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**CASH FLOW  
PRODUCES BENEFITS  
BY ACCELERATING  
DEDUCTIONS VIA  
COST SEGREGATION**

**BY**

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**“CASH FLOW PRODUCES BENEFITS BY  
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**I. INTRODUCTION:** Most tax practitioners and business people are very familiar with the basic financial concept of “**time-value of money**” to produce cash flow. Having a dollar today and the use of that dollar today, even if it must be paid at a given time in the future to some other third party or government, generally gives the benefit of the current use of that money, despite potential future risk issues. It is this fundamental principle that forms the essence of how accelerating deductions can produce a net, positive cash flow.

A. **TAX WRITE-OFF:** When the concept of time-value of money is tied to the concept of accelerating depreciation or tax write-off -- all things being equal, and with no other tax or market changes -- the general implications are that greater depreciation allows postponement of paying current taxes and moves those taxes to a future date. Assuming no change in tax rates or other future variables, postponing the payment of \$100.00 U.S. Dollars today means a tax benefit of using the \$100.00 today for other purposes.

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If that \$100.00 can earn interest income for one year at ten percent (10%) -- and ignoring for the moment paying future tax on that \$10.00 -- the \$10.00 is a benefit that is gained merely by postponing the payout on that \$10.00 as tax to Federal, state and local governments. Thus, one can see the benefit of having and using funds, be that \$1 million, \$10 million or \$100 million today, to potentially earn income, and postpone the payment of tax eventually owing to the government.

In the example, one could save \$100.00 for use of that \$100.00 for one year, and eventually produce a \$110.00 before-tax benefit (including interest income in the above example); or one could save and use \$1 million, producing a 10% return as an additional \$100,000 before tax, or \$1,100,000 before tax.

With the basic principle established, the issue is: How can one postpone the tax payment owing to the government, legitimately, under the tax law, allowing for the use of that money by the taxpayer?

B. **ACCELERATED PAYMENT OF TAXES:** This concept of postponing payment of taxes is not new. It has been addressed by many, including members of Congress.

1. A good example of this concept *in reverse* is that members of Congress have addressed this issue by accelerating, from their standpoint, the collection of dollars, *i.e.*, tax revenues, on an earlier basis, such as collecting taxes on a quarterly basis (not on a yearly basis); thus, the Government has learned how to acquire dollars. (Of course, the effect of such change in the tax law is an effective tax increase!)

If one assumes that individual U.S. Federal taxes are owed by the deadline of April 15, taxing the prior year of earnings, one would say that the taxpayer should have use of the "tax" money until April 15th, following the year of earnings.

However, it is also well understood that members of Congress, many years ago, passed legislation that accelerated the obligation to pay the income tax on an earlier basis, with adjustments to be made ultimately by the April 15th date (or extended thereafter), when taxes are calculated and the amount is actually known for the exact amount of taxes owed. (The focus at this point is on income tax. However, the concept of time-value of money and use of that money is applicable in any financial setting.)

The ability to postpone payment of taxes and the ability of governments to collect tax monies, early, is a common financial issue.

2. **ESCROW:** As another example, if a taxpayer owes property taxes, usually on a yearly basis, to be paid in the following year (such as taxes owing for 2005 that would be paid in year 2006), there is often an arrangement under mortgages or deeds of trust that require the homeowner-debtor to escrow (or pay ahead of time) money, placing it into a fund, to eventually pay obligations of the homeowner for the property taxes (and/or insurance) owing at a future date.

Some states require that interest be paid on such escrow amounts. However, if a lending institution has the benefit of the money from the homeowner for a given period of time, without paying interest on that amount, or by paying out a lower interest rate on that amount, this is a benefit by the lending institution, many of which handle billions of dollars.

One might see the applications of time-value of money in other settings. One of the most common settings deals with an individual who utilizes a residential property for rental purposes, as opposed to a personal residence.

A simple example illustrates this point. If Taxpayer, X, occupies an apartment, and the security deposit is \$1,200 when the Taxpayer moved into the apartment, this means that this \$1,200 is no longer utilized by Taxpayer X.

If Landlord Y has the right to utilize the \$1,200 to earn interest for Landlord Y, this is a benefit to Landlord Y. (In some states use of such deposit money and the interest on the same is restricted and cannot be paid to the landlord; conversely, other states allow the landlord to utilize those funds for interest, and they are not required to pay the same to the tenant.)

Some countries outside the U.S. have different positions, where rental deposits might involve a huge sum of money paid at the time of rental; the landlord often has the benefit of those funds. One such example is found in South Korea, where a tenant might pay the fair market value of the rental property to the landlord, allowing the landlord the use of the funds. The funds are ultimately to be returned to the tenant, without interest. The Landlord has the benefit of that interest. This is a posture that is not common in the United States, but it does illustrate the time-value of money issue.

This short Note emphasizes the basic financial concept of time-value of money, or use of that money to generate a return, as noted. This concept is then, as noted below, tied to a tax concept which accelerates the ability to take tax deductions under a more rapid basis under the concept known as "cost segregation," as discussed below.

**II. HISTORY OF DEPRECIATION OR COST RECOVERY/COST SEGREGATION:** The concept of income tax has existed for many years in the United States, initially in 1913 under Amendment XVI (16th Amendment to the Constitution of the United States of America). This tax has increased in import in the U.S. over many years.

As part of allowed deductions for businesses, there is the concept of depreciation or "cost recovery;" see Code Sections 167 and 168 of the Internal Revenue Code of 1986, as amended. Under the Code provisions, depreciation or cost recovery may be claimed for business use of certain qualified property. (Assuming the reader is reasonably familiar with this basic concept of depreciation, the intent of this Note is not to examine in detail the depreciation or cost recovery positions. Rather, the focus of this Note is on the acceleration of the deduction and the import of the same.)

If a taxpayer has \$1 million of income, this means that the taxpayer will pay tax on that \$1 million under current Federal, state and municipal taxes. If the \$1 million of income in the example noted is reduced by allowable deductions, as the Internal Revenue Code of 1986 allows in certain instances (such as business deductions for proper interest, business expenses for the principal use of the business automobile, travel, transportation, office expenses, and so forth), the \$1 million of gross income is reduced; the net amount is subject to income tax.

A. **DEPRECIATION:** As part of the business expense, if one can claim "depreciation" or a "wearing out" of the realty or personalty, the taxpayer would receive a tax deduction under the Code, as noted.

If one has a 10-year property that, arguably, "wears out" at the rate of 1/10th each year, and the cost of that property was \$100,000, then the taxpayer could claim \$10,000 deduction on a "straight-line depreciation," or "pro rata" basis, each year, generally speaking.

Over the years Congress has allowed taxpayers to have different approaches to claim depreciation from the "wearing out" of the property, including the choice of depreciation methods utilized. Some of these methods are straight-line depreciation (a pro rata amount), or accelerated depreciation deductions (faster than the straight-line). An Accelerated Method, say of a 200% rate, would be 2 times the straight-line. In the example noted, it would be twice that of the \$10,000 amount for the first year (or \$20,000).

In addition to the rate of deduction that can be accelerated beyond the straight-line in some instances, the choice of the life that is utilized to calculate the depreciation has been an important factor over the history of depreciation or cost recovery.

On a 10-year life of property, a straight-line or pro rata basis produces a 10% deduction each year of the base amount. In the example given of \$100,000, this would be 1/10<sup>th</sup> per year, or \$10,000 per year).

If one assumes that the life was 5 years (not 10 years), then the amount of the deduction is 20% on a straight-line basis, or twice what the straight-line amount was on the 10-year life in the prior example.

Therefore, one can quickly recognize that the shorter the life, the faster the recovery is on the cost of the asset; therefore, greater deduction will be claimed in the earlier years.

Obviously, if the amount ultimately depreciable in the example is \$100,000, the \$100,000 deduction amount, overall, will not change. Rather, the timing for which the deductions are claimed has been modified. Taxpayers certainly recognize that if one can take a deduction on a method that is faster than the straight-line method, as indicated earlier, or if one can take a shorter life, both of these accelerate the timing to take the deduction.

The ability to take the tax deductions quickly by using a faster method and a shorter life means that there will be less current income taxes paid. If there is less current income tax paid, then the taxpayer would have the use of the monies that would otherwise be paid to the government, currently.

In the earlier example of \$1 million, if a deduction for depreciation or cost recovery would have been \$50,000, as opposed to \$10,000 in the first year, the \$40,000 difference is a savings by utilizing the \$40,000. Therefore, if the \$40,000 could earn the taxpayer 8% earnings, net, this means that 8% of \$40,000 is a \$3,200 benefit to the taxpayer on a current basis.

One can extrapolate from this and see the greater savings that would occur from a savings of \$400,000, earning at an interest rate of 8%, or a \$32,000 net savings, simply by having the benefit of the deduction, earlier.

This short Note illustrates the merging of the tax concept of **tax deductions** and the financial concept of **time-value of money**. One way to gain greater tax deductions earlier in the life of the asset is via **“accelerated depreciation”** or **“cost recovery”** tax deduction. This area is discussed in the next Section.

### **III. “COST SEGREGATION” ACCELERATES DEPRECIATION OR COST RECOVERY:**

From a depreciation standpoint, if one can claim, as noted, more depreciation currently, this means a greater savings to the taxpayer, ceteris paribus.

A. **REALTY OR PERSONALTY:** As illustrated, the faster write-off method and the shorter-life are key ingredients to accelerate the deduction and claim more current depreciation.

1. **HISTORY: COMPONENT DEPRECIATION:** Many years ago the concept of “component depreciation” was employed to allow the taxpayer to take a given property and break it into its “components” of “real estate” and “personalty.”

Within the real estate component, one would argue that there were other components or parts that could also be broken out and, arguably, they would have a shorter life.

A simple example is an office building that has ground and a building structure; within the office building there are personalty items, such as window coverings, carpet, bathroom fixtures, etc.

In turn, one could go further and argue that there are additional components of the actual building that wear out faster than others, such as a roof that might wear out in 15 or 20 years, along with some type of heating system that would have a life less than the overall structure of the building. etc.

Although this approach for breaking out personalty is still allowed, the ability to break out components of the realty is not allowed. Congress set out rules in this area.

Congress set useful lives for residential real property at 27.5 years, and other non-residential property (“commercial”) at 39 years.

If the taxpayer took 39 years, rounded to 40 for purposes of this discussion, this means, on a straight-line depreciation basis, about 2.5% of the basis would be depreciated on a current, yearly basis. (This is 100 divided by 40 years.) However, if one could argue that many parts of the property should have a shorter life, it would be a faster initial write-off.

The component depreciation concept had been utilized for years. But it was stopped by Congress, which eliminated the component depreciation position, a posture that the Treasury had long advocated. However, there is a more recent concept of "cost segregation" employed to enhance the current write-off position.

**IV. COST SEGREGATION:** “Cost segregation” is a concept utilizing the basic idea that the purchase of a property, such as an apartment building, has many elements in it. (This is not the same as a “component” of what is the real estate or realty.) The focus is that there are many parts of the asset purchased, assuming a proper (engineering) study was undertaken. Some of what might loosely be called the purchase of the “realty” also has "personalty" within the structure on the realty. This should be depreciated over a shorter life.

There might be the obvious “personalty” involved in acquisition of an apartment building, such as washers, dryers, furniture, refrigerators, bedroom and living room furniture. In addition to these obvious personalty items, there are other items of personalty (as opposed to realty) contained within the structure of the apartment building complex.

Through proper engineering studies, some examples of which are indicated in the Appendix to this short Note, one can attempt to break out these items; therefore, they can have a shorter useful life for calculating depreciation.

Earlier in this Note, the shorter useful life implications were illustrated as to how a greater current depreciation deduction, and, therefore, less income tax being paid, on a current basis, results in a time-value savings, and, therefore, a stronger economic position.

Members of Congress have provided various ways that taxpayers generally can gain faster write-off or faster depreciation benefits by various provisions in the Internal Revenue Code. Code Section 179 allows one to currently expense (deduct), where qualified, up to \$100,000 worth of qualified tangible personalty that meets the requirements under Code Section 179.

Also allowed is additional depreciation under Code Section 168 for qualified personalty that has been placed in service within certain limits. For example, property that is qualified as proper personalty, for property placed in service after May 5, 2003, and before January 1, 2005, Congress now allows a deduction for this type of property of an additional 50% of the depreciable base, within certain limits. (See the examples in the attached Appendix Y.)

Although Congress has provided for some means to accelerate or take faster write-off, whether on personalty as illustrated under Code Section 179, or generally under Code Section 168 for property placed in service on a timely basis, the cost segregation concept has gone further. There is a potential of claiming greater depreciation deduction of personalty contained within the "realty." If taxpayers take the steps necessary to segregate or break apart those amounts through proper cost segregation studies, as illustrated in the attached Appendix, there can be more current deductions.

Thus, if taxpayers can show, as illustrated in the Appendix, that, for example, 30% of a \$10,000,000 purchase of "realty" is actually within the tax definition (treatment) as personalty, the write-off might be, for example, over 10 years, at 200% declining balance (2 times the straight-line rate), as opposed to commercial realty written off over 39 years (approximately 2.5% per year) at a straight-line rate.

**V. CONCLUSION:** The money is on the table.

If taxpayers would simply recognize, through their proper advisors, that if they employ the special Congressionally approved positions under Code Section 179, as illustrated, the accelerated write-off under Code Section 168, and, importantly, the cost segregation positions that can be claimed to shorten the life of property that might otherwise employ a 27.5 year life for residential property ("realty"), or, a 39-year life for real estate that is non-residential property, taxpayers would gain a tremendous increase in accelerated tax deductions. Those current deductions will translate into current cash flow, which, in turn, translate into an earning power that otherwise is lost to the government by paying taxes earlier than is otherwise required, if one employs the proper tax law on cost segregation.

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APPENDIX Y

**CASH FLOW PRODUCES BENEFITS BY  
ACCELERATING DEDUCTIONS VIA COST SEGREGATION**

**Examples of the affect of Cost Segregation and Bonus Depreciation  
on a taxpayer's tax liability.**

A \$1,000,000 manufacturing facility was built in July, 2003. The owners are considering having a cost segregation study performed. Prior to the cost segregation study, the 2003 depreciation expense for the facility would be calculated as follows:

	<b>39 Year Property</b>
<b>Property Amount</b>	<b>\$ 1,000,000.00</b>
<b>"MACRS" Depreciation Rate</b>	<b>1.177%</b>
<b>2003 Depreciation Expense</b>	<b>\$ 11,770.00</b>

The cost segregation study identifies the following amounts of personal property, site improvements and real property:

7 Year property	\$ 175,000.00
15 Year Property	125,000.00
39 Year Property	<u>700,000.00</u>
Total Facility Basis	<b>\$ 1,000,000.00 (without ground)</b>

Assuming the property with class lives shorter than 20 years otherwise qualifies for 50% Bonus Depreciation, the depreciation expense for tax year end 2003 would be calculated as follows after the cost segregation study:

	<u>7 Year Property</u>	<u>15 year Property</u>	<u>39 Year Property</u>	<u>Total</u>
<b>Property Amount</b>	<b>\$ 175,000.00</b>	<b>\$ 125,000.00</b>	<b>\$ 700,000.00</b>	<b>\$ 1,000,000.00</b>
<b>50% Bonus Depreciation</b>	<b>87,500.00</b>	<b>62,500.00</b>	<b>-</b>	<b>150,000.00</b>
<b>Remaining Depreciable Basis</b>	<b>\$ 87,500.00</b>	<b>\$ 62,500.00</b>	<b>\$ 700,000.00</b>	<b>\$ 850,000.00</b>
<b>Applicable "MACRS" Rate</b>	<b>14.290%</b>	<b>5.000%</b>	<b>1.177%</b>	
<b>2003 "Regular" Depreciation</b>	<b>\$ 12,503.75</b>	<b>\$ 3,125.00</b>	<b>\$ 8,239.00</b>	<b>\$ 23,867.75</b>
<b>2003 Total Depreciation</b>	<b>\$ 100,003.75</b>	<b>\$ 65,625.00</b>	<b>\$ 8,239.00</b>	<b>\$ 173,867.75</b>

The cost segregation study increases the amount of the 2003 depreciation expense by \$162,097.75 (\$173,867.75-\$11,770.00). This increase, assuming a tax rate of 35%, would result in a tax deferral savings of **\$56,734**.

**APPENDIX: Examples of Personal Property commonly found in Restaurant facilities.**

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
Beverage Equipment	Equipment for storage and preparation of beverages and refrigerators, coolers, dispensing systems, and the dedicated electrical, tubing or piping for beverage equipment. The dispensing system may be gravity, pump or gas driven.	1245	57.0 Distributive Trades and Services— 5 Years
Canopies and Awnings	Readily removable equipment or apparatus used for providing shade or cover. Includes canopies that are largely decorative. Does not include canopies that are an integral part of a building's structural shell, such as in the casino industry.	1245	57.0 Distributive Trades and Services— 5 Years
Computers	Desktop and laptop computers, monitors, printers, and other peripheral equipment. Excludes Point of Sale (POS) systems and computers that are an integral part of other equipment (e.g., fire detection systems, heating or cooling systems, etc.).	1245	00.12 Information Systems— 5 Years
Concrete Foundations and Footings	Includes formwork, reinforcement, block, and precast or cast-in-place work related to foundations and footings necessary for the proper setting of the building.	1250	Building or Building Component— 39 Years
	Foundations or footings for signs, light poles, canopies and other land improvements.	1250	00.3 Land Improvements -15 Years



<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
Doors- Eliason	Eliason Doors are specialty kitchen doors providing easy access to and from the kitchen area to the dining area.(Usually swings in both directions.)	1245	57.0 Distributive Trades and Services— 5 Years
Doors and Windows	Includes interior and exterior doors and their hardware (such as doorknobs, closers, kickplates, hinges, locks, etc.)regardless of decoration. Exterior windows, including drivethrough service windows and carousel windows and exterior storefront and vestibule.	1250	Building or Building Component- 39 Years
Doors and Windows- Accessories	Window accessories such as drapes, curtains, louver, post-construction tinting that is readily removable and interior decorative theme decor.	1245	57.0 Distributive Trades and Services— 5 Years
Drive- Through	Drive-through equipment includes the order taking, food delivery and payment processing systems whether mechanical or electronic. This category does not include building elements such as doors, bays, or windows; see Walls-Exterior, and Doors and Windows for drive-through bays and windows.	1245	57.0 Distributive Trades and Services— 5 Years
Electrical— Light Fixtures -Interior	Includes lighting such as recessed and lay-in lighting, night lighting, exit lighting, as well as decorative lighting fixtures that are the only artificial illumination in the building and along building walkways. See Fire Protection Systems for emergency and exit lighting.	1250	Building or Building Component— 39 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
	Decorative light fixtures are light fixtures that are decorative in nature and not necessary for the operation of the building. In other words, if all the decorative lighting were turned off, the other sources of lighting would provide sufficient light for the building. If the decorative lighting is the only source of lighting, then it will be treated as section 1250 property.	1245	57.0 Distributive Trades and Services — 5 Years
Electrical— Light Fixtures —Exterior	Exterior lighting whether decorative or not is considered section 1250 property to the extent that the lighting relates to the operation or maintenance of the building. This category includes building mounted lighting to illuminate walkways, entrances, parking, etc.	1250	Building or Building Component— 39 Years
	Plant grow lights or lighting that Highlights only the landscaping or building exterior (but not parking areas or walkways) does not relate to the operation or maintenance of the building.	1245	57.0 Distributive Trades and Services — 5 Years
	Pole mounted or freestanding outdoor lighting system to illuminate sidewalks, parking or recreation areas.	1250	00.3 Land Improvements -15 Years
Equipment Installation	Expenses incurred in the installation of furnishings and restaurant equipment. Some examples include booths, tables, counters and interior theme decor.	1245	57.0 Distributive Trades and Services — 5 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
Fire Protection Equipment	Includes special fire detection or suppression systems located in equipment hoods or directly associated with a piece of equipment, and fire extinguishers for the protection against a particular hazard.	1245	57.0 Distributive Trades and Services —
Floor Covering - Carpet	For purposes of the restaurant industry, all carpeting will be treated as not permanently attached and not intended to be permanent. This category does not include rugs or tapestries that are considered artwork and do not suffer wear and tear (e.g. Persian rugs that may appreciate in value are considered artwork).	1245	57.0 Distributive Trades and Services — 5 Years
Floor Covering -Permanent	Examples include ceramic or quarry tile, paving brick and other coverings cemented, mudded, or grouted to the floor; epoxy or sealers; wood flooring affixed with permanent adhesive or nailed or screwed in place and vinyl flooring affixed with permanent adhesive.	1250	Building or Building Component— 39 Years
Food Storage and Preparation Equipment	Food storage, cleaning, preparation, and delivery systems including all machinery, equipment, furniture and fixtures used to process food items from storage through delivery to the customer.	1245	57.0 Distributive Trades and Services — 5 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
HVAC-Kitchen	Allocation of HVAC is not appropriate. Only separate Kitchen HVAC units that meet the sole justification test are included (i.e., machinery the sole justification for the installation of which is the fact that such machinery is required to meet temperature or humidity requirements which are essential for the operation of other machinery or the processing of materials or foodstuffs.) Kitchen HVAC may meet the sole justification test even though it incidentally provides for the comfort of employees, or serves, to an insubstantial degree, areas where such temperature or humidity requirements are not essential.	1245	57.0 Distributive Trades and Services — 5 Years
Kitchen Equipment Hook-up	The kitchen equipment hook-ups include electrical, water, gas, sanitary plumbing, and ventilation systems for the kitchen equipment. Items in this category include wiring and outlets, plumbing, drainage and a hot water heater only in the kitchen area. The hook-up costs include all items used directly with a specific item of equipment and necessary to connect the equipment to the service source. For example, a dishwasher requires electric and plumbing hook-ups. Costs associated with connecting the dishwasher would only include the costs of wiring and plumbing from the dishwasher to the source of electricity (such as an outlet or junction box), plumbing, a drainage within the kitchen room. Use of reasonable functional allocation methods to determine the electrical and plumbing components directly related to the equipment is acceptable.	1245	57.0 Distributive Trades and Services — 5 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
Millwork-Decorative	<p>This category does not include outlets in the dining area or kitchen hand sink plumbing; see Electrical and Plumbing categories. Decorative millwork is the decorative finish carpentry in the restaurant. Examples include detailed crown moldings, lattice work placed over finished walls or ceilings, cabinets and counters. The decorative millwork serves to enhance the overall theme of the restaurant and is not related to the operation of the building. Cabinets and counters in a restroom are excluded from this category; see Restroom Accessories.</p>	1245	57.0 Distributive Trades and Services — 5 Years
Music and PA System	<p>Equipment and apparatus used to provide amplified music or sound; also includes wiring. Does not include a public address system that is an integral part of a fire protection system.</p>	1245	57.0 Distributive Trades and Services— 5 Years
Point of Sale Equipment (POS)	<p>Cash registers, computerized sales systems, and related peripheral equipment.</p>	1245	57.0 Distributive Trades and Services — 5 Years
Poles and Pylons	<p>Light poles for parking areas and poles used in concrete footings for signage.</p>	1250	00.3 Land Improvements 15 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
Restaurant Decor Accessories	Items in this category include decorative mobile props (interior or exterior). For example playground equipment, potted plants, hanging mirrors, ceiling fans, and theme related props (such as coat of arms, sporting equipment or memorabilia, artifacts, pictures, plaques, etc., provided these items are not non-depreciable artwork, antiques or collectibles).	1245	57.0 Distributive Trades and Services — 5 Years
Restaurant Non-structural Theme Elements	Items in this category include interior non-load bearing decorative structures. These are items that do not function as part of the building and are not integrated with building elements such as wiring, plumbing or ventilation. For example a model castle constructed of gypsum board or plaster and wood studs would be considered a non-structural theme element that functions merely as ornamentation. On the other hand, a half wall whose function is to provide traffic control or space subdivision is not considered in this category, see Walls- Interior Partitions. Does not include decorative ceilings, see Ceiling.	1245	57.0 Distributive Trades and Services — 5 Years
Signs	Interior and Exterior Signs used for menu display, theme identity, and any signage not pertinent to the operation of the building. Does not include exit signs; see Fire Protection Systems for exit signs.	1245	57.0 Distributive Trades and Services — 5 Years
Site Grading and Excavation	Clearing, grading, excavating and removal costs directly associated with the construction of buildings and building components are part of the cost of construction of the building.	1250	Building or Building Component— 39 Years

<b>Asset</b>	<b>Description</b>	<b>Property Type</b>	<b>Recovery Period</b>
	Clearing, grading, excavating and removal costs directly associated with the construction of sidewalks, parking areas, roadways and other depreciable land improvements are part of the cost of construction of the improvements.	1250	00.3 Land Improvements - 15 Years
Site Work	Site work includes site drainage, sewers, roads, sidewalks, paving, curbing, general site improvements, landscaping not adjacent to the building, site fencing and enclosures, playground fencing, and all other site improvements not directly related to the building.	1250	00.3 Land Improvements - 15 Years
Stonework	This category includes exterior decorative stonework embedded in exterior half walls, such as patio half walls, that are an integral part of a building's structural shell. In the context of the restaurant industry, such half walls are related to the operation or maintenance of the building.	1250	Building or Building Component— 39 Years
	Includes patio stonework imbedded in the ground and applied to exterior half walls that are not an integral part of the building's structural shell.	1250	00.3 Land Improvements - 15 Years
Wall Coverings - Removable	Includes strippable wallpaper that causes no damage to the underlying wall or wall surface.	1245	57.0 Distributive Trades and Services — 5 Years

NOTE: Examples taken from the "Field Directive on the Planning and Examination of Cost Segregation Issues in the Restaurant Industry" issued by the IRS on December 8, 2003.