



LOOK-BACK STUDY HAVE BENEFITS BUT ALSO PRESENT UNIQUE QUESTIONS

Cost segregation questions are not just for current construction projects. You likely have a client who could benefit from a look back study – and those produce their own set of issues. We can help. Just look at the scenario below.

A CPA partner had a client who acquired a new nursing home client and the CPA firm was completing the previous year's taxes. There was a transfer of fixed assets between Partnerships during that time. Our partner knew it was too late to have a study done to be effective 1/1/16 but wondered:

If we embarked on a study and filed 3115 with the 2017 return, could we take 481(a) adjustment on the operating entity (Partnership A) for depreciation from 1/1/13 – 9/30/16 and take 10/1/16 – 12/31/16 portion of adjustment on the rental real estate entity (Partnership B)?

Partnership A could file for an accounting method change to reclassify the property even though they would have legally disposed of it through the transfer to Partnership B. Under Rev. Proc. 2017-30, §6.07, a taxpayer may make a change in method of accounting for depreciation for the disposed property if the taxpayer used an impermissible method of accounting for depreciation for the property under which the taxpayer took less than the depreciation allowable in the year of change or any prior taxable year. The year of change will be 2016, the year in which the property was disposed of by Partnership A. Therefore, under 6.07(3)(b), Partnership A will have to file an amended return for 2016 to implement the change in method of accounting.

It is also dependent on how the transfer occurred. If it was an arms-length sale between the two entities, then file the amended return under §6.07. However, if Partnership A distributed the property to the partners under §§731 & 732, and those partners then contributed the property to Partnership B under §§721 & 723, under §168(i)(7)

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Partnership B would be treated as essentially stepping into the shoes of Partnership A for purposes of determining the depreciation deduction under §168. Then, under Rev. Proc. 2007-16, §2.05, Partnership B (the transferee) may file a Form 3115 to change from an impermissible method of accounting adopted by the transferor to a permissible method of accounting, provided the impermissible method of accounting for that portion of the basis of the property has not been changed by the transferor or the IRS.

Under Rev. Proc. 2007-16, §3.02(2), Partnership B would still have to file an amended return for 2016, but it may be a much easier process than filing an amended return for Partnership A.

When you partner with Scarpello Consulting, you gain access to our expert team of CPAs, tax attorneys and engineers for any question that may arise. We are here to share our wealth of experience with you.

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**What is your cost segregation question?
Ask us today: 877.410.5040**



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Launched in 2001, Scarpello Consulting provides cost segregation services that allow clients to maximize their depreciation deductions while minimizing audit risk. The firm works with Fortune 500 companies and some of the largest national CPA firms through their multiple offices in Omaha, NE, Overland Park, KS, Sarasota, FL, and Denver, CO.