RAINWATERCPA

CLIENT CASE STUDY

Advanced Planning for High-Net-Worth Real Estate Investor

Cost segregation across a new rental portfolio.

EXECUTIVE SUMMARY

A high-net-worth real estate investor engaged our firm to evaluate depreciation planning across a newly acquired portfolio of residential rental properties. Through a coordinated set of cost segregation studies, we reclassified building components into shorter-recovery-period asset classes, unlocking $642,000 in accelerated depreciation.

At the investor's combined marginal tax rate, this depreciation produced an estimated first-year tax benefit of approximately $316,000, materially improving after-tax cash flow available for reinvestment.

THE SITUATION

The investor had recently acquired several rental properties and was on track to report substantial ordinary and pass-through income. Under standard tax treatment, the buildings would have been depreciated on a straight-line basis over 27.5 years, spreading the deduction thinly across nearly three decades.

With income taxed at the top federal bracket and a high state rate, the investor was facing a significant current-year liability and had limited planning in place to offset it. The opportunity was clear: front-load legitimate depreciation deductions to match the years of highest income.

THE STRATEGY: COST SEGREGATION

Cost segregation is an engineering-based analysis that separates a building's purchase price into its component parts. Rather than treating an entire property as a single 27.5-year asset, the study identifies components that qualify for 5-year, 7-year, and 15-year recovery periods.

Component Category	Typical Recovery Period	Effect
Building structure	27.5 years	Baseline treatment
Personal property (fixtures, finishes, appliances)	5 to 7 years	Accelerated
Land improvements (site work, landscaping, paving)	15 years	Accelerated

By reclassifying qualifying components into shorter recovery classes, and applying bonus depreciation where available, a large share of the property basis becomes deductible in the early years of ownership.

THE RESULT

The cost segregation studies across the portfolio reclassified enough building basis to generate $642,000 in accelerated depreciation available in the current year.

Measure	Amount
Accelerated depreciation unlocked	**$642,000**
Estimated federal tax benefit (37%)	**Approx. $237,540**
Estimated state tax benefit (12.3%)	**Approx. $78,966**
Estimated combined tax benefit	**Approx. $316,000**

The combined estimated tax benefit of approximately $316,000 reflects the value of pulling depreciation forward into the investor's highest-income years, when each deduction offsets income taxed at the top marginal rates.

WHY IT MATTERS

For real estate investors with meaningful income, the timing of depreciation is one of the most powerful levers in tax planning. A dollar of deduction taken today is worth far more than the same dollar spread across 27.5 years, both because of the time value of money and because current income is often taxed at higher effective rates.

The benefits of this approach include:

- Improved current-year cash flow available for reinvestment or debt reduction
- Deductions matched to the years of highest income and highest marginal rates
- A documented, engineering-supported basis for the accelerated deductions
- A repeatable framework that scales as the portfolio grows

HOW WE HELP

Our firm coordinates cost segregation studies from start to finish: evaluating whether a property is a strong candidate, engaging qualified engineering providers, integrating the results into the overall tax projection, and ensuring the deductions are properly reported and defensible.

If you own or are acquiring income-producing real estate, a cost segregation analysis may reveal substantial accelerated depreciation and near-term tax savings. We would welcome the opportunity to assess your portfolio.

ESTIMATED COMBINED TAX BENEFIT

$316,000 from $642,000 in accelerated depreciation

This case study is based on an actual client engagement. Client details have been anonymized. Individual results depend on property type, cost basis, income level, and applicable tax law; outcomes will vary.