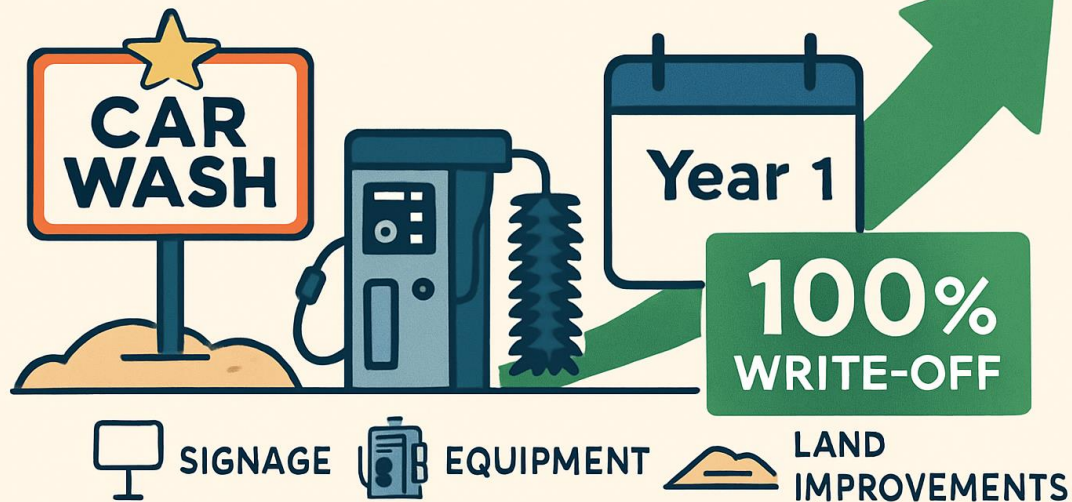


BONUS DEPRECIATION IN COMMERCIAL PROPERTIES

ACCELERATED TAX SAVINGS IN THE FIRST YEAR



****Understanding Depreciation and How Cost Segregation Can Benefit Carwash/Gas station Owners****

When people hear "depreciation" in relation to cars or homes, they usually think of it negatively—as something losing value over time. However, in commercial businesses, depreciation is a valuable tool to reduce taxable profits and improve cash flow.

Two Common Methods of Depreciating Commercial Properties

The most typical method is **Straight Line Depreciation**. This spreads the cost of a building (minus the land value) evenly over its useful life—usually ****39 years for commercial properties**** or ****27.5 years for residential**** ones. For example, if a

building costs \$1 million (excluding land), the business owner can deduct about \$25,641 each year from their taxable income for 39 years.

While this method gradually reduces tax liability, it means waiting many years for the full benefit.

Accelerating Depreciation with Cost Segregation

What if you could get those tax savings much faster—maybe even in the first year? Enter **Cost Segregation**, an IRS-approved strategy that breaks down a commercial property into components with shorter depreciation schedules, such as assets depreciable over 5, 7, or 15 years instead of 39.

Carwash/Gas station properties are particularly well-suited for this because they often include diverse assets: building structures, land improvements, specialized equipment, and signage. Cost Segregation can reclassify ***65% to 100% of a Carwash/Gas station property's value*** from a typical 39-year schedule to accelerated schedules, creating substantial early tax deductions.

For example, on a \$1 million Carwash/Gas station building, \$650,000 to \$1 million can be reclassified for faster depreciation, boosting early tax savings significantly.

Key Asset Classes for Carwash/Gas stations

- **Land Improvements**: Carwash/Gas station bays, flooring, walls, drainage systems
- **Specialized Equipment**: Conveyor systems, water treatment, drying and vacuum stations
- **Signage and Branding**: Important for marketing and visibility

Reclassifying these components allows Carwash/Gas station owners to lower their taxable income earlier, increasing available cash flow to reinvest in the business.

Bonus Depreciation and Recent Tax Incentives

The ****One Big Beautiful Bill (OBBBA)****, signed into law in 2025, permanently reinstates ****100% bonus depreciation**** for qualified property acquired and placed in service after January 19, 2025. This means businesses, including Carwash/Gas station owners, can immediately expense the entire cost of eligible assets rather than depreciating them over multiple years. The definition of qualifying property remains the same as under the earlier Tax Cuts and Jobs Act (TCJA), primarily including tangible personal property with a useful life of 20 years or less.

Previously, bonus depreciation had been phasing down annually from 2023, with only 40% available in 2025 before phasing out in 2027. However, the OBBBA removes this phase-out schedule, creating certainty and significant tax benefits going forward.

It is important to note that this 100% bonus depreciation applies only to property acquired after January 19, 2025. Property acquired or under contract prior to that date follows the old phase-down rules.

Additionally, the bill allows for permanent immediate expensing of certain qualified real property used in production activities, and it also enhances other business-related tax provisions, such as increased Section 179 expensing limits.

For Carwash/Gas station businesses, this updated law means accelerated tax savings through Cost Segregation and bonus depreciation can substantially improve cash flow and reduce tax liabilities starting in 2025 and beyond, supporting faster reinvestment and growth.

If a Carwash/Gas station was purchased in prior years during the TCJA era, owners can still apply bonus depreciation retroactively by filing IRS Form 3115—a process that does not trigger audits or require amended returns but should be done with professional guidance.

Strategic Benefits of Cost Segregation for Carwash/Gas station Operators

- ***Improved Cash Flow***: Increased early-year deductions free up funds for renovations, staff, and expansion
- ***Faster Return on Investment***: Accelerated deductions shorten the payback period on the property investment

- *Competitive Edge*: More cash allows better maintenance, upgrades, and customer experience improvements

Sale-Leaseback Transactions

Cost Segregation can also be utilized in sale-leaseback deals—where the Carwash/Gas station owner sells the property but leases it back—helping both investors and operators optimize tax benefits and cash flow.

Important Considerations and Limitations

- Tax savings mainly benefit profitable operations; businesses with losses or low income may see less value from accelerated depreciation.
- Selling the property before fully depreciated may trigger *recapture tax*, where accelerated deductions are taxed at higher rates. Tax professionals can help navigate these situations, including 1031 exchanges to defer taxes.

By understanding and implementing Cost Segregation and taking advantage of updated bonus depreciation rules, Carwash/Gas station owners can significantly enhance their tax strategies and financial health, paving the way for sustainable growth and success.