



## **Cost Segregation Study 4-Plex in Boise, ID**

### **Index**

- o Purpose
- o Overview
- o Methodology (data gathering, site visit and data entry)
- o Research and basis for cost segregation in rental real estate
- o Valuation of Other Components
- o Summary of findings
- o Results based on data entry
  - 1) Summary sheet
  - 2) Detail by property class<sup>1</sup> for entire property
  - 3) Detail by property class by unit (where applicable)
- o Data Entry Report
  - 1) Detail by property class
  - 2) Quality of each piece of property
  - 3) Quantify the space using linear feet (for shelving, etc.) or square feet (landscaping, garage areas, etc.)
  - 4) Detail by room, with measurements
  - 5) Detail by unit type (where applicable)
- o Documentation of land valuation (if applicable)

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<sup>1</sup> "Property class" is a term that refers to the tax life (or depreciation schedule) of a particular piece of property. A property class tells whether the tax life of a chattel is 5, 15, or 27 years.



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### **Purpose**

This cost segregation study is intended for use by the taxpayer who owns the property. The taxpayer may benefit from accelerated tax deductions identified by a cost segregation study. Cost segregation studies are designed to enhance cash flow by maximizing depreciation deductions in the earlier years of a property's useful life. The report is intended solely for the information and use by the owners of the property and should not be used for any other purpose.

### **Overview**

The following cost segregation report by National Chattel Experts is an independent appraisal. It is also a tax worksheet for rental real estate owners. The report summarizes the total capitalized (i.e. not expensed) costs and classifies these costs among short-term property classes for federal income tax purposes.

### **Methodology**

National Chattel Experts employs a two-step methodology. Costs of the components, inclusive of labor, material, and installation, as well as the qualities of such components are first accumulated. These costs are then further refined by empirical data.

As required by the Internal Revenue Service (IRS), valuation of building components is based on a "logical and objective measure."<sup>2</sup> National Chattel Experts provides that objectivity by utilizing high-quality studied data provided by the well-established firm of Marshall & Swift/Boeckh.<sup>3</sup> This resource ensures the conclusions reached in the summary are reliable, based upon the data entered.

To ensure that this report meets the IRS standard of sufficient, competent evidence, a system is in place to assist the property owner. The system takes a residual estimation approach to valuing assets. In this method, only short-lived asset costs are determined. The remaining cost is assigned to the building.

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<sup>2</sup> IRS Legal Memorandum 19992104, April 1999

<sup>3</sup> IRS Audit Guide refers to Marshall & Swift (Marshall & Swift/Boeckh)



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### Data Gathering

- Valuation data<sup>4</sup>
  - Land valuation source<sup>5</sup>
    - Property tax rolls
    - Appraisal
    - Comparable area land values, preferably from a real estate agent
    - Estimate of value
- Site visit
  - Use of checklists as a guide to accurately accumulate data.
  - Observations
    - Condition of personal property
    - Quality of personal property
    - Measurements in linear feet or square feet (as noted)
    - Physical quantity of items of personal property
    - Photographs
- Data Entry
  - Use of data accumulation checklists
  - Preliminary proofread data entry report
  - Generation of final data entry report
  - Photographs of each property item, purchase statement, appraisal, home inspections reports and any land valuation reports should be kept with this report as additional documentation for the IRS.

### Valuation of Other Components

- Marshall & Swift/Boeckh returns dollar values for the personal property items based upon the observations and data entry
- The dollar values are replacement cost based upon current quality and condition of the item. Replacement cost includes material, delivery, labor and installation at the site.
- Land value is inserted by the owner of the property. The entry may be from an appraisal, property tax rolls, or a written estimate from a real estate

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<sup>4</sup> National Chattel Experts recommends using this data. It is recognized that all of this data might not be available in all cases. At a minimum, some form of independent appraisal, e.g. a bank appraisal or arms-length negotiation as evidenced by a purchase statement must be used.

<sup>5</sup> National Chattel Experts does not recommend an owner-estimate. Most land valuation sources are public record.



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agent.<sup>6</sup>

- o The property cost is reduced by the land value and the total personal property value, leaving a value for the building. This is also referred to as the "Residual Estimation Approach."
- o Reasonableness must be employed to reconcile large differences between cost and fair market value (FMV). Where necessary, asset groups may be adjusted for large discrepancies. To compensate for these differences, the software calculates the difference between FMV and the purchase price of the property. All valuations are reduced pro-rata, to match the purchase price, allowing for property purchased at a discount.

### Research and Basis for Cost Segregation Studies

Under Code Section 167(a), the IRS allows a reasonable allowance for property used in a trade or business. Translated, the Internal Revenue Service allows a deduction, over time, for the cost of capital, or income earning, assets. Depreciable property has a useful life over one year and wears out or loses value over time.

Over the life of the United States tax system, various methods and lives have been implemented by the IRS. The current system was put in place 1987 and applies to most tangible personal property placed in service after January 1, 1987. The IRS revised previous class lives, methods and conventions. The IRS gives guidance as to which 'class life' property falls. In general, the IRS recovery period (or depreciable life), is shorter than the usable life used for accounting reports according to Generally Accepted Accounting Procedures. Our research confirms the appropriateness of the class lives used within this report and cost segregation study.

Code Sections 38 and 168, and revenue procedure 87-56, later clarified by revenue procedure 88-22, provide guidance on class lives. An appendix, B-1 and B-2, steps through a decision process to determine class life dependent on the use of the property. Starting from this point, we have determined the class lives for the majority of personal property found in residential rental properties.

Not every possible item is listed on this report. We chose to eliminate items that would not benefit the taxpayer through depreciation acceleration. Through this guidance, we can issue a streamlined report with the values and class lives according to IRS rules and procedures.

Tests for tangible personal property include:

- o Is the property non-permanent? For example, is it easily removed, without causing harm to the structure?
- o Is the property necessary for the rental business?

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<sup>6</sup> National Chattel Experts does not recommend an owner-estimate. Most land valuation sources are public record.



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- o Unitary Concept Test: the basis of the asset includes the supporting features; for example plumbing and electrical connections for the sole purpose of supporting the asset.

Revenue Ruling 66-111 offers guidance on the accounting and separation of individual items into the asset classes used in this report. While this ruling is specific to new construction, a newer ruling, 73-410, allows for similar treatment of older buildings. The IRS 'recognizes that the component method of accounting for the depreciation on used real property improvements may be used if the cost of acquisition is properly allocated to the various components based on their value and useful lives and assigned to the component accounts based on the condition of such components at the time of acquisition.'

Additional instruction is gathered from the "Cost Segregation Audit Techniques Guide". The Guide specifically states that any estimates should be based on costing data from either contractors or reliable published sources, such as Marshall Valuation Service (Marshall & Swift/Boeckh). The data used in this report is collected from Marshall & Swift's extensive construction component database. Marshall & Swift is the leader in construction costing, appraisal, and estimating data.

### Summary of Study

Overall cost of the building and fixtures was: \$325,000.00

This was allocated as follows:

|                                    |                |
|------------------------------------|----------------|
| Customer Provided Land Value:      | \$80,000.00    |
| 5 Year Personal Property:          | \$42,555.30    |
| 15 Year Land Improvements:         | \$9,709.06     |
| Remainder to Building (27.5 years) | (\$192,735.64) |



## Results Based on Data Entry & Site Visit

### Unit 101

5 Year Property

#### Appliances/Furnishings

|                                  |          |
|----------------------------------|----------|
| Dishwasher                       | \$333.77 |
| Exhaust Fan & Hood               | \$107.04 |
| Garbage Disposal                 | \$151.03 |
| Range and Oven                   | \$519.12 |
| Refrigerator                     | \$556.45 |
| Clothes Washer/Dryer Combination | \$572.21 |

**Appliances/Furnishings Subtotal** \$2,239.62

#### Cabinetry Lower

|                                |          |
|--------------------------------|----------|
| Built-in Desk                  | \$497.63 |
| Lower Cabinets (Base Cabinets) | \$453.60 |

**Cabinetry Lower Subtotal** \$951.23

#### Cabinetry Upper

|                                 |          |
|---------------------------------|----------|
| Upper Cabinets (W all Cabinets) | \$641.88 |
|---------------------------------|----------|

**Cabinetry Upper Subtotal** \$641.88

#### Counter Tops

|                               |          |
|-------------------------------|----------|
| Countertop, Laminated Plastic | \$237.70 |
| Countertop, Tile              | \$549.05 |

**Counter Tops Subtotal** \$786.75



**Electrical**

|                     |          |
|---------------------|----------|
| Ceiling Fan         | \$151.29 |
| TV Outlet           | \$20.88  |
| Decorative Lighting | \$267.32 |
| Lighting - Track    | \$94.89  |
| Smoke Detector      | \$59.95  |
| TV Outlet           | \$20.88  |
| TV Outlet           | \$6.42   |
| Decorative Lighting | \$267.32 |
| Decorative Lighting | \$267.32 |
| Smoke Detector      | \$59.95  |
| TV Outlet           | \$27.30  |
| Decorative Lighting | \$267.32 |
| Exhaust Fan         | \$156.43 |
| Exhaust Fan         | \$156.43 |
| Smoke Detector      | \$119.88 |
| Decorative Lighting | \$534.64 |
| Decorative Lighting | \$267.32 |
| Decorative Lighting | \$65.68  |
| Lighting - Track    | \$120.99 |
| Decorative Lighting | \$408.84 |
| Decorative Lighting | \$65.68  |

**Electrical Subtotal** \$3,406.73

**Floor**

|                |          |
|----------------|----------|
| Carpet and Pad | \$238.65 |
| Linoleum       | \$20.10  |
| Linoleum       | \$58.29  |
| Linoleum       | \$132.66 |
| Carpet and Pad | \$350.88 |
| Carpet and Pad | \$208.98 |
| Carpet and Pad | \$220.59 |
| Linoleum       | \$20.10  |

**Floor Subtotal** \$1,250.25

**Plumbing**

|              |          |
|--------------|----------|
| Water Heater | \$478.97 |
|--------------|----------|

**Plumbing Subtotal** \$478.97



**Shelving**

|          |         |
|----------|---------|
| Shelving | \$60.30 |
| Shelving | \$30.15 |
| Shelving | \$30.15 |

**Shelving Subtotal** \$120.60

**Window Coverings**

|                   |          |
|-------------------|----------|
| Horizontal Blinds | \$295.68 |
| Vertical Blinds   | \$212.42 |
| Horizontal Blinds | \$161.92 |
| Horizontal Blinds | \$133.76 |

**Window Coverings Subtotal** \$803.78

**5 Year Property Total** \$10,679.81

**15 Year Property**

**Drives, Walks, & Slabs**

|                               |          |
|-------------------------------|----------|
| Decorative Finish, Paved Area | \$586.80 |
| Concrete Paving               | \$72.77  |

**Drives, Walks, & Slabs Subtotal** \$659.57

**15 Year Property Total** \$659.57

**Total Land Improvements & Chattels** \$11,339.38

Unit Type 1 of 4  
Unit 101



## Unit 102

### 5 Year Property

#### Appliances/Furnishings

|                                  |          |
|----------------------------------|----------|
| Dishwasher                       | \$333.77 |
| Exhaust Fan & Hood               | \$107.04 |
| Garbage Disposal                 | \$151.03 |
| Microwave Oven                   | \$294.07 |
| Range and Oven                   | \$519.12 |
| Refrigerator                     | \$556.45 |
| Clothes Washer/Dryer Combination | \$572.21 |

**Appliances/Furnishings Subtotal** \$2,533.69

#### Cabinetry Lower

|                                |          |
|--------------------------------|----------|
| Built-in Desk                  | \$497.63 |
| Lower Cabinets (Base Cabinets) | \$648.00 |

**Cabinetry Lower Subtotal** \$1,145.63

#### Cabinetry Upper

|                                |          |
|--------------------------------|----------|
| Upper Cabinets (Wall Cabinets) | \$802.35 |
|--------------------------------|----------|

**Cabinetry Upper Subtotal** \$802.35

#### Counter Tops

|                               |          |
|-------------------------------|----------|
| Countertop, Laminated Plastic | \$285.24 |
| Countertop, Tile              | \$666.70 |

**Counter Tops Subtotal** \$951.94



**Electrical**

|                            |                   |
|----------------------------|-------------------|
| Ceiling Fan                | \$151.29          |
| Internet Port / Outlet     | \$1.32            |
| Smoke Detector             | \$59.95           |
| TV Outlet                  | \$20.88           |
| Decorative Lighting        | \$267.32          |
| Lighting - Track           | \$94.89           |
| Smoke Detector             | \$59.95           |
| TV Outlet                  | \$20.88           |
| Decorative Lighting        | \$267.32          |
| Smoke Detector             | \$59.95           |
| TV Outlet                  | \$27.30           |
| Decorative Lighting        | \$267.32          |
| Exhaust Fan                | \$156.43          |
| Exhaust Fan                | \$156.43          |
| Smoke Detector             | \$59.95           |
| Decorative Lighting        | \$267.32          |
| Lighting - Track           | \$120.99          |
| Decorative Lighting        | \$408.84          |
| Decorative Lighting        | \$65.68           |
| <b>Electrical Subtotal</b> | <b>\$2,534.01</b> |

**Floor**

|                       |                   |
|-----------------------|-------------------|
| Carpet and Pad        | \$208.98          |
| Linoleum              | \$20.10           |
| Linoleum              | \$66.33           |
| Linoleum              | \$213.06          |
| Carpet and Pad        | \$261.87          |
| Carpet and Pad        | \$208.98          |
| Carpet and Pad        | \$150.93          |
| Linoleum              | \$66.33           |
| <b>Floor Subtotal</b> | <b>\$1,196.58</b> |

**Plumbing**

|                          |                 |
|--------------------------|-----------------|
| Water Heater             | \$478.97        |
| <b>Plumbing Subtotal</b> | <b>\$478.97</b> |

**Shelving**

|                          |                 |
|--------------------------|-----------------|
| Shelving                 | \$30.15         |
| Shelving                 | \$30.15         |
| Shelving                 | \$120.60        |
| <b>Shelving Subtotal</b> | <b>\$180.90</b> |



|                                   |   |                    |
|-----------------------------------|---|--------------------|
| <b>Window Coverings</b>           |   |                    |
| Horizontal Blinds                 |   | \$295.68           |
| Vertical Blinds                   |   | \$212.42           |
| Horizontal Blinds                 |   | \$161.92           |
| Horizontal Blinds                 |   | \$133.76           |
|                                   | <b>Window Coverings Subtotal</b>              | <b>\$803.78</b>    |
|                                   | <b>5 Year Property Total</b>                  | <b>\$10,627.85</b> |
| <b>15 Year Property</b>           |   |                    |
| <b>Drives, Walks, &amp; Slabs</b> |   |                    |
| Decorative Finish, Paved Area     |   | \$880.20           |
| Concrete Paving                   |   | \$135.47           |
|                                   | <b>Drives, Walks, &amp; Slabs Subtotal</b>    | <b>\$1,015.67</b>  |
|                                   | <b>15 Year Property Total</b>                 | <b>\$1,015.67</b>  |
|                                   | <b>Total Land Improvements &amp; Chattels</b> | <b>\$11,643.52</b> |
| Unit Type 2 of 4                  |   | 102                |



## Unit 103

### 5 Year Property

#### Appliances/Furnishings

|                                  |          |
|----------------------------------|----------|
| Dishwasher                       | \$333.77 |
| Exhaust Fan & Hood               | \$107.04 |
| Garbage Disposal                 | \$151.03 |
| Range and Oven                   | \$519.12 |
| Refrigerator                     | \$556.45 |
| Clothes Washer/Dryer Combination | \$572.21 |

**Appliances/Furnishings Subtotal** \$2,239.62

#### Cabinetry Lower

|                                |          |
|--------------------------------|----------|
| Lower Cabinets (Base Cabinets) | \$453.60 |
| Lower Cabinets (Base Cabinets) | \$453.60 |

**Cabinetry Lower Subtotal** \$907.20

#### Cabinetry Upper

|                                |          |
|--------------------------------|----------|
| Upper Cabinets (Wall Cabinets) | \$641.88 |
|--------------------------------|----------|

**Cabinetry Upper Subtotal** \$641.88

#### Counter Tops

|                               |          |
|-------------------------------|----------|
| Countertop, Laminated Plastic | \$237.70 |
| Countertop, Tile              | \$549.05 |

**Counter Tops Subtotal** \$786.75



**Electrical**

|                     |          |
|---------------------|----------|
| Ceiling Fan         | \$151.29 |
| TV Outlet           | \$20.88  |
| Decorative Lighting | \$267.32 |
| Lighting - Track    | \$94.89  |
| Smoke Detector      | \$59.95  |
| TV Outlet           | \$20.88  |
| Decorative Lighting | \$267.32 |
| Decorative Lighting | \$267.32 |
| Smoke Detector      | \$59.95  |
| TV Outlet           | \$27.30  |
| Decorative Lighting | \$267.32 |
| Exhaust Fan         | \$156.43 |
| Exhaust Fan         | \$156.43 |
| Smoke Detector      | \$119.90 |
| Decorative Lighting | \$534.64 |
| Decorative Lighting | \$267.32 |
| Lighting - Track    | \$94.89  |
| Lighting - Track    | \$120.99 |
| Decorative Lighting | \$408.84 |
| Decorative Lighting | \$65.68  |

**Electrical Subtotal** \$3,429.54

**Floor**

|                |          |
|----------------|----------|
| Carpet and Pad | \$238.65 |
| Linoleum       | \$20.10  |
| Linoleum       | \$58.29  |
| Linoleum       | \$132.66 |
| Carpet and Pad | \$350.88 |
| Carpet and Pad | \$208.98 |
| Carpet and Pad | \$220.59 |
| Linoleum       | \$20.10  |

**Floor Subtotal** \$1,250.25

**Plumbing**

|              |          |
|--------------|----------|
| Water Heater | \$478.97 |
|--------------|----------|

**Plumbing Subtotal** \$478.97

**Shelving**

|          |         |
|----------|---------|
| Shelving | \$60.30 |
| Shelving | \$30.15 |
| Shelving | \$30.15 |

**Shelving Subtotal** \$120.60



**Window Coverings**

|                   |          |
|-------------------|----------|
| Horizontal Blinds | \$295.68 |
| Vertical Blinds   | \$212.42 |
| Horizontal Blinds | \$161.92 |
| Horizontal Blinds | \$133.76 |

**Window Coverings Subtotal** \$803.78

**5 Year Property Total** \$10,658.59

**15 Year Property**

**Drives, Walks, & Slabs**

|                               |          |
|-------------------------------|----------|
| Decorative Finish, Paved Area | \$586.80 |
| Concrete Paving               | \$72.77  |

**Drives, Walks, & Slabs Subtotal** \$659.57

**15 Year Property Total** \$659.57

**Total Land Improvements & Chattels** \$11,318.16

Unit Type 3 of 4

103



## Unit 104

### 5 Year Property

#### Appliances/Furnishings

|                                  |          |
|----------------------------------|----------|
| Dishwasher                       | \$333.77 |
| Exhaust Fan & Hood               | \$107.04 |
| Garbage Disposal                 | \$151.03 |
| Microwave Oven                   | \$294.07 |
| Range and Oven                   | \$519.12 |
| Refrigerator                     | \$556.45 |
| Clothes Washer/Dryer Combination | \$572.21 |

**Appliances/Furnishings Subtotal**      \$2,533.69

#### Cabinetry Lower

|                                |          |
|--------------------------------|----------|
| Built-in Desk                  | \$497.63 |
| Lower Cabinets (Base Cabinets) | \$648.00 |

**Cabinetry Lower Subtotal**      \$1,145.63

#### Cabinetry Upper

|                                 |          |
|---------------------------------|----------|
| Upper Cabinets (W all Cabinets) | \$802.35 |
|---------------------------------|----------|

**Cabinetry Upper Subtotal**      \$802.35

#### Counter Tops

|                               |          |
|-------------------------------|----------|
| Countertop, Laminated Plastic | \$285.24 |
| Countertop, Tile              | \$666.70 |

**Counter Tops Subtotal**      \$951.94



**Electrical**

|                        |          |
|------------------------|----------|
| Ceiling Fan            | \$151.29 |
| Internet Port / Outlet | \$4.28   |
| Smoke Detector         | \$59.95  |
| TV Outlet              | \$20.88  |
| Decorative Lighting    | \$267.32 |
| Lighting - Track       | \$94.89  |
| Smoke Detector         | \$59.95  |
| Decorative Lighting    | \$267.32 |
| Smoke Detector         | \$59.95  |
| TV Outlet              | \$6.42   |
| Decorative Lighting    | \$267.32 |
| Exhaust Fan            | \$156.43 |
| Exhaust Fan            | \$156.43 |
| Smoke Detector         | \$59.95  |
| Decorative Lighting    | \$267.32 |
| Lighting - Track       | \$120.99 |
| Decorative Lighting    | \$408.84 |
| Decorative Lighting    | \$65.68  |

**Electrical Subtotal** \$2,495.21

**Floor**

|                |          |
|----------------|----------|
| Carpet and Pad | \$208.98 |
| Linoleum       | \$20.10  |
| Linoleum       | \$66.33  |
| Linoleum       | \$213.06 |
| Carpet and Pad | \$261.87 |
| Carpet and Pad | \$208.98 |
| Carpet and Pad | \$150.93 |
| Linoleum       | \$66.33  |

**Floor Subtotal** \$1,196.58

**Plumbing**

|              |          |
|--------------|----------|
| Water Heater | \$478.97 |
|--------------|----------|

**Plumbing Subtotal** \$478.97

**Shelving**

|          |          |
|----------|----------|
| Shelving | \$30.15  |
| Shelving | \$30.15  |
| Shelving | \$120.60 |

**Shelving Subtotal** \$180.90



|                                   |   |                     |
|-----------------------------------|---|---------------------|
| <b>Window Coverings</b>           |   |                     |
| Horizontal Blinds                 |   | \$295.68            |
| Vertical Blinds                   |   | \$212.42            |
| Horizontal Blinds                 |   | \$161.92            |
| Horizontal Blinds                 |   | \$133.76            |
|                                   | <b>Window Coverings Subtotal</b>              | <b>\$803.78</b>     |
|                                   | <b>5 Year Property Total</b>                  | <b>\$10,589.05</b>  |
| <b>15 Year Property</b>           |   |                     |
| <b>Drives, Walks, &amp; Slabs</b> |   |                     |
| Sidewalks - Concrete              |   | \$3,747.40          |
| Decorative Finish, Paved Area     |   | \$1,320.30          |
| Concrete Paving                   |   | \$88.09             |
|                                   | <b>Drives, Walks, &amp; Slabs Subtotal</b>    | <b>\$5,155.79</b>   |
| <b>Landscaping</b>                |   |                     |
| Landscaped Area                   |   | \$295.20            |
| Lawn Area                         |   | \$1,923.26          |
|                                   | <b>Landscaping Subtotal</b>                   | <b>\$2,218.46</b>   |
|                                   | <b>15 Year Property Total</b>                 | <b>\$7,374.25</b>   |
|                                   | <b>Total Land Improvements &amp; Chattels</b> | <b>\$17,963.30</b>  |
| Unit Type 4 of 4                  | 104   |                     |
|                                   | <b>All Land Improvements &amp; Chattels</b>   | <b>\$52,264.36</b>  |
|                                   | <b>Building</b>                               | <b>\$192,735.64</b> |
|                                   | <b>Land</b>                                   | <b>\$80,000.00</b>  |
|                                   | <b>Total Property Value</b>                   | <b>\$325,000.00</b> |