Cost Segregation & Accelerated Depreciation

Cost segregation is a strategic tool that reclassifies building components—such as flooring, lighting, and landscaping—into shorter depreciation schedules (5, 7, and 15 years) rather than the standard 27.5 or 39 years. With Bonus Depreciation restored to 100% for 2025–2030, this creates massive upfront deductions. When paired with Short-Term Rental (STR) status or Real Estate Professional Status (REPS), these accelerated losses can offset active W-2 or business income, creating significant immediate tax savings.

Key Rules

Reclassify Assets For Faster Write-Offs

A cost segregation study identifies personal property within a building, moving it from slow 39-year depreciation to rapid 5, 7, or 15-year schedules. This front-loads deductions into the early years of ownership.

Maximize Impact with Strategic Timing

Accelerated depreciation is most powerful when you have high income to offset. Using the "STR Loophole" or achieving REPS status allows these paper losses to reduce your ordinary income, not just passive rental income.

Navigate State & Federal Nuances

While federal law allows 100% Bonus Depreciation, many states "decouple" and do not conform. However, most states still allow Section 179 expensing (with limits), offering an alternative pathway to accelerate deductions at the state level.

Top FAQs

Do I need a professional cost segregation study?

For high-value properties or multi-unit properties, yes, a fully engineered study is necessary. For single family homes under $2 million (generally), a less expensive cost segregation study can be performed by a firm offering DIY services.

What happens if I convert my STR to a second home later?

It depends on how you took the deduction. If you used Bonus Depreciation, there is generally no recapture upon conversion. However, if you used Section 179, you may face a "clawback" of the deduction if business use drops below 50%.

Will I get hit with huge taxes when I sell (recapture)?

Yes. You must pay back a portion of the tax savings (recapture) at the time of sale, often at ordinary income rates. However, the "time value of money" (having the cash in hand today versus paying the IRS later) usually makes the strategy a winner.

Cost segregation does not create *new* tax deductions; it simply accelerates future depreciation into the current year. It is a pure cash-flow and "time value of money" play. By creating a temporary "IRS IOU," you free up capital today to reinvest and grow wealth, accepting that the tax bill will eventually come due upon sale.

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