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Dear Fellow CPA,

Commercial property investors have been reaping the benefits of Cost Segregation Studies for many years. I am writing to you today to introduce the fact that residential investment property owners now also have the same opportunity. The tax code is old—but the Cost Segregation Study for the residential investor is a new product.

Your clients that invest in residential property are currently depreciating their improvements using the straight line method. They could be accelerating depreciation on a 5, 7, or 15 year schedule, which **qualifies them for more tax credits**. Under Tax Code sections 38 and 168, and under Revenue Procedure 87-56 later clarified by Revenue Procedure 88-22, **residential income-producing property can now accelerate depreciation.**

A court case called *Hospital Corporation of America vs. Comm.* [109 TC 21(1977)] makes all this possible. This case rules that it is permissible to separate Section 1245 Property from Section 1250 Property.


After the case settled, the IRS issued an *Audit Techniques Guide* (<http://www.irs.gov/businesses/small/article/0,,id=108149,00.html>) on cost segregation. In this guide, the IRS describes several methods for determining the value of Section 1245 Property. One of the methods is the “Residual Estimate Approach.” This is the method employed by such companies as Real Chattel Appraisers (www.realchattel.com) to value and class, by tax life, 1245 Property.

Thus, **we have the advent of the Residential Cost Segregation Study**, with a detailed report of personal property, land value, and improvement value (less the value of 1245 Property).

I have seen this service work for many of my clients who are real estate professionals or investors seeking to maximize tax benefits through their rental properties. This service corrects cash-flow negative properties, and helps your client realize their full ROI on their investment properties.

Contact me for more information about this service, and I can put you in touch with Appraisers across the country. Don't underestimate your power as a CPA. Bring the information to your clients, and as a result, you'll have lifelong clients with many happy returns.

Best Regards,


Warren Taryle
CPA