I’ve spent the last nine years standing in the middle of closing rooms, listening to investors get excited about "huge savings" without a shred of math to back it up. If there is one question I ask every single client before we even open an Excel sheet, it is this: **"What did you allocate to land?"**

Most people look at me like I’ve asked them to solve a calculus problem in their head. But here is the reality: your land vs building allocation is the foundation of your entire tax strategy. If you get this wrong, you’re either overpaying the IRS or rentbottomline.com setting yourself up for an audit that will haunt your portfolio for years. Let’s break down the mechanics of a proper allocation and why your napkin math is actually more important than you think.

Why the Allocation Matters (It’s Not Just a Number)

In the world of real estate, the IRS creates a clear, unyielding divide. Buildings depreciate; land does not. Because land is considered a non-wasting asset—it’s always going to be there—you cannot claim a depreciation deduction on it.

If you over-allocate your purchase price to the building, you are inflating your depreciable basis, which creates a red flag for the IRS. If you under-allocate, you are leaving thousands of dollars in tax write-offs on the table every year for the next 27.5 years. Getting this right is the first step in maximizing your cash flow.

The Three Methods for Determining Land Value

When I talk to landlords about their **depreciable basis calculation**, I usually suggest looking at three primary sources before shelling out thousands of dollars for a formal appraisal:

1. **County Assessor Property Valuation:** This is your baseline. Most county assessors provide a breakdown of the land value versus the improvement value (the structure). While it’s not always perfectly aligned with fair market value, it’s a defensible document in the eyes of the IRS.
2. **The Appraisal Report:** If you are getting a loan, your appraiser has already done this work. Look at the cost approach section of your appraisal—they usually assign a specific dollar amount to the site value.
3. **The "Back-of-Napkin" Method:** Take your total purchase price. Look at the ratio provided by the county assessor. If the county says the land is 20% of the value, but your purchase price is wildly different from the assessment, you need to adjust proportionally.

Pro-tip: If you're struggling with the math, check out the Online Bonus Depreciation Calculator. It’s a great way to see how shifting your numbers impacts your bottom line.

The Great "Bonus Depreciation" Trap

I get a twitch in my eye whenever I hear someone say, "The whole building is bonus depreciable." Stop. Just stop. That is how you get yourself into trouble with the IRS.

The building itself—the shell, the roof, the studs—is 27.5-year property. It is never eligible for 100% bonus depreciation. What is eligible are the shorter-lived components inside: the flooring, the decorative lighting, certain plumbing fixtures, and landscaping. This is where a Cost Segregation Study comes into play.

When should you get an Engineering Study?

Before you hire an engineering firm, we do some back-of-napkin math. If the projected tax savings don't significantly outweigh the cost of the study, you're better off sticking to a standard depreciation schedule. My friends over at **Rent Bottom Line** often emphasize that operationally, keeping things simple is usually better until you hit a certain portfolio scale. If the delta between a DIY allocation and an engineering study isn't at least 3-5x the cost of the study, save your capital for a new HVAC unit instead.

Asset Type Depreciation Period Bonus Depreciation Eligible? Building Structure 27.5 Years No Land N/A (Not Depreciable) No Interior Personal Property 5, 7, or 15 Years Yes (Subject to phase-outs)

Acquisition Timing: The Jan 19, 2025 Milestone

Tax law isn't static. We are currently navigating the sunsetting of the Tax Cuts and Jobs Act. For acquisitions made around the Jan 19, 2025, window, you need to be hyper-aware of the 5-year lookback and the phasing out of bonus depreciation.

If you are closing on a property, consult your CPA about the "placed in service" date. If you buy a property in December but don't place it in service until January, you might be looking at two different tax years for your bonus depreciation eligibility. Don't let your "acquisition date" dictate your tax strategy without verifying your "placed in service" date first.

REPS Status and the "Passive Loss" Reality Check

I cannot stress this enough: **Bonus depreciation does not magically offset your W-2 income unless you are a Real Estate Professional (REPS).**

If you are a W-2 earner buying your first rental, those depreciation losses are generally considered "passive." They will get trapped behind the passive activity loss limitations. You can use those losses to offset income from *other* passive activities, but you cannot simply write off your entire salary because you bought a duplex. If you are aiming for REPS status, you need to track every hour spent on your rentals. If you aren't tracking your hours, you aren't a professional—you're just an investor with a fancy tax plan that won't hold up in an audit.

Things to Ask Your CPA Before Closing

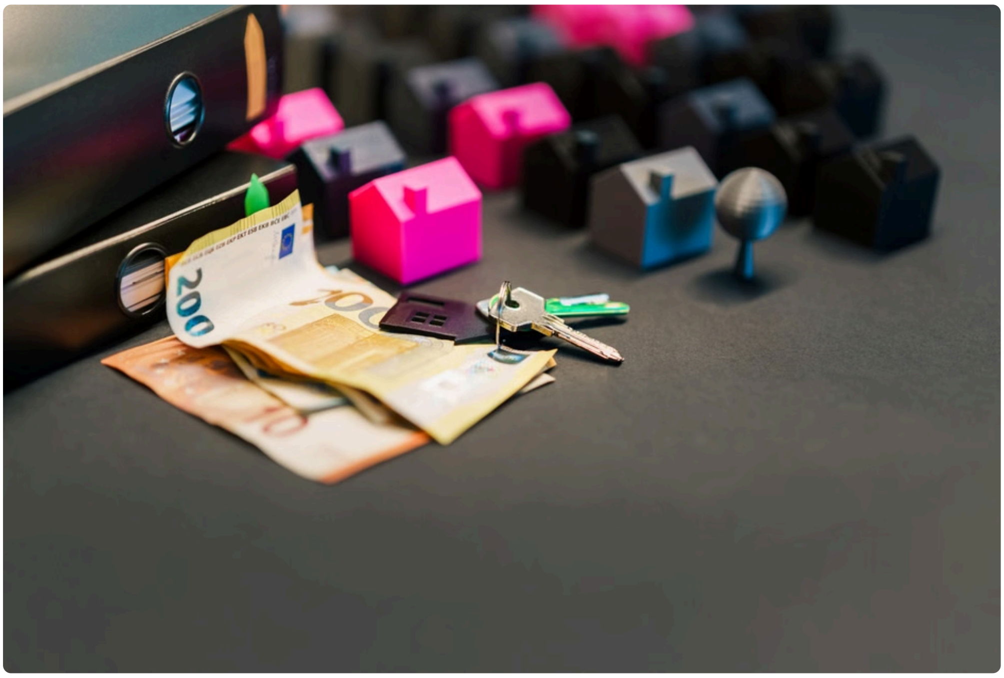
I keep a running list of questions that investors often forget to ask. Print this out and take it to your next meeting:

- "Based on the county assessor's valuation, does our land allocation represent a fair percentage of the total purchase price?"
- "If I trigger a massive depreciation loss this year, will it be suspended under passive activity loss rules, or can I actually utilize it against my active income?"
- "Are we planning to perform a formal Cost Segregation Study, or are we electing to use a 'rule-of-thumb' percentage for personal property components?"
- "How does the Jan 19, 2025, rule impact the bonus depreciation rate I am entitled to for this specific asset?"

Final Thoughts

Real estate is a game of numbers, but it’s also a game of documentation. Don't get seduced by the promise of "huge savings" from someone who hasn't seen your settlement statement or asked you about your land allocation. Use the tools available at **100 Bonus Depreciation** to run your own projections, and keep your documentation clean. If you're looking for more practical, boots-on-the-ground advice on managing the numbers side of your portfolio, check out the resources at **Rent Bottom Line**.

And for the love of all that is holy—please, stop calling your building "bonus depreciable." It’s the components that do the heavy lifting, not the concrete.



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