CPA PARTNER BRIEF

Form 3115 mechanics, the section 481(a) computation and how we hand off.

Written for preparers. If you are being asked about a cost segregation study for a client, this covers what you need to evaluate the work and file the return.

Method change, not amendment

Depreciation claimed on an impermissible method for two or more consecutive years is a method of accounting under the regulations. Corrections are made prospectively on Form 3115, not by amending. Changing from an impermissible to a permissible method of depreciation is generally an automatic change (commonly designated change number 7), requiring no advance consent and no user fee.

The section 481(a) computation

Cumulative difference between depreciation claimed and depreciation that would have been claimed under the correct method from the placed-in-service date. A negative adjustment is taken entirely in the year of change; a positive adjustment is generally spread over four years. Cost segregation look-backs produce negative adjustments.

The technical point most often missed

The recomputation must apply the bonus depreciation percentage in effect for the placed-in-service year — 50%, 100%, 80%, 60%, 40% or 100% depending on the year — not the current rate applied retroactively. Ask to see the year-by-year schedule.

What you should receive from any study firm

- Methodology statement naming the costing method used
- Reconciliation of total costed to capitalised basis, with indirect costs allocated
- Asset detail by recovery period and placed-in-service date, in an importable format
- Legal basis and citation for each classification category
- Photographic record of the site inspection
- Section 1245 versus 1250 identification
- Land carve-out documentation
- Form 3115 with required statements and both filing instructions
- State conformity notes for each state of filing

Screen these before filing

- Passive activity position — section 469, REP status under 469(c)(7), the seven-day rule for short-term rentals
- Basis and at-risk limits for pass-through owners
- Excess business loss limitation under section 461(l)

- Section 163(j)(7) election — requires ADS on real property and removes bonus eligibility
- Mid-quarter convention test where bonus is elected out
- State bonus decoupling and any addback requirement
- Both Form 3115 filings: with the return, and the separate copy

How we work with preparers

You keep the client. We deliver the study, the asset detail, the Form 3115 and the 481(a) computation, and we answer your questions directly at no additional charge. If the return is examined we support the position at our cost. Most of our work arrives through accountants and stays with them.
