



SERVICE BUILDING DEPRECIATION

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Would NEW CONSTRUCTION ON AUTOMOTIVE DEALERSHIP BUILDINGS be classed with a 15 year based on BDOK or 39 year based on Revenue Procedures 87-56? And what are your thoughts and what are the parameters for claiming a “Service Building” with a 15 year life with Bonus Depreciation?

Under Chief Counsel Advice 201123001, it does appear that some service buildings may qualify under Rev. Proc. 87-56, Asset Class 57.1 as 15-year property eligible for bonus depreciation.

However, under IRC §6110(k)(3), a written determination may not be used or cited as precedent. That means that you could have the exact same fact pattern as that addressed in the CCA, and the IRS could still say no, take you to the tax court, and win.

Furthermore, the CCA has been redacted, so it is impossible to determine to any degree the level of fuel, oil, lube, and other petroleum products sold as part of the maintenance and repair business analyzed.

A subsequent CCA 201509029 makes it clear that there is still a required level of fuel and oil sales needed to qualify under Asset Class 57.1.

Accordingly, we conclude that sales of gasoline and/or diesel fuel are required in order for a building that possesses the traditional attributes of a service station to be a “service station building” within the meaning of asset class 57.1 of Rev. Proc. 87-56.

The test that must be satisfied in order to qualify under 57.1 is: (1) 50 percent or more of the gross revenues that are generated from the property are derived from petroleum sales, or (2) 50 percent or more of the floor space in the property is devoted to petroleum marketing sales.

Gross revenue from the sale of petroleum products does not include gross revenue from related services, such as the labor cost of oil changes, and the floor space devoted to the sale of petroleum products does not include the floor space devoted to related services, such as oil changes. See 2017-30, §6.01(3)(b)(vi).

If the service centers can satisfy either prong of this test, then you could take advantage of the 15-yr recovery period and bonus depreciation under 57.1 & 168(e)(3)(E)(iii).

