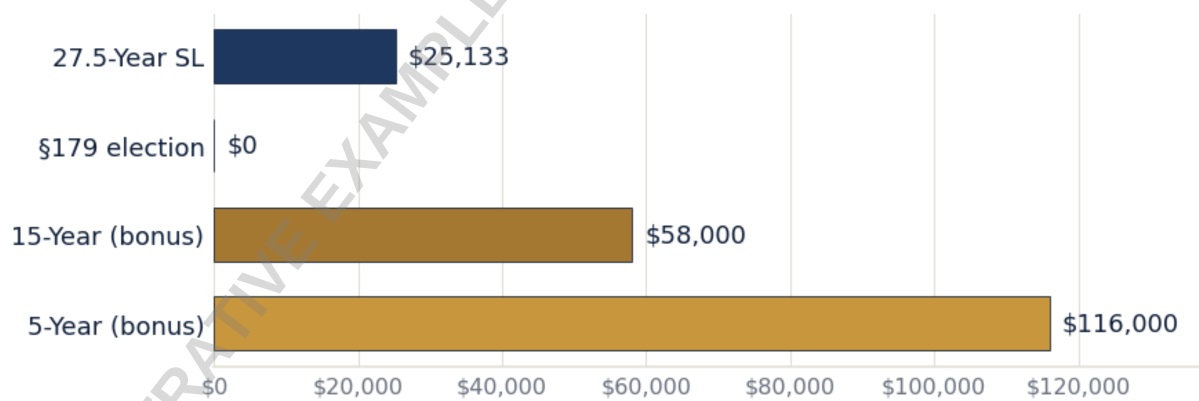
DECOUPLED (NOT ALLOWED)

SEE §11 STATE CONFORMITY

Y1 DEDUCTION

$177,955

3.5 Year-1 Deduction by Asset Class



STATE RATE METHODOLOGY

State marginal rate uses the state's top individual bracket as the default, multiplied by the state's §168(k) recognition factor (full / partial / decoupled). Actual state benefit depends on the taxpayer's effective state bracket and filing posture — see State Conformity section (§11).

§ 4 Scope & Limitations

WHAT THIS STUDY DOES AND DOES NOT COVER

STUDY TYPE

This is a cost segregation study applying the *Residual Estimation Approach* (ATG Chapter 4). Component cost estimates are derived from a curated industry-standard cost database, calibrated to the property's archetype.

DATA SOURCES

No taxpayer-provided source documents were referenced in this analysis. Industry-standard defaults were applied per the methodology described above. The full list of supporting documents that may be supplied to strengthen audit-defense posture is described later in *Taxpayer-Provided Evidence Registry*.

LIMITATIONS

- **Methodology framing.** Component classification and quantification follow ATG-recognized industry-database methods. A licensed engineer or construction professional was not engaged to physically verify components or measure square footage on site.
- **Reliance on taxpayer-certified data.** Property characteristics (square footage, year built, beds/baths, features) are taxpayer-certified inputs ingested by the modeling engine. The taxpayer represents that this data is accurate and complete (see Representations).
- **Standardized allocation where itemization is unavailable.** Where specific construction invoices or component-level cost detail is not provided, the engine applies within-class allocation percentages from a curated industry-standard cost-segregation database, documented in the Methodology section.
- **Tax-law currency.** Bonus depreciation rates and §179 caps in this analysis reflect federal law as of the report date. Future legislative changes may affect the deductions claimed in subsequent tax years.
- **Scope.** This study addresses the federal income tax treatment of the building components and includes state §168(k) conformity treatment. Other tax considerations (passive activity loss, at-risk, basis, real estate professional status) are out of scope and should be evaluated by the taxpayer's tax advisor.

§ 5 Methodology

APPROACH · PROCESS · STANDARDS

APPROACH USED · THREE CONVERGING METHODOLOGIES

- **Residual Estimation Approach (ATG Chapter 4).** After identifying short-life personal property and 15-year land improvements through standardized cost estimation, the remaining depreciable basis is allocated to the building shell and structural interiors as the 27.5-year residual property. This methodology is explicitly recognized in the IRS Cost Segregation ATG and is the standard approach for cost segregation studies that do not include an on-site engineering inspection.
- **Cost Estimation Using Industry Databases (ATG Chapter 4).** Component-level allocation percentages within each MACRS class are derived from a curated industry-standard cost-segregation database, calibrated to residential-rental property archetypes. The ATG explicitly endorses this approach as one of the recognized cost segregation methodologies.
- **Full IRS Audit Techniques Guide compliance.** Methodology, documentation, asset class assignments, and citations follow the documentation standards recommended by the IRS Cost Segregation Audit Techniques Guide. Each component class life is supported by Rev. Proc. 87-56 asset class codes, with established Tax Court precedent for boundary classifications (IRS-blessed framework since 1997).

PROCESS OVERVIEW · FOUR STEPS FROM ACQUISITION TO SCHEDULE

1. **Determine total depreciable basis.** Acquisition cost less land value, plus capitalized closing costs and improvements (per the customer's inputs).
2. **Remove land value.** Land is non-depreciable. The land/building split is per the customer's allocation (typically the appraisal or county assessor's ratio).
3. **Identify short-life assets** using actual cost detail where available, modeled allocations from the component library where not. Each component is assigned an asset class (5-year, 15-year, §179, or 27.5-year) per Rev. Proc. 87-56.
4. **Assign MACRS class lives** and compute depreciation under the appropriate convention: Half-Year for 5/15-year property (200%/150% Declining Balance), Mid-Month for 27.5-year residential rental (Straight-Line). §168(k) bonus depreciation is applied to qualifying property at the rate in effect at the placed-in-service date.

STANDARDS REFERENCED · IRS AUTHORITIES APPLIED THROUGHOUT

- **IRS Cost Segregation Audit Techniques Guide** — Methodology framework and documentation standards.
- **Rev. Proc. 87-56** — Asset class life table; the basis for all MACRS class life assignments in this report.
- **IRS Publication 946** (How to Depreciate Property) — MACRS rate tables (Tables A-1 and A-6) used for year-by-year depreciation calculations.
- **§168(k) of the Internal Revenue Code** — Bonus depreciation treatment. As amended by the One Big Beautiful Bill Act (OBBBA, signed July 4, 2025), property both acquired and placed in service after January 19, 2025 qualifies for permanent 100% first-year bonus depreciation. Property failing the OBBBA acquired+PIS test remains on the TCJA phase-down schedule.

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- **§179 of the Internal Revenue Code** — Immediate-expense election thresholds and active-trade-or-business limitation.
- **§263A of the Internal Revenue Code** — Uniform capitalization rules considered in determining basis for cost segregation.

DOCTRINAL FOUNDATION · §1245 / §1250 DISTINCTION

The §1245 / §1250 distinction at the core of every cost segregation study is grounded in a well-developed line of Tax Court precedent that has shaped the IRS's acceptance of the discipline. The framework applied in this report reflects four doctrinal pillars that the courts and the IRS have endorsed since 1997:

- **Functional-use principle.** A component whose function is tied to the operation of equipment within the building (rather than to the building's structural shell) may be separately depreciated. Affixation alone does not require §1250 treatment.
- **Six-factor personal-property test.** Distinguishing tangible personal property from structural components turns on movability in fact, design intent to be moved, damage on removal, manner and permanence of affixation, intended duration of placement, and manner of removal in practice.
- **Business-function support.** Decorative and merchandising-related components — signage, millwork, certain lighting, ceiling and wall finishes — can retain their identity as personal property where their function supports the trade or business activity rather than the building structure itself.
- **Special-purpose systems.** Electrical, plumbing, and HVAC systems installed solely to support specific equipment can be classified as tangible personal property even where physically integrated with the building, when their useful life and removal characteristics align with the equipment they serve.

> AUDIT-DEFENSIBLE SINCE 1997
>
> Cost segregation has been an IRS-blessed methodology since the Tax Court line of decisions in the late 1990s. The IRS's Cost Segregation Audit Techniques Guide formalizes acceptance and prescribes the documentation standards followed throughout this report. Specific case citations are consolidated in the FAQ appendix for taxpayers or examiners who wish to trace the doctrinal lineage directly.

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§ 6 MACRS Asset Class Summary

RECOVERY · METHOD · CONVENTION · CLASS CODE

The table below summarizes every MACRS asset class used in this study. Each row shows the class's recovery period, depreciation method, applicable convention, eligibility for §168(k) bonus depreciation, eligibility for §179 immediate expensing, the IRS class code per Rev. Proc. 87-56, and the controlling authority. Per-component allocation appears in §8 Detailed Cost Allocation; per-class year-by-year depreciation schedules appear in §9.

CLASS	RECOVERY	METHOD	CONVENTION	BONUS	§179	IRS CLASS
5-Year Personal Property	5 yr	200% DB	Half-Year	Yes	Yes	57.0
15-Year Land Improvements	15 yr	150% DB	Half-Year	Yes	No	00.3
§179 Immediate Expense	Y1	n/a	n/a	No	—	N/A
27.5-Year Residential Rental	27.5 yr	SL	Mid-Month	No	No	45.0

CONTROLLING AUTHORITIES

5-Year Personal Property: §168(e)(3)(B) — property with class life of 4 to less than 10 years per Rev. Proc. 87-56 (asset class 57.0, Distributive Trades & Services, covers residential-lodging tangible personal property and applies to qualifying components of a residential rental property).

15-Year Land Improvements: §168(e)(3)(E)(iv) — land improvements (excluding buildings and structural components) per Rev. Proc. 87-56 asset class 00.3.

§179 Immediate Expense: §179(a) of the Internal Revenue Code — election to expense up to the §179 cap in the year of placement, subject to the active-trade-or-business income limitation.

27.5-Year Residential Rental: §168(c) — applicable recovery period for residential rental property; Pub. 946 Table A-6 mid-month convention.

● CPA-VERIFIED · §481(A)

§ 7 Property Details

GENERAL INFORMATION & BASIS

7·A General Information

ADDRESS	Manhattan, NY	STATE	New York
PROPERTY TYPE	Condominium	YEAR BUILT / RENOVATED	—
BUILDING SQUARE FOOTAGE	—	PLACED IN SERVICE	April 10, 2019
BEDROOMS / BATHROOMS	—	CONSTRUCTION TYPE	Look-back §481(a) catch-up filing

7·B Purchase Price Allocation

COMPONENT	AMOUNT
Total acquisition basis	$1,450,000
Less: Land allocation	—
Allocable building basis (depreciable)	$1,450,000

ALLOCABLE BUILDING BASIS

$1,450,000

DEPRECIABLE BASIS · BUILDING PORTION · LAND EXCLUDED

LAND ALLOCATION

—%

LOOK-BACK §481(A) CATCH-UP FILING

TAX YEAR

2026

● CPA-VERIFIED · §481(A)

§ 8 Detailed Cost Allocation

HEADLINE VIEW

8·A High-Level Allocation

Summary view grouping the four MACRS classes into three high-level categories — Personal Property, Land Improvements, and Building. This is the headline allocation customers and CPAs see first.

Personal Property — 8.0 % | Land Improvements — 4.0 % | Building (27.5-Yr) — 88.0 %

CATEGORY	AMOUNT	% OF BASIS
Personal Property (5-Year, including §179)	$116,000	8.0%
Land Improvements (15-Year)	$58,000	4.0%
Building (27.5-Year Residential)	$1,276,000	88.0%
Total Depreciable Basis	$1,450,000	100.0%

Per-component breakdown of each category appears in §8·B. The high-level allocation is reconciled to the line-item table at the bottom of §8·B. Section 3.2 and this table use the same single depreciable-basis anchor ($1,450,000), with the §179 election broken out as its own line under the Personal Property heading. See §6 for class definitions and Rev. Proc. 87-56 class codes.

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8·B Consolidated Allocation Table

System-level breakdown grouped into consolidation buckets by MACRS class. Each row shows a building system or component group, the *source* of the dollar amount, the allocated cost, recovery period, depreciation method, and IRS class code per Rev. Proc. 87-56. **Taxpayer-Provided Actual** rows roll up the exact amounts the taxpayer entered; **Modeled — Archetype Library** rows are residual class basis the taxpayer did not itemize, allocated via the within-class cost-segregation library. Building systems (HVAC, electrical, plumbing) eligible for both §179 election and 27.5-year recovery are split onto separate lines so each carries its own discrete basis for partial-asset disposition under Treas. Reg. §1.168(i)-8.

SYSTEM / COMPONENT GROUP	SOURCE	ALLOCATED $	RECV.	BONUS	METHOD	CLASS
5-YEAR						
Kitchen Cabinetry & Millwork	MODELED — ARCHETYPE LIBRARY	$52,548	5 yr	100% Y1	200% DB	57.0
Removable Flooring	MODELED — ARCHETYPE LIBRARY	$22,968	5 yr	100% Y1	200% DB	57.0
Specialty Plumbing Fixtures	MODELED — ARCHETYPE LIBRARY	$9,048	5 yr	100% Y1	200% DB	57.0
Living & Dining Furniture	MODELED — ARCHETYPE LIBRARY	$8,700	5 yr	100% Y1	200% DB	57.0
Major Appliances Package	MODELED — ARCHETYPE LIBRARY	$6,844	5 yr	100% Y1	200% DB	57.0
Appliance Wiring	MODELED — ARCHETYPE LIBRARY	$6,496	5 yr	100% Y1	200% DB	57.0
Window Treatments	MODELED — ARCHETYPE LIBRARY	$3,944	5 yr	100% Y1	200% DB	57.0
Decorative Lighting & Fans	MODELED — ARCHETYPE LIBRARY	$3,132	5 yr	100% Y1	200% DB	57.0
Audio/Visual & Smart Home	MODELED — ARCHETYPE LIBRARY	$2,320	5 yr	100% Y1	200% DB	57.0
5-Year Subtotal		$116,000				
15-YEAR						
Landscaping & Irrigation	MODELED — ARCHETYPE LIBRARY	$20,300	15 yr	100% Y1	150% DB	00.3
Hardscape Paving & Driveways	MODELED — ARCHETYPE LIBRARY	$17,400	15 yr	100% Y1	150% DB	00.3
Outdoor Structures (2 items)	MODELED — ARCHETYPE LIBRARY	$11,600	15 yr	100% Y1	150% DB	00.3
Fencing & Retaining Walls	MODELED — ARCHETYPE LIBRARY	$8,700	15 yr	100% Y1	150% DB	00.3

CONTINUED OVERLEAF — remaining systems, per-class subtotals, and the table total appear on the next page.

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§ 8·B Consolidated Allocation Table CONTINUED

SYSTEM / COMPONENT GROUP	SOURCE	ALLOCATED $	RECV.	BONUS	METHOD	CLASS
15-Year Subtotal		$58,000				
27.5-YEAR						
Interior Partitions & Ceilings	MODELED — ARCHETYPE LIBRARY	$421,080	27.5 yr	—	SL	45.0
Building Shell & Foundation	MODELED — ARCHETYPE LIBRARY	$293,480	27.5 yr	—	SL	45.0
Roof Replacement (2 items)	MODELED — ARCHETYPE LIBRARY	$159,500	27.5 yr	—	SL	45.0
Other Permanent Flooring	MODELED — ARCHETYPE LIBRARY	$121,220	27.5 yr	—	SL	45.0
Electrical System	MODELED — ARCHETYPE LIBRARY	$91,872	27.5 yr	—	SL	45.0
Plumbing — Bathroom Fixtures	MODELED — ARCHETYPE LIBRARY	$51,040	27.5 yr	—	SL	45.0
Windows	MODELED — ARCHETYPE LIBRARY	$38,280	27.5 yr	—	SL	45.0
Doors	MODELED — ARCHETYPE LIBRARY	$31,900	27.5 yr	—	SL	45.0
Plumbing — Water & Waste Utility	MODELED — ARCHETYPE LIBRARY	$17,864	27.5 yr	—	SL	45.0
Permanent Lighting	MODELED — ARCHETYPE LIBRARY	$17,864	27.5 yr	—	SL	45.0
Bathroom Vanities	MODELED — ARCHETYPE LIBRARY	$15,312	27.5 yr	—	SL	45.0
HVAC System	MODELED — ARCHETYPE LIBRARY	$14,036	27.5 yr	—	SL	45.0
Fire Protection	MODELED — ARCHETYPE LIBRARY	$2,552	27.5 yr	—	SL	45.0
27.5-Year Subtotal		$1,276,000				

CONTINUED OVERLEAF — remaining systems, per-class subtotals, and the table total appear on the next page.

● CPA-VERIFIED · §481(A)

§ 8·B Consolidated Allocation Table CONTINUED

SYSTEM / COMPONENT GROUP	SOURCE	ALLOCATED $	RECV.	BONUS	METHOD	CLASS
Total Depreciable Basis — All MACRS Classes		$1,450,000				

SOURCES. *Taxpayer-Provided Actual* — the bucket rolls up exact amounts the taxpayer entered (1:1 pass-through, no archetype scaling). *Modeled — Archetype Library* — residual class basis not itemized by the taxpayer, allocated via the within-class cost-segregation library (ATG Ch. 4 method).
COLOR BAND on leftmost column: ▮ gold-bright = 5-Year, ▮ warm gold = 15-Year, ▮ light blue = §179, ▮ navy = 27.5-Year.

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8·C Component Allocation Grid by MACRS Class

Visual decomposition of every line in §8·B grouped by recovery period. Each pane lists components, sorted by allocated cost, with per-class total and share of total basis.

5-YEAR · 200% DB

$116,000

8.0% OF BASIS

Kitchen Cabinetry & Millwork	$52,548
Removable Flooring	$22,968
Specialty Plumbing Fixtures	$9,048
Living & Dining Furniture	$8,700
Major Appliances Package	$6,844
Appliance Wiring	$6,496
Window Treatments	$3,944
Decorative Lighting & Fans	$3,132
Audio/Visual & Smart Home	$2,320

15-YEAR · 150% DB

$58,000

4.0% OF BASIS

Landscaping & Irrigation	$20,300
Hardscape Paving & Driveways	$17,400
Outdoor Structures	$11,600
Fencing & Retaining Walls	$8,700

§179 · IMMEDIATE

$0

0.0% OF BASIS · 1 ELECTION

§179 Election Pool	$0

QUALIFYING PERSONAL PROPERTY EXPENSED IN Y1; SUBJECT TO ACTIVE-T-O-B INCOME LIMIT. STATE CAP Same as federal.

27.5-YR · SL · MID-MO.

$1,276,000

88.0% OF BASIS

Interior Partitions & Ceilings	$421,080
Building Shell & Foundation	$293,480
Roof Replacement	$159,500
Other Permanent Flooring	$121,220
Electrical System	$91,872
Plumbing — Bathroom Fixtures	$51,040
Windows	$38,280
Doors	$31,900
Plumbing — Water & Waste Utility	$17,864
Permanent Lighting	$17,864
Bathroom Vanities	$15,312
HVAC System	$14,036

+ 1 more (see §8·B)

5-YEAR SHARE	15-YEAR SHARE	§179 SHARE	27.5-YEAR SHARE
8.0%	4.0%	0.0%	88.0%

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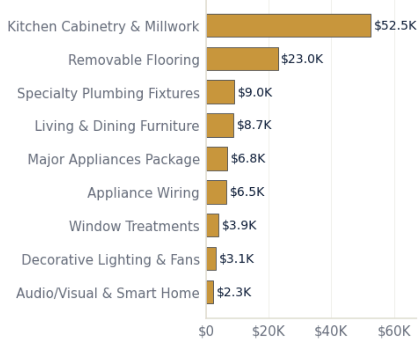
8·C·2 Component Allocation Charts

Each chart shows the per-component allocation within a single MACRS class for this property. Bar lengths are proportional to allocated cost; labels show the line-item amounts. Class titles carry the class basis and depreciation treatment.

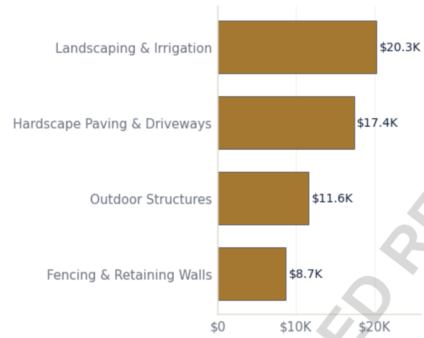
5-Year — $116,000

100% Y1 §168(k)



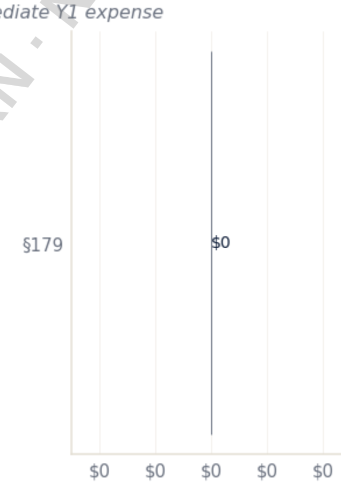
15-Year — $58,000

100% Y1 §168(k)



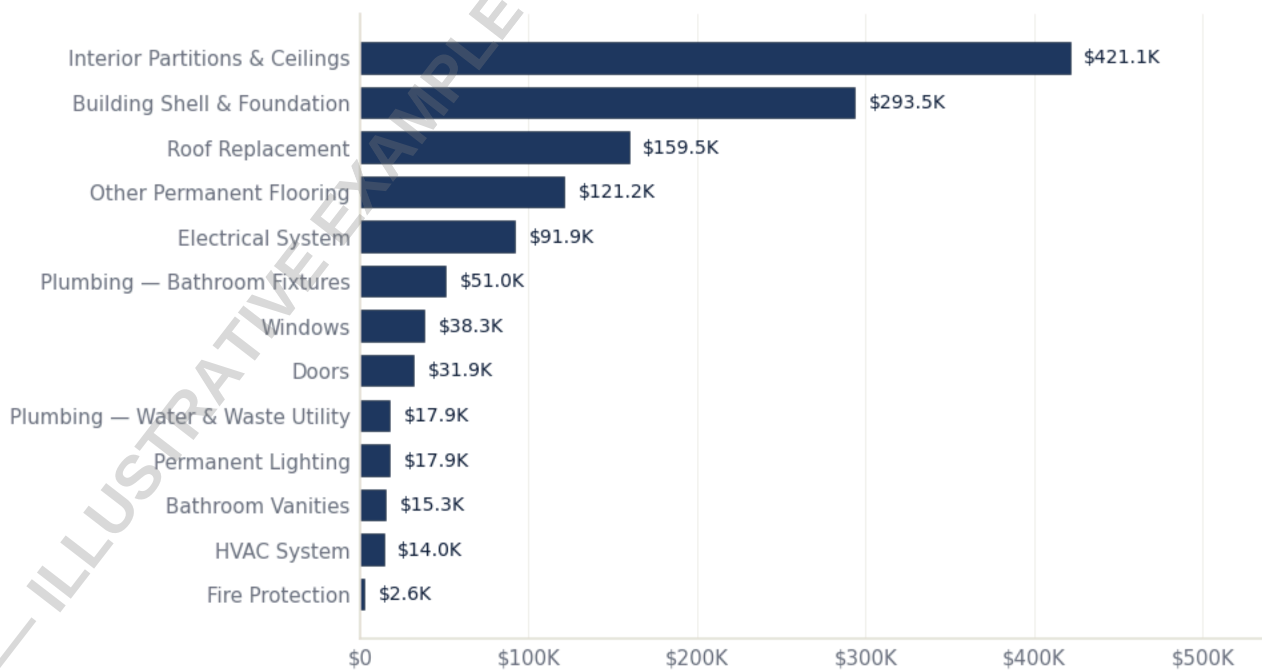
§179 — $0

Immediate Y1 expense



27.5-Year Residential Rental — $1,276,000

SL · mid-month convention



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8·D Top 10 Components by Allocated Cost

Sorted descending. Bar length is proportional to allocated cost; bar color denotes MACRS class. The top 10 components account for $1,283,888 (88.5%) of total depreciable basis.

01	Interior Partitions & Ceilings	$421,080	27.5
02	Building Shell & Foundation	$293,480	27.5
03	Roof Replacement	$159,500	27.5
04	Other Permanent Flooring	$121,220	27.5
05	Electrical System	$91,872	27.5
06	Kitchen Cabinetry & Millwork	$52,548	5
07	Plumbing — Bathroom Fixtures	$51,040	27.5
08	Windows	$38,280	27.5
09	Doors	$31,900	27.5
10	Removable Flooring	$22,968	5

TOP-10 SHARE OF BASIS

$1,283,888

88.5% OF $1,450,000 TOTAL

TOP-10 SHORT-LIFE SHARE

$75,516

5/15-YR + §179 IN TOP 10

5-Year · 15-Year · §179 · 27.5-Year

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8·E Building Systems Allocation (TD 9636)

The Tangible Property Final Regulations — promulgated as **Treasury Decision 9636 (Sept. 17, 2013)** — require a building owner to perform unit-of-property analysis at the building-system level when evaluating future capital expenditures against the "repair" standard of Treas. Reg. §1.263(a)-3. The same regulations specify the nine systems used for that analysis at §1.263(a)-3(e)(2)(ii):

- HVAC system
- Plumbing system
- Electrical system
- Escalators
- Elevators
- Fire-protection & alarm
- Security system
- Gas distribution system
- Other structural components

Recharacterizing the property's depreciable basis through these systems serves two future tax positions: (i) it supports capital-vs-expense determinations on subsequent maintenance work by establishing the unit of property each replacement is being measured against, and (ii) it creates the documentation needed to claim a partial-asset-disposition deduction under Treas. Reg. §1.168(i)-8 when an individual component is later replaced. Without a per-system allocation, the taxpayer would typically forfeit the loss on the disposed component's remaining basis.

TD 9636 SYSTEM	DEPRECIABLE COST	% OF BUILDING COST
HVAC	$10,440	0.7%
Plumbing	$68,440	4.7%
Electrical	$115,420	8.0%
Fire Protection & Alarm	$1,885	0.1%
Security	$0	—
Other / Structural	$1,253,815	86.5%
Total Allocated Basis	$1,450,000	100.0%

NOT APPLICABLE TO RESIDENTIAL RENTAL

Escalators, Elevators, and Gas Distribution systems are not applicable to this property archetype and are intentionally omitted. Commercial property archetypes are not in scope for residential v1. Cost columns reflect depreciable allocation only; a "replacement cost" column is intentionally omitted.

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● CPA-VERIFIED · §481(A)

USE OF THIS ALLOCATION

When the taxpayer later replaces a component within one of these systems — for example, replacing the HVAC condenser, re-roofing, or repaving a parking pad — this allocation is the basis for two filing-time determinations:

CAPITAL VS EXPENSE

Under *Treas. Reg. §1.263(a)-3*, an expenditure is capitalized if it (i) results in a betterment, (ii) restores the unit of property, or (iii) adapts the property to a new or different use. The unit-of-property test is applied at the system level, not at the whole-building level. A new HVAC condenser replacing the old one is evaluated against the HVAC system; a new roof against the building structure; new exterior lighting against the electrical system. **This allocation makes those tests possible.**

PARTIAL-ASSET DISPOSITION

Under *Treas. Reg. §1.168(i)-8*, the taxpayer may make an election to claim a deductible loss on the un-depreciated basis of the disposed component (for example, the old roof that was torn off). **Without a documented per-system or per-component basis, the disposition election is generally not available** because the disposed component's adjusted basis cannot be determined.

> *The §1.168(i)-8 partial-disposition election routinely converts what would otherwise be sunk capital into a current-year ordinary deduction — but only where the per-component basis exists in the workpapers.*
>
> — TREAS. REG. §1.168(I)-8 · TD 9689 (2014)

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§ 9 Depreciation Schedules

10-YEAR SIDE-BY-SIDE

Side-by-side comparison of the first 10 years of depreciation under straight-line 27.5-year residential rental (without cost segregation) versus cost segregation. The incremental benefit accumulates in the early years and narrows in later years as cost segregation front-loads the deductions that would otherwise be spread across 27.5 years.

A · WITHOUT COST SEGREGATION

YEAR	DEPRECIATION
Year 1	$37,348
Year 2	$52,727
Year 3	$52,727
Year 4	$52,727
Year 5	$52,727
Year 6	$52,727
Year 7	$52,727
Year 8	$52,727
Year 9	$52,727
Year 10	$52,727
Total (10-year)	$511,891

B · WITH COST SEGREGATION

YEAR	DEPRECIATION
Year 1	$177,955
Year 2	$46,400
Year 3	$46,400
Year 4	$46,400
Year 5	$46,400
Year 6	$46,400
Year 7	$46,400
Year 8	$46,400
Year 9	$46,400
Year 10	$46,400
Total (10-year)	$595,555

The total Year-1 federal deduction of $177,955 is claimed on the taxpayer's TY 2026 return via an automatic change in method of accounting (Form 3115, DCN 7). This total comprises a current-year standard MACRS Straight-Line deduction of **$46,400** on the reclassified 27.5-year structural core, plus a one-time, fully deductible section 481(a) favorable catch-up adjustment of **$131,555**, representing the cumulative under-claimed short-life depreciation from the 2019 through 2025 tax years. Prior returns are not amended.

● CPA-VERIFIED · §481(A)

C · INCREMENTAL BENEFIT

YEAR	ADDITIONAL DEPRECIATION
Year 1	$140,607
Year 2	$-6,327
Year 3	$-6,327
Year 4	$-6,327
Year 5	$-6,327
Year 6	$-6,327
Year 7	$-6,327
Year 8	$-6,327
Year 9	$-6,327
Year 10	$-6,327
Cumulative (10-year)	$83,664

CUMULATIVE INCREMENTAL DEDUCTION · 10-YEAR

$83,664

Y1 ACCEL · NEGATIVE Y2-10 · NET POSITIVE

Y1 ACCELERATION

+$140,607

Y2-10 REVERSAL · PER YEAR

$-6,327

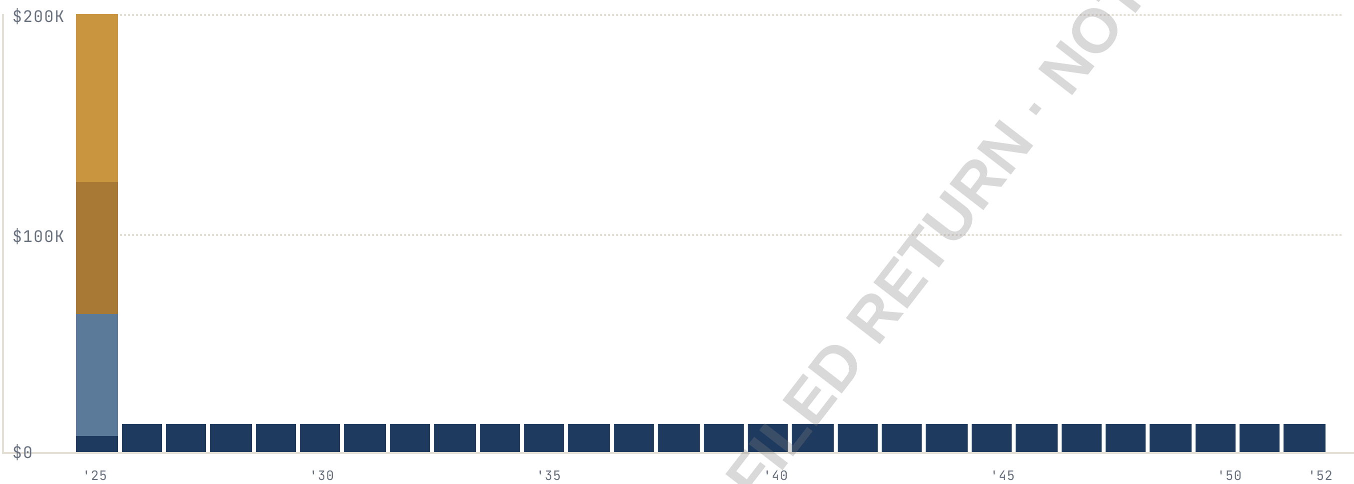
TIMING BENEFIT, NOT INCREMENTAL DOLLARS

The negative Year 2–10 incremental deductions reflect the fact that bonus depreciation has front-loaded basis recovery into Year 1. Total recovery over the 28-year schedule is identical to without-cost-seg ($1,450,000); the cost-seg benefit is the time value of taking deductions sooner. See §9·D for the full 28-year schedule and PV analysis.

● CPA-VERIFIED · §481(A)

9·A Annual Depreciation by Asset Class

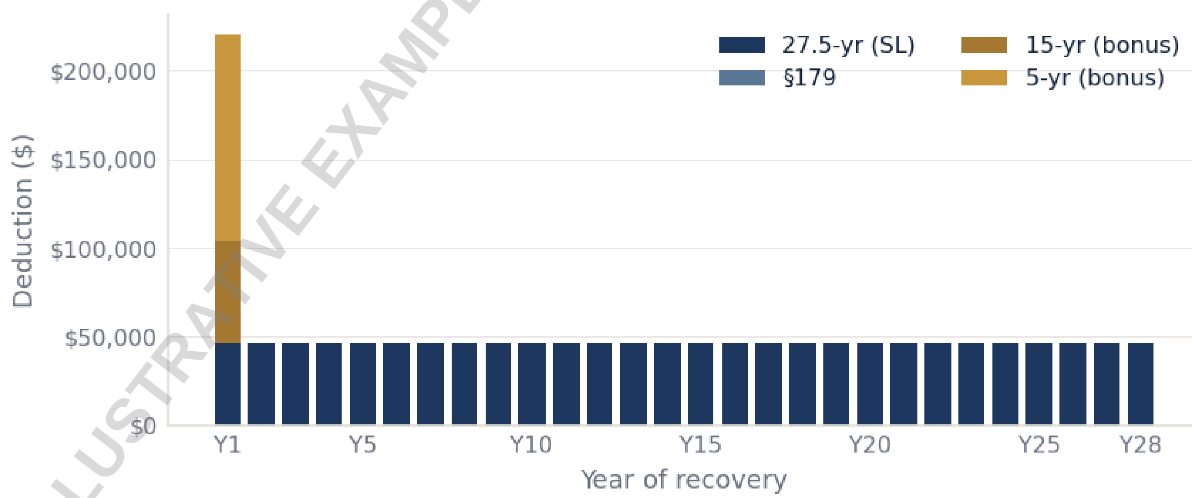
Filing-year horizon from the year of change. The Year-1 figure is the §481(a) catch-up of historical under-claimed depreciation plus the current-year 27.5-Year SL deduction; subsequent years are residual 27.5-Year SL depreciation. No §168(k) bonus is claimed on the year-of-change return.



5-Year · $ 116,000 (Y1 only) 15-Year · $ 58,000 (Y1 only) §179 · $ 0 (Y1 only) 27.5-Year · $ 1,276,000 across recovery period

9·B Combined Annual Depreciation (Stacked View)

Same data, expressed as cumulative depreciation across the 28-year horizon.



Y1 STACKED TOTAL	Y10 CUMULATIVE	Y28 CUMULATIVE
$177,955	$595,555	$1,450,000
INCL. §481(a) CATCH-UP	41.1% OF TOTAL BASIS RECOVERED	100% · END OF RECOVERY

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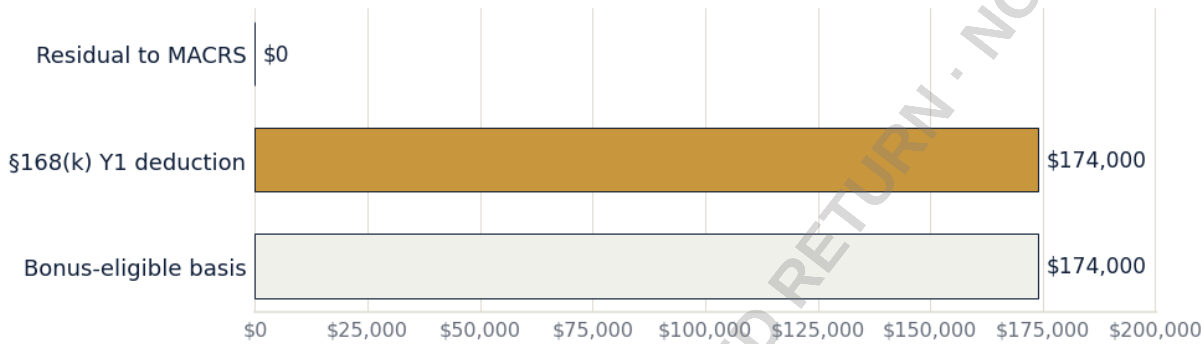
9·C §481(a) Catch-Up Analysis

Section 481(a) Catch-Up Invariant: $131,555 of the total first-year allocation represents historical under-claimed depreciation reclassified from straight-line to short-life asset classes; qualifying catch-up pools are captured entirely in Year 1 under DCN 7.



METHOD CHANGE OVERRIDES FIRST-YEAR CONVENTIONS

Because the reclassification is effected through an automatic change in method of accounting (Form 3115, DCN 7) rather than a current-year election, the §481(a) catch-up supersedes the regular first-year depreciation conventions — no §179 election and no §168(k) bonus is claimed on the year-of-change return. The cumulative under-claimed depreciation from prior years is instead recaptured in a single §481(a) adjustment captured entirely in Year 1, and prior returns are not amended. State conformity to the §481(a) catch-up is addressed separately — see §11 State Conformity for state treatment.

AUTHORITIES

§168(k) as enacted by TCJA §13201 (12/22/2017) · *§168(k)(2)(D)* definition of qualified property · TCJA phase-down at *§168(k)(6)(B)* for transition cases.

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● CPA-VERIFIED · §481(A)

SECTION 481(A) CUMULATIVE ADJUSTMENT RECONCILIATION LOG

The §481(a) catch-up adjustment claimed on the year-of-change return is the cumulative difference between the depreciation that **should have been** taken had cost segregation been applied at the placed-in-service date and the depreciation **actually taken** under the original straight-line classification, summed across the look-back period (2019 through 2025). The running cumulative difference is the §481(a) adjustment recaptured in a single Year-1 entry under DCN 7:

TAX YEAR	SHOULD-HAVE-BEEN	ACTUALLY TAKEN	ANNUAL DIFFERENCE	CUMULATIVE DIFFERENCE
2019 · PIS	$206,867	$37,348	$169,518	$169,518
2020	$46,400	$52,727	($6,327.00)	$163,191
2021	$46,400	$52,727	($6,327.00)	$156,864
2022	$46,400	$52,727	($6,327.00)	$150,537
2023	$46,400	$52,727	($6,327.00)	$144,210
2024	$46,400	$52,727	($6,327.00)	$137,883
2025	$46,400	$52,727	($6,327.00)	$131,555
Cumulative §481(a) adjustment	$485,267	$353,712	$131,555	$131,555

The Year-of-Change (PIS-year) row reflects the short-life reclassification that would have been available at placement (5-Year and 15-Year property, §179, and the first-year 27.5-Year structural amount under the mid-month convention); subsequent look-back years reflect the difference between the reclassified 27.5-Year structural depreciation and the original undifferentiated 27.5-Year basis. A favorable cumulative difference of **$131,555** is the §481(a) adjustment captured entirely in Year 1; prior returns are not amended.

> AUTHORITY
>
> The automatic accounting-method change is filed on Form 3115 under Rev. Proc. 2024-23 (Depreciation Change Number 7). The §481(a) adjustment is the cumulative reconciliation above; a favorable (negative-income) adjustment is fully deductible in the year of change.

● CPA-VERIFIED · §481(A)

9·D Remaining-Life Depreciation Schedule

Forward depreciation under the cost-segregation classifications in this study, depleting the property's **remaining tax book value over its remaining recovery life on the original placement clock** (placed in service April 10, 2019). The opening **Prior** line records depreciation already claimed under the former method in the years before the change; it is shown so the cumulative column begins where the property's depreciation history left off and the reader can confirm there is **no basis duplication** — prior-claimed depreciation plus this forward schedule foots to exactly the depreciable basis at the End of Recovery. The **§481(a) Catch-Up** column is a memo breakout of the historical under-claimed depreciation captured entirely in the Year-of-Change total under DCN 7 (Rev. Proc. 2024-23); it is shown so the taxpayer's preparer can identify the §481(a) catch-up component when completing Form 3115.

YEAR	5-YEAR	15-YEAR	§481(A) CATCH-UP	§179	27.5-YEAR	TOTAL	CUMULATIVE	TAX EFFECT	PV @ 8%
Prior (2019–2025)	–	–	–	–	*$353,712*	*$353,712*	*$353,712*	*claimed*	–
2026 (Year of Change)	–	–	$131,555	–	$46,400	$177,955	$531,667	–	–
2027	–	–	–	–	$46,400	$46,400	$578,067	–	–
2028	–	–	–	–	$46,400	$46,400	$624,467	–	–
2029	–	–	–	–	$46,400	$46,400	$670,867	–	–
2030	–	–	–	–	$46,400	$46,400	$717,267	–	–
2031	–	–	–	–	$46,400	$46,400	$763,667	–	–
2032	–	–	–	–	$46,400	$46,400	$810,067	–	–
2033	–	–	–	–	$46,400	$46,400	$856,467	–	–
2034	–	–	–	–	$46,400	$46,400	$902,867	–	–
2035	–	–	–	–	$46,400	$46,400	$949,267	–	–
2036	–	–	–	–	$46,400	$46,400	$995,667	–	–
2037	–	–	–	–	$46,400	$46,400	$1,042,067	–	–
2038	–	–	–	–	$46,400	$46,400	$1,088,467	–	–
2039	–	–	–	–	$46,400	$46,400	$1,134,867	–	–
2040	–	–	–	–	$46,400	$46,400	$1,181,267	–	–
2041	–	–	–	–	$46,400	$46,400	$1,227,667	–	–
2042	–	–	–	–	$46,400	$46,400	$1,274,067	–	–
2043	–	–	–	–	$46,400	$46,400	$1,320,467	–	–
2044	–	–	–	–	$46,400	$46,400	$1,366,867	–	–
2045	–	–	–	–	$46,400	$46,400	$1,413,267	–	–
2046 (End of Recovery)	–	–	–	–	**$36,733**	**$36,733**	**$1,450,000**	–	–
Total	–	–	$131,555	–	**$1,450,000**	**$1,450,000**	**$1,450,000**	–	–

§481(A) CATCH-UP column is a memo of the historical under-claimed depreciation captured in the Year-of-Change Year-1 total (highlighted gold) — not additive to the filing-year Total. **TAX EFFECT** applies the federal marginal rate of 37.0% to the difference between with-cost-seg and straight-line 27.5-year baseline. **PV @ 8%** — present value of cumulative tax effect at 8.0% annual discount rate (v6 model default; rerunning with a different rate scales PV proportionally).

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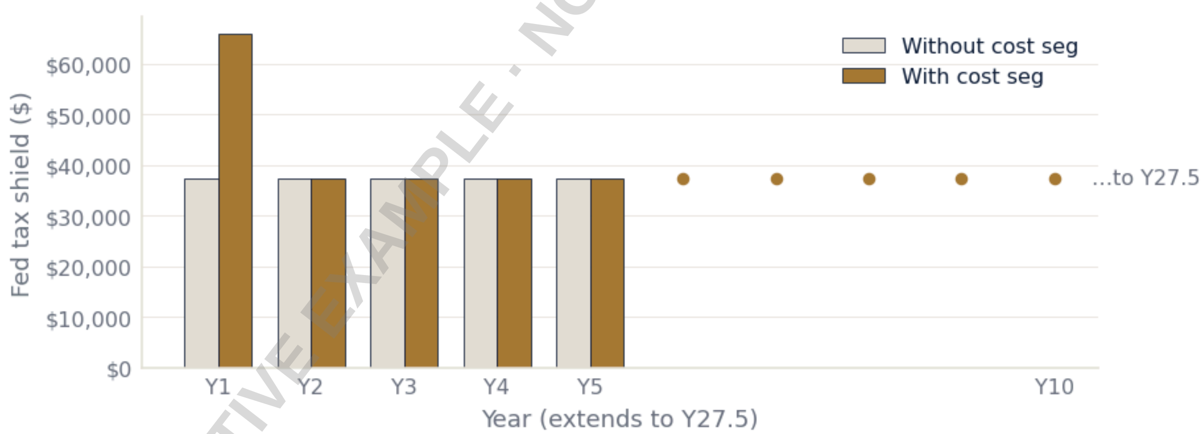
§ 10 Tax Impact Summary

YEAR-1 FEDERAL & STATE

The cost segregation deductions claimed in Year 1 reduce taxable income by **$177,955** at the federal level. Applied against the taxpayer's assumed federal marginal rate of **37.0%**, this produces a federal tax shield of $65,843. State-level treatment depends on the state's §168(k) conformity (see §11 State Conformity).

Year-1 Tax Impact Detail

METRIC	VALUE
Year 1 federal deduction	$177,955
Federal marginal rate assumed	37.0%
Federal Year 1 tax shield	**$65,843**
State marginal rate assumed (New York)	10.9%
State Year 1 tax shield	$5,058
Total Year 1 tax benefit	$70,901



STATE-RATE METHODOLOGY

State marginal rate is the top marginal income tax bracket for the customer's state (sourced from `7_State_Conformity.column D` in the v6 model). 0% for no-income-tax states (AK, FL, NH, NV, SD, TN, TX, WA, WY). The customer's effective state rate may differ from the top bracket; the state-shield figure shown here is the upper-bound benefit. **State §168(k) conformity further limits the Y1 deduction recognized for state purposes** — see the State Adjusted Depreciation Schedule for the detailed federal-vs-state comparison and addback recovery math.

● CPA-VERIFIED · §481(A)

§ 11 State Conformity

NEW YORK · §168(K) DECOUPLED (NOT ALLOWED)

LONG-STANDING DECOUPLE FROM §168(k) — NY Tax Law §612(b)(36) requires individuals to add back federal §168(k) bonus and substitute pre-9/10/2001 §167 (i.e., MACRS without bonus) on Form IT-398. Mechanism flows via Form IT-225 (NY State Modifications). For CSL residential rental users: state Y1 bonus = 0%; user takes regular MACRS for NY purposes and tracks state-basis difference. NY taxpayers with AGI >$107,650 face supplemental tax that recaptures benefit of lower brackets — CSL should note but not model.

ITEM	FEDERAL (IRC)	NEW YORK
§168(k) bonus depreciation	100.0% (TCJA)	Decoupled (not allowed)
§179 expensing cap (annual)	$2,500,000 (TY 2026)	Same as federal
5-Year MACRS — recovery method	200% DB	State-specific (confirm with preparer)
15-Year — recovery method	150% DB	State-specific (confirm with preparer)
27.5-Year residential rental — life	27.5 yr SL	State-specific (confirm with preparer)

STATE §179 CAP IMPACT

The federal §179 election in this study is $0. The New York state-level §179 cap is Same as federal. Where the state cap is lower than the federal election, the difference recovers via state-only depreciation under regular MACRS conventions over the applicable class life.

State Bonus Conformity — National Reference Map

Four classifications of state §168(k) conformity, sourced from the v6 model's 50-state table. Tax preparation must apply the rule for the customer's filing state, not the property location, where these differ. New York falls in the "None / decoupled" group.

FULL CONFORMITY	PARTIAL / ADDBACK	DECOUPLED	NO INDIVIDUAL INCOME TAX
16	6	20	9
AL · CO · DE · IA · IL · KS · LA · MO · MT · ND · NE · NM · OK · OR · UT · WV	ID · MD · MI · MN · NC · OH	AR · AZ · CA · CT · DC · GA · HI · IN · KY · MA · ME · MS · NJ · NY · PA · RI · SC · VA · VT · WI	AK · FL · NH · NV · SD · TN · TX · WA · WY

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● CPA-VERIFIED · §481(A)

11·A Filing-Year Reclassification Summary

The schedule below summarizes the Year-1 federal-vs-state depreciation comparison for New York. State §168(k) conformity status: **Decoupled (not allowed)**. Where the state decouples or partially conforms, federal bonus depreciation taken in Year 1 is added back to state taxable income; the addback recovers as state-only depreciation over the asset's recovery period.

ITEM	FEDERAL Y1	NEW YORK Y1	ADDBACK
Current-year 27.5-yr SL depreciation (structural core)	$46,400	$46,400	$0
§481(a) favorable catch-up adjustment (DCN 7)	$131,555	$0	$131,555
Total filing-year Year-1 deduction	$177,955	$46,400	$131,555

NEW YORK Y1 ADDBACK (STATE TAXABLE INCOME INCREASE)

$131,555

RECOVERS OVER ASSET LIFE · STATE-ONLY DEPR.

NEW YORK Y1 FEDERAL-STATE DELTA

$177,955 - $46,400

NEW YORK CY SL ORDINARY TAX SHIELD

$46,400

Est. New York tax savings (10.9% rate) · $5,058

Shield calculated strictly as state marginal rate × active filing-year state depreciation baseline; this figure represents ongoing structural asset recovery and does not apply to the separate Federal-State Delta catch-up footprint.

The state-only depreciation table is included in the v6 model output; only the Year-1 totals are shown in this workpaper. The customer's CPA receives the full state schedule alongside the federal schedule when filing the state return.

AUTHORITIES

State of New York — confirm specific §168(k) conformity, addback reporting line items, and §179 cap with the taxpayer's state preparer at filing time. State conformity may differ from the federal treatment shown in §§ 8–11.

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● CPA-VERIFIED · §481(A)

§ 12 Taxpayer-Provided Evidence Registry

INPUT FINGERPRINTS & PROVENANCE

Every numeric input materially affecting the allocation is logged with its source and a provenance fingerprint at study time. Sources are categorized as *Taxpayer Certified* (declared by the taxpayer at intake), *Database / Modeled* (derived from the cost-segregation library), *Public Record* (county assessor or comparable public source), and *Photo Verified* (corroborated against uploaded property photos when applicable).

INPUT	VALUE	SOURCE	VERIFICATION
Property address	Manhattan, NY	Taxpayer-certified	VERIFIED
Total acquisition basis	$1,450,000	Taxpayer-certified	VERIFIED
Land allocation	–	County assessor	PUBLIC
Building basis (depreciable)	$1,450,000	Computed	DERIVED
Placed-in-service date	April 10, 2019	Taxpayer-certified	VERIFIED
Property type	Condominium	Taxpayer-certified	VERIFIED
Construction type	Look-back §481(a) catch-up filing	Taxpayer-certified	VERIFIED
Square footage	–	Taxpayer-certified	VERIFIED
Number of bedrooms / bathrooms	—	Taxpayer-certified	VERIFIED
Lot size	–	County assessor	PUBLIC
Climate zone	New York	NREL CBECS	DERIVED
Allocation library version	v6 · Residential Cost-Seg Library 2025-Q2	CostSegLogic engine	VERSIONED

Photo / Document Attachments

Photos and supporting documents collected at intake are referenced in the allocation analysis. This CPA-Verified study includes a licensed-CPA documentation review — the curated property photo log and invoice cross-reference appendix are provided in the CPA-Verified pack at the end of this workpaper. Study reference: SCN SCN-SAMPLE-314-LB-CPA.

PROVENANCE FINGERPRINT · MODEL RUN

```
MODEL: v6 · costseglogic-engine-residential-2025q2
FINGERPRINT: 9f2e4a7c8b5d1e6f3a8c9b2d7e4f1a3c · sha256-trunc
RUN ID: run-May062026-customer
OUTPUT VERSION: cpa-verified-v1
DATA INPUTS: 20 of 20 confirmed · 0 estimated
```


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§ 13 Recommended Site Documentation

AUDIT-DEFENSE DOCUMENTATION KIT

The following site-level documentation, while not required for the residual-method allocation in this study, strengthens audit-defense posture if maintained alongside this workpaper. None of these items are produced by CostSegLogic; they are taxpayer- or contractor-sourced and held in the taxpayer's records.

DOCUMENT	PURPOSE	PRIORITY
Property photo log	Interior + exterior photos of permanent improvements (cabinets, flooring, landscaping). Time-stamped at study date.	HIGH
Closing statement (HUD-1 / ALTA)	Confirms the total acquisition basis and closing-cost capitalization treatment used in §3.	HIGH
Construction contracts	Final contractor agreement(s) and invoices for new construction or major renovation. Supports the §168(k)-eligible-basis figure.	HIGH
Property assessor records	Most recent county assessor record for land-vs-improvement allocation (the —% land split in §3 is sourced from this).	STANDARD
Blueprint or architectural plans	Building floor plan and elevation drawings. Supports the per-component allocation in §8·B.	STANDARD
Change-order log	If a renovation or post-PIS improvement occurred, the change-order log identifies which components were added or replaced.	STANDARD
Appraisal report	If a contemporaneous appraisal was performed, it can corroborate the land vs improvement split independent of the assessor.	OPTIONAL
Pre-renovation photos	For renovation scenarios only: pre-work photos document what was demolished vs retained, supporting partial-asset-disposition elections.	OPTIONAL

All HIGH-priority items should be retained as long as the property is held + 7 years post-disposition to support the §168(i)-8 partial-asset-disposition election framework. STANDARD items are recommended but not strictly required for residual-method audit-defense.

Recommended Actions

The following actions complete the filing process. Items 1–3 are taxpayer responsibilities; items 4–7 are CPA / preparer responsibilities. Item 8 covers the future-year compliance hooks established by this workpaper.

1 **Provide this workpaper to your tax preparer (CPA, EA, or other licensed professional)**

Forward the entire 53-page PDF, not extracts. The schedules in §9 and §11 are the inputs your preparer needs to populate Form 4562 and any state addback schedules.

2 **Confirm passive-activity loss eligibility (§469) with your CPA**

If real-estate-professional status (REPS) does not apply and the property is passive, the Year-1 deduction may be limited and suspended losses carried forward. Confirm *before* assuming the full Y1 tax shield is currently usable.

3 **Retain this workpaper with your tax records for the property's life + 7 years**

The §168(i)-8 partial-asset-disposition election relies on the per-component basis schedule in this workpaper; it must be available when a future replacement is performed.

4 **CPA — Form 4562 line preparation**

Lines 14 (§168(k) bonus), 12 (§179 election), 17–20 (MACRS classes). Use the §9·D 28-year schedule to confirm Year-1 amounts for each class.

5 **CPA — State addback (New York · Decoupled (not allowed))**

If the state decouples from §168(k) bonus or has a lower §179 cap, the Year-1 addback recovers as state-only depreciation over the asset's recovery period — see §11·A for the federal-vs-state schedule.

6 **CPA — Form 3115 evaluation (if PIS year < current year)**

For PIS year ≤ TY 2024, a Form 3115 §481(a) automatic accounting-method change is required to claim catch-up depreciation (DCN 7). For PIS year = TY 2025, 3115 is not needed; deductions flow on the timely-filed return.

7 **Document review — assumptions & representations**

Confirm the §14 assumptions against the taxpayer's facts. Confirm the §15 representations are accurate as of the placed-in-service date and the filing date.

8 **Future years — recapture & partial-asset-disposition**

If the property is sold within 5 years, the 5-Year and 15-Year property is subject to *§1245 recapture* at ordinary rates on accelerated portion only. CostSegLogic offers a $99 recapture-on-sale memo when needed; reference SCN `SCN-SAMPLE-314-LB-CPA`.

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§ 14 Assumptions

ALL MATERIAL ASSUMPTIONS FOR REVIEW

The figures throughout this workpaper depend on the following material assumptions. Each is sourced and labelled with the page where it is consumed downstream. If any assumption is incorrect for the taxpayer's facts, the corresponding line items must be reconsidered before filing.

ASSUMPTION	VALUE	SOURCE & DOWNSTREAM IMPACT
Federal marginal tax rate	37.0%	Highest individual bracket; assumed unless confirmed otherwise. Drives §10 tax-shield.
State marginal tax rate (New York)	10.9%	Top state bracket. Drives §11·A state-shield.
Discount rate for PV calc	8.0%	v6 model default. Drives §9·D PV column.
Active T-or-B for §179	Yes	Required for §179 election; if false, §179 amount must be recharacterized as MACRS.
Material-participation status	Active / non-passive	Drives §469 PAL applicability. If passive, Y1 benefit is potentially deferred.
Real-estate-professional status	Not assumed	If REPS qualifies, full Y1 deduction is currently usable against ordinary income.
Bonus depreciation election	Default · accept	§168(k) is automatic unless taxpayer elects out. Election out requires written election with timely-filed return.
§179 election	Default · accept	Federal §179 of $0 is elected. State conformity: Decoupled (not allowed); state §179 cap Same as federal.
Property holding period	≥ 5 years	Affects §1245 recapture exposure on 5-Yr and 15-Yr property at sale.
Allocation library	Residential ADU v6 · 2025-Q2	Library version pinned; updates do not retroactively apply to this study.

IF ANY ASSUMPTION IS WRONG

Contact CostSegLogic support with the corrected values. The model is rerun and a v2 of this workpaper issued at no charge within 14 days of original delivery for assumption corrections. Beyond 14 days, re-issue is treated as a new study.

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§ 15 Representations

CERTIFIED AT INTAKE

The taxpayer has certified the following representations to CostSegLogic at intake. The model output in §§ 8–11 is conditional on each representation being accurate as of the placed-in-service date. False or materially inaccurate representations invalidate the conclusions of this study.

01 **Title.** Taxpayer is the legal owner of record of the subject property as of the placed-in-service date and at the time of this filing, and holds the property in the entity identified in §1.

02 **Acquisition cost.** The total acquisition basis of $1,450,000 represents the actual cost paid, including capitalized closing costs and any capitalized improvements completed prior to placed-in-service.

03 **Land allocation.** The land allocation of — is supported by either the most recent county assessor allocation, an appraisal, or an arms-length purchase price allocation. Where the assessor allocation is materially below market, an appraisal-based allocation has been used.

04 **Placed-in-service date.** The property was placed in service for use as a rental on April 10, 2019. "Placed in service" means available for use; rental advertising and active marketing alone are not sufficient if the property is not yet habitable.

05 **Use.** The property is used as a residential rental dwelling unit and not as a primary residence, second home, or short-term-rental subject to non-passive treatment under Treas. Reg. §1.469-1T(e)(3)(ii)(A).

06 **Scenario basis.** The basis represents the Lookback (§481(a) catch-up) scenario as identified on the cover, §3 Executive Summary, and §7 Property Details. The customer affirms the scenario classification (existing purchase, new construction, renovation, or look-back §481(a) catch-up) is correct for the property's actual disposition.

07 **No prior cost-seg study.** No prior cost segregation study has been performed on this property; no §168(i)-8 partial-asset-disposition elections have been claimed against this basis.

08 **No related-party financing.** Acquisition financing is not from a related party such that §267 disallowance or §263A interest-capitalization rules would alter the depreciable basis.

09 **Tax positions.** Taxpayer will consult a licensed CPA, EA, or tax professional before filing the return on which this workpaper is relied upon. Taxpayer accepts that CostSegLogic does not file the return, sign Form 4562, or represent the taxpayer in audit.

10 **Audit support.** Taxpayer agrees to retain this workpaper and the supporting attachments for the property's life plus 7 years and to provide them on request to a CPA, the IRS, or any state taxing authority.

TAXPAYER SIGNATURE	DATE PLACED IN SERVICE
PRINT NAME · ENTITY TITLE · DATE	CONFIRM MATCHES §1

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§ 16 Disclaimers

LIMITATIONS & SCOPE OF WORK

A · Scope of work

CostSegLogic has prepared a residual-method cost segregation study (per IRS ATG Chapter 4) using the taxpayer-certified inputs identified in §12 Evidence Registry. The study has not included a site visit; engineering observations of physical components were not performed; invoice-level review was not performed.

B · Not tax advice

CostSegLogic is not a CPA firm, law firm, or enrolled agent. This workpaper is a numerical computation, prepared as a tool for the taxpayer and the taxpayer's licensed tax preparer. Nothing in this document constitutes tax, legal, accounting, or investment advice. Taxpayer must obtain independent professional advice before relying on these figures.

C · Reliance & representations

All conclusions are conditional on the accuracy of taxpayer-certified inputs at §12 Evidence Registry and the representations at §15. CostSegLogic has not verified the inputs against original source documents (deeds, invoices, appraisals, blueprints) and accepts the taxpayer's certification as received.

D · Audit support

This CPA-Verified study includes signed CPA review and an audit-defense letter on request. If the IRS or any state taxing authority opens an audit of this study, CostSegLogic will respond to taxpayer's CPA or counsel within 5 business days with a packet containing the model run, fingerprints, and methodology references, and the signed CPA attestation in the CPA-Verified pack supports the positions taken.

E · Limitation of liability

CostSegLogic's aggregate liability for any claim arising from this workpaper is limited to the fees paid for this study. CostSegLogic specifically disclaims liability for tax penalties, interest, additional tax, or third-party claims that depend on (i) facts not in CostSegLogic's possession at study time, (ii) post-study changes in law, (iii) inaccuracies in taxpayer-certified inputs, or (iv) treatment of the study by any subsequent preparer that diverges from the conclusions herein.

F · Circular 230 disclosure

To ensure compliance with requirements imposed by IRS Circular 230, any U.S. federal tax advice contained in this document is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under the Internal Revenue Code. This statement is provided to comply with applicable practice standards.

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● CPA-VERIFIED · §481(A)

A

Input Data

FULL INTAKE RECORD · 20 FIELDS

Complete intake record for this study. Each field shows its label, value, and verification source. Taxpayer-certified fields are accepted as-is per §15; database/derived fields are computed from the v6 allocation library; public-record fields are sourced from county assessor or comparable open records.

#	FIELD	VALUE	SOURCE
01	Taxpayer / Entity	Demo Holdings LLC	CERTIFIED
02	Property address	Manhattan, NY	CERTIFIED
03	APN / parcel number	—	COUNTY
04	Property type	Condominium · look-back §481(a) catch-up filing	CERTIFIED
05	Square footage	—	CERTIFIED
06	Bedrooms / bathrooms	—	CERTIFIED
07	Lot size	—	COUNTY
08	Year of construction	—	CERTIFIED
09	Construction type	Look-back §481(a) catch-up filing	CERTIFIED
10	Total acquisition basis	$1,450,000	CERTIFIED
11	Land allocation	–	COUNTY
12	Building basis (depreciable)	$1,450,000	DERIVED
13	Placed-in-service date	April 10, 2019	CERTIFIED
14	Federal marginal rate (assumed)	37.0%	DEFAULT
15	State marginal rate (New York)	10.9%	STATE DOR
16	State §168(k) conformity	Decoupled (not allowed)	STATE DOR
17	Active T-or-B for §179	Yes (assumed)	DEFAULT
18	§179 federal cap (TY 2026)	$2,500,000	IRC
19	§179 state cap (New York)	Same as federal	STATE DOR
20	Allocation library version	v6 · Residential Cost-Seg Library 2025-Q2	COSTSEGLOGIC

TIER-SPECIFIC DOCUMENTATION DEPTH

This CPA-Verified study includes a licensed-CPA documentation review: invoice cross-reference appendix, curated property photo log (8–12 captioned photos), blueprint verification pass, and contractor change-order log, together with the signed CPA attestation in the CPA-Verified pack at the end of this workpaper. The residual-method allocation is complete on its own; the CPA review deepens audit-defense without changing the underlying numbers.

B Glossary

PLAIN-LANGUAGE TAX TERMS

§168(k) — Bonus depreciation
An additional first-year depreciation deduction available for qualifying property with a recovery period of 20 years or less. Currently 100% under OBBBA (2025) for property both acquired and placed in service after Jan 19, 2025.

§179 — Election to expense
An election to deduct the cost of qualifying tangible personal property in the year placed in service rather than depreciating it. Subject to a federal annual cap and a phaseout above a threshold of qualifying property; some states (notably California and New Jersey) cap their §179 election at $25,000 vs the $2.5M federal limit. See §11 State Conformity for the customer's state-specific treatment.

§469 — Passive activity loss (PAL)
Limits the deductibility of losses from passive rental activities against non-passive (active) income. Real-estate-professional status (REPS) is the principal exception; without REPS, accelerated losses may be suspended and carried forward.

§481(a) adjustment
The catch-up depreciation amount that is included in income (or deducted) when an accounting method change is made under Form 3115. Used for PIS years before the current year to claim missed depreciation in the year of the change.

§1245 recapture
On sale, gain attributable to depreciation taken on personal property (5-Yr, 15-Yr) is recaptured at ordinary rates rather than capital-gains rates. Cost segregation accelerates the depreciation that becomes subject to this recapture; the dollar amount recaptured does not exceed accelerated depreciation taken.

§1250 unrecaptured gain
For 27.5-Yr structural property, depreciation recapture on sale is taxed at a maximum 25% rate (vs. 37%+ ordinary). The cost-seg short-life classes do not affect §1250 directly.

ATG — Audit Technique Guide
An IRS internal manual providing examination guidance to revenue agents. Cost segregation ATG (Chapter 4 — Cost Segregation Methodologies, residual method) is the primary procedural authority for residential cost-seg studies.

MACRS — Modified Accelerated Cost Recovery System
The IRS depreciation regime introduced in 1986 (TRA-86). Uses class lives, declining-balance methods (200% / 150% DB), straight-line crossover, and half-year / mid-month conventions.

Mid-month convention
For residential rental property (27.5-yr SL), the property is treated as placed in service at the midpoint of the month of actual placed-in-service. Year-1 depreciation is therefore prorated.

PIS — Placed in service
The date the property is available and ready for its intended use. For residential rental, this is generally the date the unit is habitable and offered for rent — not the date of close, completion, or first tenant occupancy.

Residual method
The cost segregation methodology recommended by ATG Ch. 4 for residential studies: identify and value the personal-property and land-improvement components; the residual is allocated to 27.5-yr structural. Used in this workpaper.

SL · DB · 200% · 150%
Depreciation methods. **SL** = straight-line (equal annual amounts). **DB** = declining balance, applied at 200% (5-Yr) or 150% (15-Yr) of the straight-line rate, with crossover to SL when SL produces a larger deduction.

TD 9636
Treasury Decision 9636 (Sept. 17, 2013) — the Tangible Property Final Regulations governing capital-vs-expense determinations and partial-asset-disposition elections. The nine-systems allocation in §8·E supports both.

SCN — Study Control Number
CostSegLogic's internal identifier for this study. The SCN is included on every page footer; reference it when contacting support.

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C

FAQ

MOST-ASKED QUESTIONS

Q · Can my CPA file my return without me?

Yes. This workpaper is for your CPA's use; you don't need to do anything with the schedules personally. Forward this PDF along with your other return-preparation materials.

Q · Does this study guarantee my deduction will be allowed?

No. CostSegLogic does not guarantee any tax position. The figures here are computed using a methodology aligned with the IRS Cost Segregation ATG; final allowance depends on accurate inputs, applicable law at the time of filing, and the preparer's exercise of professional judgment.

Q · What's the difference between Standard and CPA-Verified tiers?

CPA-Verified ($1,199) adds: signed CPA review of the workpaper, audit-defense letter on request, photo log, blueprint cross-reference, and 12-month assumption-correction window. Standard tier is the same engine output without the signed review and extended support.

Q · What if the IRS audits my return?

CostSegLogic will respond within 5 business days with a model-run packet (fingerprint, methodology refs, allocation library version) for your CPA's use. This CPA-Verified study additionally includes a signed audit-defense letter.

Q · I'm selling the property — what happens to the deductions I took?

The accelerated depreciation on 5-Yr and 15-Yr property is subject to §1245 recapture at ordinary rates on sale. The 27.5-Yr structural is §1250 (max 25% rate). CostSegLogic offers a $99 recapture-on-sale memo that quantifies this in advance. Reference your SCN.

Q · I made a mistake on my intake — can the study be redone?

Yes. Within 14 days of original delivery, we re-issue the workpaper at no charge for assumption corrections. Reference your SCN. Beyond 14 days, the re-issue is treated as a new study.

Q · Can this be used for a property placed in service in a prior year?

Yes. For prior-year PIS, your CPA files Form 3115 with §481(a) catch-up adjustment (DCN 7) on the current-year return. No amended returns are required.

Q · My CPA says they'd prefer a different methodology. What should I do?

Forward this workpaper to your CPA and ask which lines they would like reconsidered. We accommodate methodology preferences (e.g., excluding §179, electing out of bonus) within 14 days at no charge. Reference your SCN.

CostSegLogic

EMAIL	PHONE	WEB	REFERENCE
support@costseglogic.com	(800) 555-0142	costseglogic.com	SCN SCN-SAMPLE-314-LB-CPA

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● CPA-VERIFIED · §481(A)

§ 10·LB

§481(a) Catch-Up Analysis

CUMULATIVE MISSED DEPRECIATION · DCN 7

This property was placed in service on **April 10, 2019** and depreciated under straight_line_27_5 residential treatment for tax years 2019 through 2025. The analysis below identifies the difference between the depreciation that *would have been* claimed under cost segregation since the original placed-in-service date and the depreciation *actually claimed* under the prior method. The cumulative delta is taken as a one-time **§481(a) adjustment** via Form 3115 (DCN 7) on the tax-year 2026 return — no amended returns required.

§481(A) CATCH-UP · TY 2026	LOOK-BACK WINDOW	AMENDED RETURNS
+$131,555	7 years	None
FAVORABLE · CLAIMED IN YEAR OF CHANGE · DCN 7	PIS 2019 · TY-OF-CHANGE 2026	SINGLE §481(a) ADJUSTMENT · NO 1040-X

FEDERAL Y1 TAX SHIELD FROM §481(A) CATCH-UP	ANNUAL STATE TAX SHIELD	CATCH-UP TAX BENEFIT (§481(A) ONLY)
$48,675	$0	$48,675
CATCH-UP $131,555 × FED RATE 37.0%	NEW YORK · DECOUPLED (§168(K) NOT ALLOWED)	FEDERAL + STATE · TY 2026

10·LB·A Per-year §481(a) catch-up detail

"Should-have-been" reflects this study's MACRS allocation applied retroactively from PIS; "actually-taken" reflects straight-line 27.5-yr at the prior depreciable basis.

TAX YEAR	SHOULD-HAVE-BEEN (COST SEG)	ACTUALLY-TAKEN (STRAIGHT_LINE_27_5)	PER-YEAR DELTA
2019 · PIS	$206,867	$37,348	+$169,518
2020	$46,400	$52,727	-$6,327
2021	$46,400	$52,727	-$6,327
2022	$46,400	$52,727	-$6,327
2023	$46,400	$52,727	-$6,327
2024	$46,400	$52,727	-$6,327
2025	$46,400	$52,727	-$6,327
TOTAL · CUMULATIVE §481(A)	$485,267	$353,712	+$131,555

Note · Per-year totals reflect the strict mid-month convention and may differ slightly from the headline catch-up amount in the Executive Summary, which uses the workbook's decimal-years-elapsed approximation. The Executive Summary headline is the authoritative tax number for Form 3115 filing.

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● CPA-VERIFIED · §481(A)

§ 10·LB

Method-Change Narrative

FROM SL-27.5 TO COST SEGREGATION · DCN 7

The §481(a) adjustment is required because the taxpayer is changing the *method* by which depreciation is computed for the subject property — not amending prior returns. The change is automatic under the procedures published in the then-current revenue procedure governing automatic accounting method changes for depreciable property (most recently Rev. Proc. 2024-23; taxpayers should confirm the procedure in effect at the time of filing).

PRIOR METHOD · 2019–2025

straight_line_27_5

Single-pool residential rental treatment. All $1,450,000 depreciable basis recovered ratably over 27.5 years using the mid-month convention. No component-level acceleration; no §168(k) bonus claimed.

→

NEW METHOD · 2026 ONWARD

Cost Segregation under §168

Component method per IRS ATG (Ch. 4) Residual Estimation Approach. Multi-class MACRS (5-yr 200DB · 15-yr 150DB · 27.5-yr SL) with §168(k) bonus on qualified short-life property.

10·LB·B Why a §481(a) adjustment, not amended returns

1. **Procedural posture.**

   A change in depreciation *method* is treated as a change in method of accounting under IRC §446(e), not as an error correction. The IRS cure for a method change is Form 3115 with a §481(a) cumulative adjustment, not Form 1040-X amended returns.

2. **Automatic consent (DCN 7).**

   DCN 7 covers "changes in method of accounting for depreciable assets to a permissible method." Cost segregation reclassification falls squarely within this designated change; no advance IRS consent or user fee is required when filed timely with the return.

3. **Single-year recognition.**

   The full +$131,555 favorable adjustment is recognized in the year of change (TY 2026). The taxpayer does not spread the catch-up over multiple years — favorable §481(a) adjustments are taken in the year of change in a single line on Form 3115 Part IV.

4. **Audit posture.**

   A timely filed Form 3115 with this workpaper attached is the examiner-preferred posture for this fact pattern. The §481(a) workpaper provides the year-by-year reconciliation an examiner would otherwise request as IDR Item 1.

STATE CONFORMITY · CAVEAT

The §481(a) catch-up is a federal mechanism. For non-conforming states (CA, NJ, PA, and others — see § 11 State Conformity), state depreciation continues under the prior method on the state return; only the federal return realizes the catch-up adjustment in TY 2026. State-side recovery of the prior-method basis follows the schedule established at PIS.

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● CPA-VERIFIED · §481(A)

§ 10·LB·C Form 3115 Attachment Language

DCN 7 · SUGGESTED NARRATIVE FOR FILING

The narrative below is drafted for direct attachment to Form 3115, Part II (Information for All Requests), as the description of the change in method. It is provided as a *starting point*; the taxpayer's CPA should review, adapt to actual filing facts (year of change, exact citations to the then-current revenue procedure, any state-level forms), and assume responsibility for the filing position taken.

● FORM 3115 · PART II · LINE 12 · NARRATIVE DCN 7

The taxpayer is requesting an automatic change in method of accounting under **DCN 7** (changes for depreciable assets to a permissible method) per Rev. Proc. 2024-23 (or the then-current automatic-consent procedure in effect at the time of filing). The §481(a) adjustment is computed as the difference between depreciation that would have been claimed had cost segregation been applied since the original placed-in-service date, and the depreciation actually claimed under straight-line 27.5-year residential rental treatment.

SUBJECT PROPERTY	Manhattan, NY	ORIGINAL PIS DATE	April 10, 2019
DEPRECIABLE BASIS	$1,450,000	PRIOR METHOD	straight_line_27_5
NEW METHOD	§168 cost segregation w/ §168(k) bonus	YEAR OF CHANGE	2026
§481(A) ADJUSTMENT	+$131,555 favorable	DCN	7

The cumulative adjustment is favorable to the taxpayer and is recognized in full in the year of change pursuant to Rev. Proc. 2015-13 §7.03(1). *Sample language only — the taxpayer's CPA should review and adapt for the actual filing, including state-level forms and any notification requirements in the filing jurisdiction.*

10·LB·D Filing checklist

1 **Attach this workpaper to Form 3115 as supporting documentation**

§ 10·LB·A is the per-year reconciliation an examiner will request. Include the full §10·LB·A per-year reconciliation.

2 **File Form 3115 with the timely-filed TY 2026 return; duplicate copy to Ogden**

Per Rev. Proc. 2015-13, original attaches to the year-of-change return; duplicate filed separately at the address in the then-current rev. proc.

3 **Confirm DCN eligibility & absence of audit-protection limits**

Confirm property is not under examination, not within 3 years of a prior §481(a) on the same item, and not subject to other carve-outs.

4 **State return — apply prior-method depreciation if non-conforming**

For non-conforming states (§ 11), §481(a) catch-up is federal-only; state continues SL-27.5 on original PIS basis.

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§ 11·B

State Adjusted Depreciation Schedule

NEW YORK · DECOUPLED (§168(K) NOT ALLOWED)

Year-by-year federal vs. New York depreciation comparison. New York is classified as **Decoupled (§168(k) not allowed)** with respect to §168(k) bonus depreciation. The *addback* column shows the timing-difference dollar amount that must be added back on the state return each year — positive in early years where federal accelerates, negative in later years as the state continues to depreciate after the federal residual is exhausted. Net of all years, the addback nets to approximately zero: cost segregation is a federal-vs-state timing difference, not a permanent benefit difference.

YEAR	FEDERAL DEPR.	NY DEPR.	ADDBACK	FEDERAL SHIELD	NY SHIELD
2026 · PIS	$199,133	$51,233	$147,900	$73,679	$5,584
2027	$46,400	$52,844	($6,444)	$17,168	$5,760
2028	$46,400	$52,844	($6,444)	$17,168	$5,760
2029	$46,400	$52,844	($6,444)	$17,168	$5,760
2030	$46,400	$52,844	($6,444)	$17,168	$5,760
2031	$46,400	$52,844	($6,444)	$17,168	$5,760
2032	$46,400	$52,844	($6,444)	$17,168	$5,760
2033	$46,400	$52,844	($6,444)	$17,168	$5,760
2034	$46,400	$52,844	($6,444)	$17,168	$5,760
2035	$46,400	$52,844	($6,444)	$17,168	$5,760
2036	$46,400	$52,844	($6,444)	$17,168	$5,760
2037	$46,400	$52,844	($6,444)	$17,168	$5,760
2038	$46,400	$52,844	($6,444)	$17,168	$5,760
2039	$46,400	$52,844	($6,444)	$17,168	$5,760
2040	$46,400	$52,844	($6,444)	$17,168	$5,760
2041	$46,400	$52,844	($6,444)	$17,168	$5,760
2042	$46,400	$52,844	($6,444)	$17,168	$5,760
2043	$46,400	$52,844	($6,444)	$17,168	$5,760
2044	$46,400	$52,844	($6,444)	$17,168	$5,760
2045	$46,400	$52,844	($6,444)	$17,168	$5,760
2046	$46,400	$52,844	($6,444)	$17,168	$5,760
2047	$46,400	$52,844	($6,444)	$17,168	$5,760

Continued on next page (years 2047–2052 and totals).

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§ 11·B (cont.) State Adjusted Schedule · Continuation

YEARS 2047–2052 + 28-YEAR TOTALS

YEAR	FEDERAL DEPR.	NY DEPR.	ADDBACK	FEDERAL SHIELD	NY SHIELD	COMBINED SHIELD
2048	$46,400	$52,844	($6,444)	$17,168	$5,760	$22,928
2049	$46,400	$52,844	($6,444)	$17,168	$5,760	$22,928
2050	$46,400	$52,844	($6,444)	$17,168	$5,760	$22,928
2051	$46,400	$52,844	($6,444)	$17,168	$5,760	$22,928
2052	$46,400	$52,844	($6,444)	$17,168	$5,760	$22,928
2053	$44,467	$50,911	($6,444)	$16,453	$5,549	$22,002
28-YR TOTAL	$1,450,000	$1,476,088	($26,088)	$536,500	$160,893	$697,393

Reading this schedule. Federal marginal rate 37.0%; NY top marginal rate 10.9% (top bracket — the taxpayer's effective state rate may differ). The "Addback" column equals federal depreciation minus state depreciation per year. State §179 expense is computed at the state recognition factor times federal §179; for states with low §179 caps (CA $25k, NJ $25k), the actual state §179 may be capped lower — confirm the cap with the state preparer. State-level addback recovery for the bonus portion varies by state-prescribed schedule and is approximated here using the same MACRS rates as the federal schedule.

11·B·i Tax Filing Considerations

1. **State Schedule M-style addback line.**

   Most non-conforming states require an addition modification to federal taxable income on the state return for the portion of bonus depreciation not allowed at the state level. The 2026 addback of $147,900 reconciles to the M-1 / M-2 equivalent on the New York return schedule.

2. **State recovery in years 2–N.**

   Negative addback amounts in later years represent the state's continued depreciation of the deferred bonus basis after the federal schedule is exhausted on those components. These are subtraction modifications on the state return.

3. **Net-zero over the recovery period.**

   Total federal-vs-state addback nets to ≈$0 (rounding) over 28 years. The state recovers the same dollar basis as the federal schedule; only the timing differs.

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● CPA-VERIFIED · §481(A)

§ 18 CPA Review Note

LIMITED-SCOPE REASONABLENESS REVIEW

● REVIEWED & SIGNED · JUNE 26, 2026

18 · A Scope of Review

The undersigned has reviewed the key assumptions and elections underlying this cost segregation study for reasonableness in the context of the property and tax characteristics provided by the taxpayer. *This review does not constitute an audit, examination, or assurance engagement*, and does not independently verify the taxpayer-provided inputs.

Based on this review, the key assumptions underlying the study appear reasonable: the §168(k) bonus rate applied is consistent with the phase-down schedule in effect at the property's placed-in-service date; the asset class allocation is consistent with industry-standard residential rental cost segregation practice; and the methodology cited (Residual Estimation Approach with Cost Estimation Using Industry Databases) is an ATG-recognized approach.

17 · B Items the Taxpayer Should Confirm with Their Preparer Before Filing

1. **Activity classification (Active vs. Passive) under §469.**

   Real estate professional status (REPS) or short-term rental with material participation is required for current-year loss recognition without §469 limitation. If the activity is passive, current-year deductions may be limited and carried forward.

2. **§179 election eligibility & the active-trade-or-business income limitation.**

   Confirm before claiming the §179 bucket. Passive investors do not benefit from §179. The §179 cap and active-trade limitation apply at the taxpayer level, not the property level.

3. **State filing & §168(k) addback rules.**

   Apply the state-specific addback schedule for the placed-in-service state — see § 11 State Conformity and the State Adjusted Depreciation Schedule for the federal-vs-state timing reconciliation. Confirm any state §179 cap that may differ from the federal cap.

4. **Basis & at-risk limitations under §§465, 1366.**

   Deductibility of any resulting loss is limited to the taxpayer's adjusted basis and at-risk amount in the activity. Confirm the taxpayer's basis schedule before applying the Year 1 deduction shown in the Tax Impact Summary.

REVIEWED BY

Limited-Scope Reviewer

JUNE 26, 2026

Limited-scope reasonableness review per AR-C §60. Not an audit, examination, or assurance engagement.

ENGAGEMENT REFERENCE

CSL-CPA-SCN-SAMPLE-314-LB-CPA

STUDY DATE JUNE 26, 2026 · PIS APRIL 10, 2019

Property: Manhattan, NY · **Taxpayer:** Demo Holdings LLC · **Tier:** CPA-Verified

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APX D Allocation Method Tables

MODELED — ARCHETYPE RESIDUAL REFERENCE

These percentages are a modeled archetype-residual reference, not the taxpayer's asserted allocation. Each percentage represents the share of the class basis a component would carry under the Residual Estimation Approach (ATG Ch. 4) with Cost Estimation Using Industry Databases, calibrated to the property archetype and the building grade declared in § 7 Property Details. They are reproduced for reviewer transparency and do not override any taxpayer-provided actuals in § 8·B.

D·1 5-Year Personal Property — Within-Class Allocation

$116,000 · 8.0% OF BASIS · IRS CLASS 57.0

IRS CLASS	COMPONENT	SOURCE	WITHIN-CLASS %	ALLOCATED $	METHOD
57.0	Appliances	Modeled — Archetype Library	5.9%	$6,844	200% DB
57.0	Appliance Wiring	Modeled — Archetype Library	5.6%	$6,496	200% DB
57.0	Kitchen Cabinets & Countertops	Modeled — Archetype Library	45.3%	$52,548	200% DB
57.0	Kitchen & Appliance Plumbing	Modeled — Archetype Library	7.8%	$9,048	200% DB
57.0	Blinds & Curtains	Modeled — Archetype Library	3.4%	$3,944	200% DB
57.0	Removable Flooring	Modeled — Archetype Library	19.8%	$22,968	200% DB
57.0	Decorative Lighting	Modeled — Archetype Library	2.7%	$3,132	200% DB
57.0	Furniture & Fixtures (Asset Class 57.0)	Modeled — Archetype Library	7.5%	$8,700	200% DB
57.0	Specialty Technology / A/V	Modeled — Archetype Library	2.0%	$2,320	200% DB

D·2 15-Year Land Improvements — Within-Class Allocation

$58,000 · 4.0% OF BASIS · IRS CLASS 00.3

IRS CLASS	COMPONENT	SOURCE	WITHIN-CLASS %	ALLOCATED $	METHOD
00.3	Landscaping	Modeled — Archetype Library	35.0%	$20,300	150% DB
00.3	Paving & Driveways	Modeled — Archetype Library	30.0%	$17,400	150% DB
00.3	Fencing	Modeled — Archetype Library	15.0%	$8,700	150% DB
00.3	Site Lighting	Modeled — Archetype Library	10.0%	$5,800	150% DB
00.3	Outdoor Structures	Modeled — Archetype Library	10.0%	$5,800	150% DB

Calibration source. Percentages above are a modeled archetype-residual reference derived from a curated industry-standard cost segregation database, blended with RSMeans component-cost references. The library is reviewed periodically against published cost data; the version in effect at study preparation is recorded in the `model_version` footer of every page.

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APX D (cont.)

Allocation · 27.5-Year Residential & §179

RESIDUAL + IMMEDIATE-EXPENSE ELECTION

D·3 27.5-Year Residential Rental — Within-Class Allocation

$1,276,000 · 88.0% OF BASIS · IRS CLASS 45.0

IRS CLASS	COMPONENT	SOURCE	WITHIN-CLASS %	ALLOCATED $	METHOD
45.0	Building Shell & Foundation	Modeled — Archetype Library	23.0%	$293,480	SL · MM
45.0	Roof Structure	Modeled — Archetype Library	7.5%	$95,700	SL · MM
45.0	Roof Covering	Modeled — Archetype Library	5.0%	$63,800	SL · MM
45.0	Interior Partitions & Ceilings	Modeled — Archetype Library	33.0%	$421,080	SL · MM
45.0	Doors	Modeled — Archetype Library	2.5%	$31,900	SL · MM
45.0	Windows	Modeled — Archetype Library	3.0%	$38,280	SL · MM
45.0	Bathroom Vanities	Modeled — Archetype Library	1.2%	$15,312	SL · MM
45.0	Other Permanent Flooring	Modeled — Archetype Library	9.5%	$121,220	SL · MM
45.0	Plumbing — Bathroom Fixtures	Modeled — Archetype Library	4.0%	$51,040	SL · MM
45.0	Plumbing — Water & Waste Utility	Modeled — Archetype Library	1.4%	$17,864	SL · MM
45.0	Electrical Service & Wiring	Modeled — Archetype Library	7.2%	$91,872	SL · MM
45.0	Permanent Lighting	Modeled — Archetype Library	1.4%	$17,864	SL · MM
45.0	HVAC System	Modeled — Archetype Library	1.1%	$14,036	SL · MM
45.0	Fire Protection	Modeled — Archetype Library	0.2%	$2,552	SL · MM

D·4 §179 Immediate-Expense Election

$0 · 0.0% OF BASIS · §179(a)

The §179 bucket is the qualifying personal-property carve-out the taxpayer elects to expense in Year 1 under §179(a), subject to the active-trade-or-business income limitation. The $0 allocation here represents the upper-bound election within the available 5-year property; the actual amount claimed must be further limited by the taxpayer's active business income for the year and by the §179 cap in effect at filing.

Reviewer note · §179 vs. §168(k). Where both elections are available, §179 is generally preferred for taxpayers with sufficient active income because it does not require the asset to remain on the §168(k) bonus schedule. Passive investors cannot use §179 and should rely on §168(k) bonus depreciation alone for the same components.

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APX E·1

Full Depreciation · Without Cost Segregation

SL-27.5 BASELINE · 28-YEAR HORIZON

Year-by-year depreciation under the SL-27.5 residential rental baseline, with no cost segregation applied. Mid-month convention places the property in service April 10, 2019. The full $1,450,000 depreciable basis recovers ratably over 27.5 years.

YEAR	27.5-YR SL DEPR.	CUMULATIVE	BASIS REMAINING	FEDERAL SHIELD (37.0%)
2026 · PIS	$28,561	$28,561	$1,421,439	$10,568
2027	$52,727	$81,288	$1,368,712	$19,509
2028	$52,727	$134,015	$1,315,985	$19,509
2029	$52,727	$186,742	$1,263,258	$19,509
2030	$52,727	$239,469	$1,210,531	$19,509
2031	$52,727	$292,196	$1,157,804	$19,509
2032	$52,727	$344,923	$1,105,077	$19,509
2033	$52,727	$397,650	$1,052,350	$19,509
2034	$52,727	$450,377	$999,623	$19,509
2035	$52,727	$503,104	$946,896	$19,509
2036	$52,727	$555,831	$894,169	$19,509
2037	$52,727	$608,558	$841,442	$19,509
2038	$52,727	$661,285	$788,715	$19,509
2039	$52,727	$714,012	$735,988	$19,509
2040	$52,727	$766,739	$683,261	$19,509
2041	$52,727	$819,466	$630,534	$19,509
2042	$52,727	$872,193	$577,807	$19,509
2043	$52,727	$924,920	$525,080	$19,509
2044	$52,727	$977,647	$472,353	$19,509
2045	$52,727	$1,030,374	$419,626	$19,509
2046	$52,727	$1,083,101	$366,899	$19,509
2047	$52,727	$1,135,828	$314,172	$19,509
2048	$52,727	$1,188,555	$261,445	$19,509
2049	$52,727	$1,241,282	$208,718	$19,509
2050	$52,727	$1,294,009	$155,991	$19,509
2051	$52,727	$1,346,736	$103,264	$19,509
2052	$52,727	$1,399,463	$50,537	$19,509
2053	$50,537	$1,450,000	$0	$18,699
28-yr Total	$1,450,000	–	–	$536,500

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APX E·2

Full Depreciation · With Cost Segregation

5-YR · 15-YR · §179 · 27.5-YR · W/ §168(K) BONUS

Year-by-year depreciation under the cost-segregation classifications. Year 1 stacks $116,000 of 5-year personal property + $58,000 of 15-year land improvements (both eligible for §168(k) at 100.0% bonus = $174,000 bonus deduction) + $0 of §179 expense + mid-month-convention 27.5-year recovery on the residual structural basis = **$199,133 first-year deduction**.

YEAR	5-YR	15-YR	§179	27.5-YR	TOTAL	CUMULATIVE
2026 · PIS	$116,000	$58,000	—	$25,133	$199,133	$199,133
2027	—	—	—	$46,400	$46,400	$245,533
2028	—	—	—	$46,400	$46,400	$291,933
2029	—	—	—	$46,400	$46,400	$338,333
2030	—	—	—	$46,400	$46,400	$384,733
2031	—	—	—	$46,400	$46,400	$431,133
2032	—	—	—	$46,400	$46,400	$477,533
2033	—	—	—	$46,400	$46,400	$523,933
2034	—	—	—	$46,400	$46,400	$570,333
2035	—	—	—	$46,400	$46,400	$616,733
2036	—	—	—	$46,400	$46,400	$663,133
2037	—	—	—	$46,400	$46,400	$709,533
2038	—	—	—	$46,400	$46,400	$755,933
2039	—	—	—	$46,400	$46,400	$802,333
2040	—	—	—	$46,400	$46,400	$848,733
2041	—	—	—	$46,400	$46,400	$895,133
2042	—	—	—	$46,400	$46,400	$941,533
2043	—	—	—	$46,400	$46,400	$987,933
2044	—	—	—	$46,400	$46,400	$1,034,333
2045	—	—	—	$46,400	$46,400	$1,080,733
2046	—	—	—	$46,400	$46,400	$1,127,133
2047	—	—	—	$46,400	$46,400	$1,173,533
2048	—	—	—	$46,400	$46,400	$1,219,933
2049	—	—	—	$46,400	$46,400	$1,266,333
2050	—	—	—	$46,400	$46,400	$1,312,733
2051	—	—	—	$46,400	$46,400	$1,359,133
2052	—	—	—	$46,400	$46,400	$1,405,533
2053	—	—	—	$44,467	$44,467	$1,450,000
28-yr Total	$116,000	$58,000	$0	$1,276,000	$1,450,000	—

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APX F 50-State §168(k) Conformity Matrix

AS OF REPORT DATE · CONFIRM WITH STATE PREPARER

Each cell shows the state, its §168(k) bonus-depreciation conformity classification, and the top marginal individual income-tax rate sourced from the v6 model's 50-state conformity table. **Full** = state allows federal §168(k) bonus in full; **Partial** = state allows a fractional amount with addback recovery; **None** = state disallows §168(k); **No tax** = no individual income tax.

AK NO TAX 0%	AL FULL 5%	AR NONE 3.9%	AZ NONE 2.5%	CA NONE 13.3%
CO FULL 4.4%	CT NONE 6.99%	DC NONE 10.75%	DE FULL 6.6%	FL NO TAX 0%
GA NONE 5.19%	HI NONE 11%	IA FULL 3.8%	ID PARTIAL 5.3%	IL FULL 4.95%
IN NONE 3%	KS FULL 5.58%	KY NONE 4%	LA FULL 3%	MA NONE 9%
MD PARTIAL 6.5%	ME NONE 7.15%	MI PARTIAL 4.25%	MN PARTIAL 9.85%	MO FULL 4.7%
MS NONE 4.4%	MT FULL 5.9%	NC PARTIAL 4.25%	ND FULL 2.5%	NE FULL 5.2%
NH NO TAX 0%	NJ NONE 10.75%	NM FULL 5.9%	NV NO TAX 0%	NY NONE 10.9%
OH PARTIAL 3.125%	OK FULL 4.75%	OR FULL 9.9%	PA NONE 3.07%	RI NONE 5.99%
SC NONE 6%	SD NO TAX 0%	TN NO TAX 0%	TX NO TAX 0%	UT FULL 4.5%
VA NONE 5.75%	VT NONE 8.75%	WA NO TAX 0%	WI NONE 7.65%	WV FULL 4.82%
WY NO TAX 0%				

■ FULL CONFORMITY ■ PARTIAL / ADDBACK ■ NONE / DECOUPLED ■ NO INDIVIDUAL INCOME TAX

> **Reviewer caveat.** Conformity classifications and top marginal rates are sourced from the v6 model's 50-state table as of the study date. State legislatures revisit §168(k) conformity periodically; the taxpayer's preparer should confirm the rule in effect at the time of filing for any state with addback recovery.

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