

Form 3115 and §481(a) Adjustments

Revenue Procedures ("Rev. Procs.") 2014-16 and 2014-54 were released in 2014. These Rev. Procs. provide procedures and guidance in making the automatic changes under the final repair regulations released in September, 2013. Rev. Proc. 2014-16 provides automatic method change procedures regarding materials & supplies and costs to acquire, maintain or improve property. Rev. Proc. 2014-54 provides guidance under the final regulations for automatic changes regarding dispositions.

Taxpayers can make the automatic method changes on one Form 3115 as long as specific information (see following sections) for each change is disclosed. Taxpayers are not required to net positive and negative 481(a) adjustments related to an identified unit of property, thereby allowing the taxpayer the benefit of the negative adjustment in the year of change while the positive adjustment can be spread over four years.

To obtain automatic consent to change to a method of accounting under these Rev. Procs., a taxpayer whose average annual gross receipts for the three preceding tax years is less than or equal to \$10 million must complete only the following information on Form 3115:

- (1) The identification section of page 1 (above Part I);
- (2) The signature section at the bottom of page 1;
- (3) Part I, line 1(a);
- (4) Part II, all lines except lines 11, 13, 14, 15, and 17;
- (5) Part II, line 13, if the change is to depreciating property;
- (6) Part IV, lines 25 and 26; and
- (7) Schedule E, if applicable.

All other taxpayers must complete Form 3115, and include:

- (1) The citation to the paragraph of the final tangible property regulations or temporary tangible property regulations that provides for the proposed method, or methods, of accounting to which the taxpayer is changing;
- (2) If the taxpayer is changing the method of determining any unit(s) of property or, in the case of a building, is changing the identification of any building structure(s) or building system(s) for purposes of determining whether amounts are deducted as repair and maintenance costs or capitalized as improvement costs, the taxpayer must include a detailed description of the unit(s) of property, building structure(s), or buildings system(s) used under its present method of accounting and a detailed description of the unit(s) of property, building structure(s), and building system(s) under its proposed method of accounting, together with a citation to the paragraph of the final regulation or temporary regulation under which the unit of property is permitted; and
- (3) A taxpayer changing its method of accounting to capitalizing amounts paid or incurred and to depreciating such property must complete Schedule E of Form 3115.

In many cases, the 481(a) adjustment may be zero if the change is to take effect January 1, 2014.

The following table summarizes the automatic changes in Rev. Procs. 2014-16 & 2014-54. The table describes the designated automatic change number ("DCN"), the citation and if the change results in a Section 481(a) adjustment or a modified Section 481(a) adjustment.

DCN	Description of Change	Citation	Section 481(a) Adjustment
175	Depreciation of leasehold improvements.	Reg. § 1.167(a)-4T)	Cumulative 481(a)
176	Permissible to permissible method of accounting for depreciation of MACRS property –superseded by DCN 200.	N/A	
177	Disposition of a building or structural component.	Reg. § 1.168(i)-8T	Cumulative 481(a)

178	Disposition of tangible depreciable assets (other than building or structural components).	Reg. § 1.168(j)-8T	Cumulative 481(a)
179	Dispositions of tangible depreciation assets in a general asset account.	Reg. § 1.168(j)-8T	Cumulative 481(a)
180	General asset account elections.	Reg. § 1.168(j)-1T	Cumulative 481(a)
184	Deducting repair and maintenance costs, or capitalizing and depreciating improvements to tangible property.	Reg. § 1.162-4 and Reg. § 1.263(a)-3	Cumulative 481(a)
185	Change to the regulatory accounting method.	Reg. § 1.263(a)-3(m)	Modified Section 481(a)
186	Deducting non-incident materials and supplies when used or consumed.	Reg. § 1.162-3(a)(1) and Reg. § 1.162-3(c)(1)	Modified Section 481(a)
187	Deducting incidental materials and supplies when paid or incurred.	Reg. § 1.162-3(a)(2) and Reg. § 1.162-3(c)(1)	Modified Section 481(a)
188	Deducting non-incident rotatable and temporary spare parts when disposed of.	Reg. § 1.162-3(a)(3) and Reg. § 1.162-3(c)(2)	Modified Section 481(a)
189	Change to the optional method for rotatable and temporary spare parts.	Reg. § 1.162-3(e)	Cumulative 481(a)
190	Change by a dealer in property to deduct commissions and other transaction costs that facilitate the sale of property.	Reg. § 1.263(a)-1(e)(2)	Cumulative 481(a)
191	Change by a non-dealer in property to capitalizing commissions and other costs that facilitate the sale of property.	Reg. § 1.263(a)-1(e)(1)	Cumulative 481(a)
192	Capitalizing and depreciating acquisition or production costs.	Reg. § 1.263(a)-2	Cumulative 481(a)

193	Deducting certain costs for investigating or pursuing the acquisition of real property.	Reg. § 1.263(a)-2(f)(2)(iii)	Modified Section 481(a)
196	Late partial disposition election.	Reg § 1.168(i)-8(d)	Modified Section 481(a)
197	Revocation of general asset account election.	Reg. § 1.168(j)-1	Cumulative 481(a)
198	Partial dispositions of depreciable assets to which IRS adjustment pertains.	Reg § 1.168(i)-8	Cumulative 481(a)
199	Depreciation of leasehold improvements.	Reg. § 1.167(a)-4	Cumulative 481(a)
200	Permissible to permissible method of accounting for depreciation of MACRS property.	Reg. § 1.168(j)-7	Modified Section 481(a)
205	Disposition of a building or structural component, includes loss on phantom assets still being depreciated.	Reg. § 1.168(j)-8	Cumulative 481(a)
206	Dispositions of tangible personal property depreciable assets, includes loss on phantom assets still being depreciated.	Reg. § 1.168(j)-8	Cumulative 481(a)
207	Dispositions of tangible depreciable assets in a general asset account.	Reg. § 1.168(j)-1	Cumulative 481(a)

There are also several elections under the final repair regulations. The following table summarizes these elections.

Election	Election Procedures & Due Date	Citation	2012/2013 Amended Return Option
Capitalize rotatable, temporary or standby emergency parts.	Capitalize and depreciate on timely filed original return for tax year asset is placed in service.	Reg. § 1.162-3(d) and Reg. § 1.162-3(j)(2)	Yes
Partial disposition.	Report gain/loss on timely filed original return in year of disposition.	Reg § 1.168(i)-(8)(d)	Yes
De minimis safe harbor.	Attach statement to timely filed return each year.	Reg. § 1.263(a)-1(f) and Reg. § 1.263(a)-1(h)(2)(ii)	Yes
Capitalize employee compensation or overhead.	Capitalize amounts paid or incurred on timely filed original return.	Reg. § 1.263(a)-2(f) (2)(iv)(B) and Reg. § 1.263(a)-2(f)(2)(ii)	Yes
Deduct building improvements by small taxpayer.	Attach statement to timely filed return each year.	Reg. § 1.263(a)-3(h) and Reg. § 1.263(a)-3(r)(2)(ii)	Yes
Capitalize repair and maintenance per books.	Attach statement to timely filed return each year.	Reg. § 1.263(a)-3(n) and Reg. § 1.263(a)-3(r)(2)(ii)	Yes