



Field Directive on the Planning and Examination of Cost Segregation Issues in the Biotech/Pharmaceutical Industry

November 28, 2005

**MEMORANDUM FOR INDUSTRY DIRECTORS, LMSB
DIRECTORS, FIELD OPERATIONS
DIRECTOR, FIELD SPECIALISTS
DIRECTOR, PREFILING AND TECHNICAL GUIDANCE
AREA DIRECTORS, SBSE**

FROM: /s/ Henry V. Singleton
Industry Director
Retailers, Food, Pharmaceuticals & Healthcare

/s/ Steve Burgess
Director, Examination, SBSE

SUBJECT: Field Directive on the Planning and Examination of Cost Segregation Issues in the Biotech/Pharmaceutical Industry

Introduction

This memorandum is intended to provide direction to effectively utilize resources in the classification and examination of a taxpayer who is recovering costs through depreciation of tangible property used in the Biotech/Pharmaceutical Industry. This Directive is not an official pronouncement of the law or the position of the Service and cannot be used, cited or relied upon as such.

Background

The crux of cost segregation is determining whether an asset is I.R.C. §1245 property (shorter cost recovery period property) or §1250 property (longer cost recovery period property). The most common example of §1245 property is depreciable personal property, such as equipment. The most common examples of §1250 property are buildings and building components, which generally are not §1245 property.¹

The difference in recovery periods has placed the Internal Revenue Service and taxpayers in adversarial positions in determining whether an asset is §1245 or §1250 property. Frequently, this causes the excessive expenditure of examination resources. The Director for the Retailers, Food, Pharmaceuticals and Healthcare Industry chartered a working group to address the most efficient way to approach cost segregation issues specific to the Biotech/Pharmaceutical industry. The group produced the attached matrix and related definitions as a tool to reduce unnecessary disputes and foster consistent audit treatment.

Planning and Examination Guidance

The Biotech/Pharmaceutical industry matrix recommending the categorization and general depreciation system recovery period of various assets is attached as [Exhibit A](#). (For recovery periods under IRC §168(g) alternative depreciation system, see Revenue Procedure 87-56, 1987-2 CB 674). If the taxpayer's tax return position for these assets is consistent with the recommendations in Biotech/Pharmaceutical matrix ([Exhibit A](#)), examiners should not make adjustments to categorization and recovery periods. If the taxpayer reports assets differently, then adjustments should be considered. The Industry intends to update the Biotech/Pharmaceutical matrix ([Exhibit A](#)) regularly.

See also the Cost Segregation Audit Techniques Guide. Refer especially to Appendix Chapter 6.3, which provides examples and general rules for asset classification.

If you have any questions, please contact either Louis Milano, Technical Advisor, Pharmaceuticals at 908-301-2106, Robert Lento, Engineering & Valuation Group Manager at 908-301-2129, Milton Pagan, SBSE Senior Program Analyst at 619-615-9583, or Ardell Mueller, Senior Program Analyst, Retailers, Food, Pharmaceuticals and Healthcare Industry at 630-493-5946.

¹ I.R.C. §1245 can apply to certain qualified recovery nonresidential real estate placed in service after 1980 and before 1987. See I.R.C. §1245(a)(5).

Attachment: Exhibit A

EXHIBIT A

This matrix, which is part of the Cost Segregation Audit Techniques Guide, is intended to provide direction to effectively utilize resources in the classification and examination of property used in the Biotech/Pharmaceutical industry. General fact patterns specific to this industry have been considered in the classification of these assets and may not be applicable to other industries. Similarly, asset classification guidance issued for other industries is based on the general fact pattern for that industry and may not be applicable to the Biotech/Pharmaceutical industry. For example, for asset classification of restaurants located within a pharmaceutical manufacturing plant, refer to the industry directive for restaurants. For examination techniques and historical background related to this issue, refer to the Cost Segregation Audit Techniques Guide.

CAUTION: In the case of certain leasehold improvement property, the classifications in this directive are superseded to the extent that the American Jobs Creation Act of 2004 modifies IRC Section 168. Thus, a 15-year straight line recovery period should replace the recovery period shown in the following matrix if the asset is "qualified leasehold improvement property" (as defined in IRC Section 168(e)(6)) placed in service by the taxpayer after 10/22/04 and before 1/1/06.

Asset	Property Type	Description	Recovery Period
Awnings & Canopies	1245	Readily removable overhangs or coverings, often of canvas or plastic, used to provide shade or cover over exterior doors or windows. Does not include canopies that are an integral part of a building's structural shell, such as in the casino industry or over docks. See also Concrete Foundations & Footings and Loading Docks.	Personal Property With No Class Life - 7 Years
Breakrooms / Pantries / Lunchrooms	1250	A space within the building used for employee breaks, lunches, etc.	Building or Building Component – 39 Years
Breakrooms / Pantries / Lunchrooms	1245	Equipment such as tables, chairs, dishwashers, stoves, ovens, microwaves, toasters, coffee machines, refrigerators, and freezers.	Personal Property With No Class Life - 7 Years
Bridges & Tunnels	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250. Includes bridges and tunnels and all construction required for their completion (such as excavation, backfill, footings, foundations, piers, stone base, paving, etc.).	00.3 - Land Improvements but see Note 2 for exceptions
Ceilings	1250	All interior ceilings regardless of finish or décor; e.g., drywall or plaster, acoustic, suspended, (including hangers, frames, grids, and tiles or panels), decorative metal or tin, plastic or decorative panels, clouds, etc. See also Clean Room / Climate Controlled Areas.	Building or Building Component – 39 Years
Clean Room / Climate Controlled Areas	1250	Areas created by fully enclosed walls, floors, ceilings, wall and floor coverings, doors, and windows. These are designed to remain in place indefinitely, require substantial time and effort to construct or remove, and integrated into the building's design. These areas are climate controlled for air cleanliness, or temperature or humidity. See also HVAC, Electrical, Plumbing, Gas & Sewer, Ceilings, Floors, Walls, Windows, Doors, Wall	Building or Building Component – 39 Years

		Coverings, and Floor Coverings.	
Clean Room / Climate Controlled Areas - Special Equipment	1245	Special items installed to achieve a controlled environment (air cleanliness, temperature, or humidity) and to operate the facilities in a clean room / climate controlled area (such as special variable power outlets; electric power, air, and vacuum lines; duct work; special air handling units and HEPA filters; refrigeration units, steam boilers, and temperature controls). Does not include building systems used in the operation or maintenance of the building or necessary to provide general building services.	Personal Property - Note 1
Computers	1245	Processors (CPU), direct access storage device (DASD), tape drives, desktop and laptop computers, CRT, terminals, monitors, printers, and other peripheral equipment. Excludes process equipment control systems and computers that are an integral part of building structural components (e.g., fire detection, heating, cooling, or energy management systems, etc.).	00.12 Information Systems – 5 Years
Concrete Foundations & Footings	1250	Foundations and footings necessary for the proper setting of the building. Excavation and backfill for building foundations. Excavation and backfill for special equipment foundations where contained within the footprint of the building. Includes formwork, reinforcement, concrete block, and pre-cast or cast-in-place work.	Building or Building Component – 39 Years
Concrete Foundations & Footings	1250	Foundations and footings for signs, light poles, and other land improvements (except buildings). Includes excavation, backfill, formwork, reinforcement, concrete block, and pre-cast or cast-in-place work.	00.3 - Land Improvements but see Note 2 for exceptions
Concrete Foundations & Footings	1245	A foundation, pad, or footing for machinery or equipment that is so specially designed that it is in essence a part of the machinery or equipment. Any function as a building component must be strictly incidental to the function as an essential part of the item of machinery or equipment that necessitated the special design of the foundation. Increased thickness alone is not sufficient to show that the foundation, pad, or footing is so specially designed that it is in essence a part of the machinery or equipment it supports. Excavation and backfill are not included where the foundation, pad, or footing is contained within the footprint of the building. Includes formwork, reinforcement, concrete block, and pre-cast or cast-in-place work.	Personal Property - Note 1
Data Handling Equipment	1245	Adding and accounting machines, calculators, copiers, and duplicating machines. Excludes computers and computer peripheral equipment. See also Computers.	00.13 Data Handling Equipment, except Computers – 5 Years
Doors	1250	Interior and exterior doors, regardless of decoration (including but not limited to, double opening doors, overhead doors, revolving doors, entrance security gates, or fire doors) and associated hardware (such as doorknobs, closers, kick plates, hinges, locks, automatic openers, etc.).	Building or Building Component – 39 Years
Electrical	1250	All components of a building's or other inherently permanent structure's electrical distribution system(s) used in the operation or maintenance of the building or necessary to provide general building services (such as lighting, heating, ventilation, air conditioning, etc.), electrical outlets of general applicability and	Building or Building Component – 39 Years

		accessibility, and electrical wiring.	
Electrical	1245	Special electrical connections which are necessary to and used directly with a specific item of machinery or equipment or connections between specific items of individual machinery or equipment; such as dedicated electrical outlets, wiring, conduit, and circuit breakers by which machinery and equipment is connected to the building's or other inherently permanent structure's electrical distribution system(s). Does not include electrical outlets of general applicability and accessibility. See Chapter 5 of the Cost Segregation Audit Techniques Guide for allocation examples.	Personal Property - Note 1
Electrical - Light Fixtures - Exterior	1250	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.	Building or Building Component – 39 Years
Electrical - Light Fixtures - Exterior	1245	Lighting that highlights only the landscaping or building exterior (but not parking areas or walkways) and does not relate to the operation or maintenance of the building.	Personal Property With No Class Life - 7 Years
Electrical - Light Fixtures - Exterior	1250 / 1245	Pole mounted or freestanding outdoor lighting system to illuminate sidewalks, parking or recreation areas. See also Poles & Pylons.	00.3 - Land Improvements but see Note 2 for exceptions
Electrical - Light Fixtures - Interior	1250	Includes lighting such as recessed and lay-in lighting, night lighting, and exit lighting, as well as decorative lighting fixtures that provide substantially all the artificial illumination in the building or along building walkways. For emergency and exit lighting, see Fire Protection & Alarm Systems.	Building or Building Component – 39 Years
Electrical - Light Fixtures - Interior	1245	Light fixtures, such as neon, track lighting, or grow lights which are decorative in nature and not necessary for the operation or maintenance of the building. If the decorative lighting were turned off, the other sources of lighting would provide sufficient light for operation or maintenance of the building. If the decorative lighting is the primary source of lighting, then it is section 1250 property.	Personal Property With No Class Life - 7 Years
Electrical - Light Fixtures - Special Use	1245	Special light fixtures which are necessary to and used directly with a specific item of machinery or equipment, manufacturing process, or research and experimentation activity. Does not include light fixtures that relate to the operation or maintenance of the building.	Personal Property - Note 1
Elevators & Escalators	1250	Elevators and escalators, including all components thereof (e.g., handrails and smoke baffles), which are permanently affixed to the building and designed to remain in place. They relate to the operation or maintenance of the building and are structural components.	Building or Building Component – 39 Years
Energy Management Systems	1250	Energy management systems to monitor or maximize the efficiency of building systems (such as HVAC, lighting, fire protection and security systems) by starting and stopping the systems, raising and lowering temperatures, regulating dampers and valves, adjusting lighting levels, alerting employees to problems, etc. Includes detection devices such as smoke, motion, and infrared devices, photocells, foil and contact switches, pressure switches, proximity	Building or Building Component – 39 Years

		alarms, sensors, alarm transmitting controls, data gathering panels, demand controllers, thermostats, computer controls, outside air economizers, occupancy sensors, electronic ballasts, and all related wiring and conduit.	
Energy Management Systems	1245	Energy management systems to monitor or maximize the efficiency of non-building systems by starting and stopping process equipment, regulating equipment air handlers, detecting chemical leaks or equipment operating temperatures, monitoring power quality, etc. Includes sensors, alarm transmitting controls, data gathering panels, demand controllers, thermostats, computer controls, outside air economizers, and related wiring and conduit for the non-building energy management system.	Personal Property - Note 1
Fencing, Retaining Walls, Screen Walls, Fountains & Other Land Improvements.	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250 property. Examples include fences; canals; waterways; drainage facilities; sewers (not including municipal sewers in Class 51); retaining walls; water falls and fountains; holding, settling, or detention ponds; and irrigation systems.	00.3 - Land Improvements but see Note 2 for exceptions
Fire Protection & Alarm Systems	1250	Fire protection and alarm systems for the protection of the building. Includes sensing devices, computer controls, sprinkler heads, associated piping or plumbing, pumps, visual and audible alarms, alarm control panels, heat and smoke detection devices, fire escapes, fire doors, emergency exit lighting and signage, and cabinets (regardless of mounting) holding fire fighting equipment such as fire extinguishers, fire hoses, etc.	Building or Building Component – 39 Years
Fire Protection Equipment	1245	Special fire detection or suppression systems (such as Halon or Carbon Dioxide, etc.) directly associated with a piece of equipment or process. Fire extinguishers and related fire extinguisher cabinets designed and used for protection against a particular hazard created by a business activity. See Restaurant Industry Directive for restaurants, cafeterias, or other commercial food preparation areas.	Personal Property - Note 1
Floor Coverings	1250	Floor covering affixed with permanent adhesive, nailed, or screwed in place. Includes marble, paving brick, ceramic or quarry tile, and other coverings cemented, mudded, or grouted to the floor; vinyl composition tile (VCT), sheet vinyl, carpeting, or wood attached with permanent adhesive, nails, or screws; and paint, epoxy, coatings and sealers directly applied to the floor.	Building or Building Component – 39 Years
Floor Coverings	1245	Floor covering that is installed by means of strippable adhesives and can be 1) readily removed and remain in substantially the same condition after removal as before, or 2) moved and reused, stored, or sold in its entirety.	Personal Property - Note 1
Floors	1250	Includes concrete slabs and other floor systems. Floors include special treatments applied to or otherwise a permanent part of the floor. For example "super flat" finish, sloped drainage basins, raised perimeter, cooler, freezer and garbage room floors. Does not include special foundations - see Concrete Foundations & Footings.	Building or Building Component – 39 Years
Floors	1245	Raised false floors located in a limited area and installed over an existing floor to accommodate	Personal Property - Note 1

		specific equipment. Such floors are a necessary part of the installation and operation of the specific equipment they accommodate. Removal of these floors does not result in extensive renovations or loss of functionality within the building.	
Gas & Sewer	1250	All components of a building's or other inherently permanent structure's natural gas distribution system and sewer collection system used in the operation or maintenance of the building or necessary to provide general building services, e.g., hot water and hot air (natural gas) and waste removal (sewer).	Building or Building Component – 39 Years
Gas & Sewer	1245	Special natural gas and sewer connections which are necessary to and used directly with a specific item of machinery or equipment or connections between specific items of individual machinery or equipment. Includes dedicated piping, valves, and hook-ups by which machinery and equipment are connected to the building's or other inherently permanent structure's natural gas distribution system(s) or sewer collection system(s). Does not include natural gas or sewer connections of general applicability and accessibility.	Personal Property - Note 1
Gas & Sewer - Special Gas Systems	1245	Special gas systems separate from the building's or other inherently permanent structure's natural gas system which are used in a manufacturing process or research and experimentation activity. Special gas would include carbon dioxide, pure oxygen, nitrogen, argon, etc. Includes filters, tanks, pumps, specialized piping, valves, and end use connections.	Personal Property - Note 1
Gas & Sewer - Special Waste Systems	1245	Special waste or sewer systems separate from the building's or other inherently permanent structure's sewer collection system which are used in a manufacturing process or research and experimentation activity. Special waste would include toxic, bio-hazard, nuclear, and medical. Includes filters, tanks, pumps, specialized piping and valves.	Personal Property - Note 1
Heating, Ventilating, Air Conditioning (HVAC)	1250	All components of a building's or other inherently permanent structure's central heating, ventilating and air conditioning distribution system(s) used in the operation or maintenance of the building or necessary to provide general building services such as forced cool and hot air, ventilation, ductwork, air handlers, exchangers, baffles. HVAC systems that are installed not only to meet the temperature and humidity requirements of machinery, but are also installed for additional significant purposes, such as employee comfort and ventilation, are building components.	Building or Building Component – 39 Years
Heating, Ventilating, Air Conditioning (HVAC)	1245	Special and separate 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 used in connection with research or experimentation). 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. Includes refrigeration units, condensers, compressors, accumulators, coolers, pumps, connecting pipes, and wiring for the mechanical equipment for climate controlled rooms, walk-in freezers, and coolers. See	Personal Property - Note 1

		also Clean Room / Climate Controlled Areas. Allocation of HVAC is not appropriate.	
HVAC - Hot or Chilled Water Systems	1250	All components of a building's or other inherently permanent structure's hot or chilled water system(s) used in the operation or maintenance of the building or necessary to provide general building services associated with the heating, ventilating, and air conditioning system(s). Includes boilers, chillers and cooling towers, pumps, valves, heat exchangers, air handling units, piping (both source and return), etc. See also Heating, Ventilating, Air Conditioning (HVAC).	Building or Building Component – 39 Years
Industrial Steam & Electric Generating Systems	1250 / 1245	Depreciable assets, whether such assets are section 1245 property or 1250 property, used in the production and/or distribution of electricity with rated total capacity in excess of 500 Kilowatts and/or assets used in the production and/or distribution of steam with rated total capacity in excess of 12,500 pounds per hour for use by the taxpayer in its industrial manufacturing process or plant activity and not ordinarily available for sale to others. Does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. See Asset Class 00.4 in Rev. Proc. 87-56.	00.4 Industrial Steam and Electric Generation and/or Distribution Systems - 15 Years
Interstitial Areas, Catwalks and Mezzanines	1250	Interstitial areas created by fully enclosed decks and walls between functional floors of a building, catwalks and mezzanines that provide access to various sections or levels of the building, or provide more than incidental working space. Designed to remain in place indefinitely, require substantial time and effort to construct or remove and integrated into building design.	Building or Building Component – 39 Years
Interstitial Areas, Catwalks and Mezzanines	1245	Interstitial areas created by fully enclosed decks and walls between functional floors of a building, catwalks and mezzanines designed and constructed only to provide access to inspect, repair, or operate specific items of machinery or equipment.	Personal Property - Note 1
Landscaping & Shrubbery	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250 property. Examples include landscaping, shrubbery, trees, and sod.	00.3 - Land Improvements but see Note 2 for exceptions
Loading Docks	1250	Bumpers, permanently installed dock levelers, plates, seals, lights, canopies, docks, and overhead doors used in the receiving and shipping of supplies and raw materials, work in process, and finished products inventories.	Building or Building Component – 39 Years
Machinery & Equipment	1245	Tangible personal property, not covered elsewhere, which is in the nature of machinery or equipment. Includes a structure which is essentially an item of machinery or equipment if the use of the structure is so closely related to the use of such property that the structure clearly can be expected to be replaced when the property it initially houses is replaced. Factors which indicate that a structure is closely related to the use of the property it houses include the fact that the structure is specifically designed to provide for the stress and other demands of such property and the fact that the structure could not be economically used for other purposes. Includes such structures as oil and gas storage tanks, grain storage bins, silos, fractionating towers, blast furnaces, basic oxygen	Personal Property - Note 1

		furnaces, coke ovens, brick kilns, and coal tipples. Does not include structural components of a building or other inherently permanent structure. See also Plumbing; Electrical; Heating, Ventilating, Air Conditioning (HVAC); and Elevators & Escalators.	
Millwork	1250	General millwork is all building materials made of finished wood (e.g., doors and frames, window frames, sashes, porch work, mantels, panel work, stairways, and special woodwork). Includes pre-built wooden items brought to the site for installation and items constructed on site (such as restroom cabinets, door jambs, moldings, trim, etc.).	Building or Building Component – 39 Years
Millwork	1245	Decorative millwork is the decorative finish carpentry in a building. Examples include detailed crown moldings, and lattice work placed over finished walls or ceilings. The decorative millwork serves to enhance the overall décor of the building and is not related to the operation of the building. Excludes cabinets and counters in a restroom. See also Restroom Accessories.	Personal Property With No Class Life - 7 Years
Office Furnishings	1245	Desks, chairs, credenzas, file cabinets, tables, bookcases, coat racks, projection screens, and other office furniture such as workstations. Also includes telephone equipment, fax machines, and other communications equipment. Does not include communications equipment included in other asset classes in Rev. Proc. 87-56.	00.11 Office Furniture, Fixtures, and Equipment – 7 Years
Parking Lots	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250. Grade level surface parking and base area usually constructed of asphalt, brick, concrete, stone or similar material. Also includes bumper blocks, curb cuts, curb work, striping, concrete landscape islands, truck parking ramps and staging areas, and traffic control systems (such as traffic lights and detectors, card readers, parking equipment, etc.). See also Roadways.	00.3 - Land Improvements but see Note 2 for exceptions
Parking Structures	1250	Any structure or edifice the purpose of which is to provide parking space. Includes garages, parking ramps, or other parking structures.	Building or Building Component – 39 Years
Plumbing	1250	All components of a building's or other inherently permanent structure's plumbing distribution system(s) used in the operation or maintenance of the building or necessary to provide general building services such as drains, valves, water flow switches, restroom plumbing fixtures (e.g., toilets) and piping, electric water coolers, and sprinkler mains and heads. See also Gas & Sewer.	Building or Building Component – 39 Years
Plumbing	1245	Special plumbing connections which are necessary to and used directly with a specific item of machinery or equipment or connections between specific items of individual machinery or equipment. Includes dedicated piping, valves, and hook-ups by which machinery and equipment is connected to the building's or other inherently permanent structure's plumbing distribution system(s). Does not include plumbing hook-ups of general applicability and accessibility.	Personal Property - Note 1
Plumbing - Special Water Systems	1245	Special water systems separate from the building's or other inherently permanent structure's plumbing systems which are used to produce specialty water such as deionized water (DI) or water for injection (WFI) which is required in a manufacturing process or	Personal Property - Note 1

		research and experimentation activity. Includes filters, tanks, pumps, specialized piping, valves, and end use connections.	
Poles & Pylons	1250 / 1245	Poles made of metal or similar material usually set in concrete footings or bolt-mounted to concrete piers. Their use is for supporting parking area lights, signage, flags, etc. Pylons made of concrete, brick, wood frame and stucco, or similar materials usually set in the ground or on a concrete foundation, and usually used for signage. Note* asset class 00.3 Land improvements includes both section 1245 and 1250 property per Rev. Proc. 87-56. See also Signs and Electrical – Light Fixtures – Exterior.	00.3 - Land Improvements but see Note 2 for exceptions
Restaurant / Cafeteria - In Facility		Facilities that include a restaurant, cafeteria or other commercial food preparation property such as a deli or snack bar.	See Restaurant Industry Directive
Restroom Accessories	1250	Paper towel dispensers, electric hand dryers, towel racks or holders, cup dispensers, purse shelves, toilet paper holders, soap dispensers or holders, lotion dispensers, sanitary napkin dispensers and waste receptacles, coat hooks, handrails, grab bars, mirrors, shelves, vanity cabinets, counters, ashtrays, and other items that are built into or mounted on walls or partitions.	Building or Building Component – 39 Years
Restroom Partitions	1250	Shop made and standard manufacture toilet partitions.	Building or Building Component – 39 Years
Retail Store - In Facility		A retail store or employee outlet, used to sell merchandise (such as company products, newspapers, magazines, film and digital images, etc.).	See Retail Industry Directive
Roadways	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250. Grade level driveways, roads, and base areas usually constructed of asphalt, brick, concrete, stone or similar material. Also includes guard rails, curb cuts, and curb work.	00.3 - Land Improvements but see Note 2 for exceptions
Roof	1250	All elements of the roof including but not limited to joists, rafters, deck, shingles, vapor barrier, skylights, trusses, girders, and gutters. Determination of whether decorative elements of a roof (e.g., false dormers, mansard) constitute structural building components depends on their integration with the overall roof, not their load bearing capacity. If removal of the decorative element results in the direct exposure of building components to water, snow, wind, or moisture damage, or if the decorative element houses lighting fixtures, wiring, or other structural components, then the decorative elements are part of the overall roof system and are structural components of the building.	Building or Building Component – 39 Years
Security Systems	1250	Security equipment for the protection of the building (and its contents) from burglary or vandalism and protection of employees from assault. Examples include window and door locks; card key access systems; keyless entry systems; security cameras, recorders, monitors and related equipment; perimeter and interior building motion detectors; security lighting; alarm systems; and security system wiring and conduit.	Building or Building Component – 39 Years
Security Systems	1245	Electronic surveillance systems used to track and	Personal Property -

		monitor tangible items, e.g., raw materials, work in process, and finished products inventories. Includes scanners, electronic gates, surveillance cameras, recorders, monitors and related equipment.	Note 1
Sidewalks & Curbs	1250 / 1245	Depreciable improvements directly to or added to land, whether such improvements are section 1245 or 1250. Sidewalks and curbs are usually constructed of concrete, asphalt, stone or similar material.	00.3 - Land Improvements but see Note 2 for exceptions
Signs	1250	Exit signs, restroom identifiers, room numbers, fire lanes, building identification, and other signs relating to the operation or maintenance of a building.	Building or Building Component – 39 Years
Signs	1245	Interior signs used to display directories of names, departments, etc. Not related to the operation or maintenance of a building. Exterior signs used to display names, symbols, directions, etc. For pylon signs, includes only the sign face and related dedicated wiring. See also Poles & Pylons.	Personal Property With No Class Life - 7 Years
Site Preparation, Grading & Excavation	N/A	Nondepreciable land preparation costs, in general, include the one time cost of demolition, clearing and grubbing, blasting, site stripping, fill or excavation, dewatering, and grading to allow development of land. Clearing and grubbing is the removal of debris, brush, trees, etc. from the site. Stripping is the removal of the topsoil to provide a stable surface for site and building improvements. The grading of land involves moving soil for the purpose of producing a more level surface to allow development of the land. These costs would not have to be incurred if the building was repaired, rebuilt, or even torn down and replaced with some other type of building.	Land - Not Depreciable
Site Preparation, Grading & Excavation	1250	Depreciable clearing, grading, excavating and removal costs directly associated with and necessary for the proper setting of the building and building components are part of the cost of construction of the building. See also Concrete Foundations & Footings.	Building or Building Component – 39 Years
Site Preparation, Grading & Excavation	1250	Depreciable 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.	00.3 - Land Improvements but see Note 2 for exceptions
Site Utilities	1250	Site utilities begin where the responsibility rests with the taxpayer and not the utility company which is providing the service. Site utilities end at either a building or other permanent structure. Site utilities also include any distribution systems between buildings or other permanent structures. The cost of the site utilities would not have to be incurred if the building or other permanent structure was repaired, rebuilt, or even torn down and replaced with some other type of building. Typically the utilities provided would be electricity, natural gas, water, sewer, and steam. See also Electrical, Plumbing, and Gas & Sewer.	Building or Building Component – 39 Years
Site Utilities	1250	Drainage facilities and sewers that are not municipal sewers.	00.3 - Land Improvements but see Note 2 for exceptions
Sound Systems	1245	Equipment and apparatus, including wiring, used to provide amplified sound or music (e.g., public address by way of a paging system or background music).	Personal Property With No Class Life - 7 Years

		Excludes applications linked to fire protection and alarm systems.	
Trash Enclosures	1250	Enclosures attached to the building for waste receptacles. Typically constructed of the same materials as the building shell with either interior or exterior access. These trash enclosures are an integral part of the building shell and cannot be moved without damage to the underlying building.	Building or Building Component – 39 Years
Trash Enclosures	1250	Freestanding enclosures, typically constructed on a concrete pad with its posts set in the concrete, for waste receptacles. Serves both safety and decorative functions.	00.3 - Land Improvements but see Note 2 for exceptions
Wall Coverings	1250	Includes interior and exterior paint; ceramic or quarry tile, marble, stone, brick, and other finishes affixed with mortar, cement, or grout; paneling, wainscoting, and other wood finishes affixed with nails, screws, or permanent adhesives; sanitary finishes such as Fiberglass Reinforced Plastic (FRP), stainless steel, or plastic; sound absorbing or fabric wall panels; and wall protection (such as bumpers, corner guards, etc.).	Building or Building Component – 39 Years
Wall Coverings	1245	Strippable wallpaper that causes no damage to the underlying wall or wall surface.	Personal Property With No Class Life - 7 Years
Walls - Exterior	1250	All exterior walls and building support regardless of construction materials. Exterior walls may include columns, posts, beams, girders, curtain walls, tilt up panels, studs, framing, sheetrock, insulation, windows, doors, exterior façade, brick, masonry, etc.	Building or Building Component – 39 Years
Walls - Interior	1250	All load bearing interior partitions regardless of construction. Also includes non-load bearing partitions regardless of height (typically constructed of studs and sheetrock or other materials) that divide or create rooms or provide traffic control. Includes rough carpentry and finishes such as plaster, dry wall, gypsum board, concrete block, glass, or metal.	Building or Building Component – 39 Years
Walls - Interior	1245	Interior walls where the partition can be 1) readily removed and remain in substantially the same condition after removal as before, or 2) moved and reused, stored, or sold in their entirety.	Personal Property With No Class Life - 7 Years
Window Treatments	1245	Window treatments which are readily removable such as drapes, curtains, louvers, blinds, post construction tinting, etc.	Personal Property With No Class Life - 7 Years
Windows	1250	Exterior and interior windows.	Building or Building Component – 39 Years

NOTES

Note 1: The recovery period depends on the use of the property. See the Cost Segregation Audit Techniques Guide Appendix Chapter 6.3 for examples and application of the asset classification rules of Revenue Procedure 87-56 activity classes 01.1 to 80.0 or "Certain Property for Which Recovery Periods Assigned" letters A through E at the end of Revenue Procedure 87-56.

Note 2: Land improvements are included in some activity classes in Revenue Procedure 87-56. See the Cost Segregation Audit Techniques Guide Appendix Chapter 6.3 for examples and application of the asset classification rules of Revenue Procedure 87-56.

CAUTION: In the case of certain leasehold improvement property, the classifications in this directive are superseded to the extent that the American Jobs Creation Act of 2004 modifies IRC Section 168. Thus, a 15-

year straight line recovery period should replace the recovery period shown in the above matrix if the asset is "qualified leasehold improvement property" (as defined in IRC Section 168(e)(6)) placed in service by the taxpayer after 10/22/04 and before 1/1/06.