

KBKG Tax Insight: IRS Updates Cost Segregation Audit Techniques Guide

The Internal Revenue Service (IRS) released a relatively substantial update to their Cost Segregation Audit Techniques Guide (ATG) in order to incorporate various tax and legal developments since it was first released.

Originally published in 2004, the Cost Segregation Audit Techniques Guide assists IRS examiners during audits by providing an understanding of technical information, examination techniques and what to look for when reviewing cost segregation reports.

KBKG Insight: While the ATG is designed to provide guidance for IRS employees, tax professionals have used the document as guidance on the correct methods to properly conduct cost segregation studies. New sections that have been recently added to the ATG provide helpful insight into the IRS's future examination focus.

What's New. The updated ATG now has four new sections. Chapter 6.5 describes the Inherently Permanent Standard and states when determining whether a structure, or component of a structure, is inherently permanent, one must consider the context and governing code section. Chapter 6.8 on Bonus Depreciation provides direction specific to cost segregation studies and explains the bonus eligibility rules for both acquired property and self-constructed property. Chapter 7.6 contains asset classifications for the Motor Vehicle Manufacturing Industry. Finally, Chapter 8.2 provides specific guidance for Stand-Alone Open-Air Parking Structures and their classification as buildings.

Additional items of note include:

- *References and updates for the Final Tangible Property Regulations.*
- *Expanded discussion of real estate and Section 1060 allocations.*
- *References to the Peco Foods, AmeriSouth, and PP&L court cases*
- *Construction Process (Chapter 6.6) updated to include the new 2004 CSI Master Format Division numbering system.*
- *Statistical Sampling combined with Chapter 5 – Review and Examination.*
- *Industry terms and definitions added to clarify differences in terminology from the construction industry and the Tax Court. (Chapter 8.1 and 6.6).*
- *LB&I: Enterprise Activities Practice Area Corporate Issues/Credits - Deductible & Capital Expenditures (DCE PN) is now responsible for the Cost Segregation ATG.*

A more detailed summary of the changes is included in the newly added [Preface](#) section. **View the entire ATG Cost Segregation document at: kbg.com/cost-segregation-audit-guide**

Authors: Malik Javed, CCSP, Gian Pazzia, CCSP