Accelerated Depreciation/Cost Segregation Example

One of the most powerful tax savings strategies is to accelerate the depreciation on investment properties into year 1 instead of over the life of the building(27.5 years residential and 39 years commercial).

Here is a simple way to calculate the estimated savings on properties you are considering purchasing.

Step 1. Subtract the land value from the purchase price. Most counties list the land value on the property tax assessor's website. If you are unable to find it, you can use 15 to 20%. This is the depreciable amount.

Step 2. Multiply the depreciable amount by 25% (Average of a cost segregation study)

Step 3. Multiply by the current year's bonus deprecation amount.
(2023 Bonus Depreciation is 80%, 2024 is 60%, 2025 is 40%, 2026 is 20%, and 2027 is 0%)

Step 4. Multiply the estimated depreciation amount by your effective tax rate to obtain the estimated tax savings.

For example, assuming the purchase price is $800,000 property, the calculations would look like this.

$800,000 - 15%=$680,000 Depreciable amount

$680,000 x 25%=$170,000

$170,000 x 80%=$136,000 Amount of Accelerated Depreciation.

Multiply the accelerated depreciation by the effective tax rate to calculate the tax savings. If your effective tax rate is 25%, then the tax savings would be $34,000.