

# Data Center Dangers

Strategic Depreciation  
and Tax Planning



Data center construction is [expanding rapidly](#) across the U.S., driven by surging artificial intelligence (AI) adoption and the resulting need for computing power. Investment is accelerating alongside construction, with annual data center project spending reaching \$14 billion in July 2025 — a 100% [increase over the prior year](#).

Comprehensive tax and financial forecasting helps prevent overspending and leaving potential savings on the table, making it essential for projects with such high levels of investment. Depreciation planning plays a central role in those efforts because data centers contain numerous [specialized and redundant systems](#), all of which depreciate at different rates. Neglecting to account for those differences can cause companies to miss strategic tax planning opportunities and could increase their overall tax burdens.

This installment of BDO's [Data Center Dangers](#) series explores how facility owners can leverage cost segregation analyses to help conduct depreciation planning, reduce their total tax liability, and capture all available tax savings.



# Understanding Depreciation Schedules

At a basic level, depreciation is the act of expensing the cost of an asset over its usable life. Under federal tax rules, nonresidential real property, such as commercial property, is expensed over 39 years, but some individual building elements can be depreciated using five-, seven-, or 15-year recovery periods. Assigning the appropriate depreciation methods and recovery periods to property is crucial because depreciation can significantly affect after-tax costs and long-term project economics.

Data centers combine real estate, industrial infrastructure, and advanced technology systems under one roof. Because those elements depreciate at different rates, depreciation planning can be more complex for data centers than other commercial projects such as office building or retail spaces.

Recent tax law changes add another layer of complexity to depreciation planning. The [One Big Beautiful Bill Act](#) (OBBBA), passed in 2025, restored 100% bonus depreciation, which had been slated to sunset. Bonus depreciation allows companies to immediately deduct 100% of the purchase price of eligible assets, so its reinstatement opens the door to substantial savings for data center owners that set themselves up to claim them.

Tangible property, computer software, and other assets with a class life of no more than 20 years — categories that encompass many of a data center's systems — are eligible for bonus depreciation. Common data center assets that fall under this umbrella include specialized components (for instance, electrical and HVAC systems), as well as office equipment, such as computers and AI chips.

Bonus depreciation eligibility also extends beyond new construction. Many data center projects involve renovations to existing structures, which can be treated as 15-year, bonus eligible qualified improvement property (QIP).

However, data center owners must also consider state-level variations on bonus depreciation. California, for instance, does not conform to federal bonus depreciation rules. Further, states must determine whether they will decouple from the OBBBA, with several states having already decoupled in whole or part. Those decisions will affect bonus depreciation options for data centers.

To take advantage of depreciation opportunities and maintain compliance with state tax filing standards, data center owners need to know how much money they are spending on each depreciable asset. Conducting a cost segregation analysis allows companies to itemize individual project expenses and gain full visibility into their depreciation options.

## WHAT IS QUALIFIED IMPROVEMENT PROPERTY (QIP)?

Some building or structural upgrades, known as QIP, are depreciable over 15 years, making them eligible for 100% bonus depreciation. But QIP comes with its own nuances that businesses must understand. Elevators, building expansions, or any exterior improvements **do not count as QIP**, while electrical systems, flooring, and HVAC systems inside a building — all common to data center projects — might qualify.

State conformity related to QIP also varies. For example, consistent consistent with its decoupling from federal bonus depreciation rules, California also does not recognize QIP as 15-year property. As such, data centers in California risk losing both federal QIP treatment and the ability to properly classify five-year property for state purposes unless they conduct a cost segregation analysis. Doing so will allow them to break out costs in a format that is acceptable to federal and state taxing authorities, allowing for greater tax planning flexibility.

A woman with blonde hair in a bun, wearing a light blue button-down shirt, is seen from behind, working on a server rack in a data center. She is holding a red cable. The server racks are filled with equipment and cables, with some green lights visible. The background is dark, and the overall scene is lit with a cool, blue-toned light.

# Cost Segregation Analysis

Cost segregation is a tax planning technique that can increase cash flow by accelerating the federal tax depreciation of construction-related assets over five-, seven-, and 15-years instead of 27.5 or 39 years. By breaking out individual costs rather than grouping them all together, data center owners can make more strategic tax planning decisions regarding when and how to depreciate an asset. Without a cost segregation study, property with a tax depreciable recovery period of less than 20 years might be classified alongside longer-lived assets, eliminating eligibility for bonus depreciation and forfeiting potential tax savings.

A final cost segregation study cannot occur until a project is completed, but companies should start preliminary analyses at the outset. Breaking out costs early in the process can reduce the need for retroactive work and allow for more precise spend tracking than a price tag that does not include per-item details. Ideally, owners should work with their general contractors — who will have the highest level of line-by-line cost visibility — to break out costs within initial construction contracts.

From there, owners can elect into or out of bonus depreciation by class life, depending on their business and tax planning priorities. They can also use the cost segregation to properly classify spending categories for other federal and state tax purposes, as well as general financial planning and recordkeeping. For example, a company might not elect to take 100% bonus depreciation for every piece of data center property. Instead, it might choose to forgo bonus depreciation for specific asset classes to better align with business priorities such as cash flow or anticipated future income. Making such strategic decisions is not possible without a robust cost segregation analysis that assigns accurate dollar values to each asset category.

# How BDO Can Help

**BDO can help data center owners and operators looking for support for tax planning and depreciation.**

We have deep experience with cost segregation analyses and can help you perform a preliminary evaluation at the start of your project, then reconcile your initial projections with final costs at the project's end. We can also help you understand how depreciation factors into your broader tax planning efforts. Our professionals have in-depth knowledge of both state and federal tax codes and can work with your teams to help verify that you are meeting all compliance obligations and incentive requirements.

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