



Form 3115 Missed Depreciation

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White Paper on Missed Depreciation

By NATP Staff

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Introduction

The IRS allows a taxpayer to correct depreciation deductions by claiming the missed depreciation and correcting the depreciation methods and/or life for future years. Often the tax preparer does not know about a depreciable asset until the taxpayer has sold it or he or she has owned and used it in his or her trade or business for several years without taking any depreciation deduction.

Method of Accounting

In the year a depreciable asset is placed in service, the taxpayer must determine the depreciation method and life to be used, as provided under tax law. Future year depreciation deductions for this asset will be computed consistently based on the methods elected in the first year. If the method and life used in the first year are not valid under tax law, the taxpayer should correct the method and/or life by the due date of the taxpayer's return for the second year of the asset's life.

In general, a method of accounting has been adopted when a permissible method of determining depreciation was used on the first tax return, or when the same impermissible method of determining depreciation has been used on two or more consecutively filed tax returns.

A change in method of accounting for depreciation includes the following [Reg. §1.446-1(e)(2)(ii)].

- A change from an impermissible method of determining depreciation to a permissible method, if the method was used in two or more consecutively filed tax returns.
- A change in the treatment of an asset from nondepreciable to depreciable or vice versa.
- A change in the depreciation method, recovery period or convention of a depreciable asset.
- A change from not claiming to claiming bonus depreciation if the taxpayer did not make the election not to claim any bonus depreciation.
- A change from claiming a 50% special depreciation allowance to claiming a 100% special depreciation allowance for qualified property acquired and placed in service after September 27, 2017 (if the election under §168(k)(10) was not made to claim the 50% special depreciation allowance).

The following are **not** changes in the method of accounting for depreciation [Reg. §1.446-1(e)(2)(ii)].

- The taxpayer claimed an incorrect amount of depreciation due to a mathematical or posting error.

- An adjustment in the useful life of an asset for which depreciation is determined under §167.
- A change in the use of an asset in the hands of the same taxpayer.
- Making a late depreciation election or revoking a timely valid depreciation election (including the election not to claim bonus depreciation). If the taxpayer elected not to claim bonus depreciation, a change from not claiming to claiming bonus depreciation is a revocation of the election and is not an accounting method change. In general, to make a late depreciation election or revoke a depreciation election, the taxpayer must get IRS approval by requesting a letter ruling.
- Any change in the placed-in-service date of a depreciable asset.

Filing an Amended Return

Taxpayers can file an amended return to correct the amount of depreciation claimed if:

- They do not have a change in method of accounting.
- They did not adopt a method of accounting for property placed in service in tax years ending after December 29, 2003.
- They claimed the incorrect amount on property placed in service in tax years ending before December 30, 2003.

A taxpayer who has used an **impermissible** method of depreciation for only **one** tax year has not adopted a method of accounting. The taxpayer can file an amended tax return for the year the property was placed in service if the amended return is filed before the taxpayer files a tax return for the succeeding year. Otherwise, the taxpayer must file Form 3115, *Application for Change in Accounting Method*, for the year of change.

On January 28, 2004, the IRS issued Chief Counsel Notice 2004-007 announcing that, for depreciable or amortizable property placed in service by the taxpayer in taxable years ending before December 30, 2003, they will not assert that a change in computing depreciation under §§167, 168, 197, 1400I, 1400L(b), 1400L(c), or former §168 for depreciable or amortizable property that is treated as a capital asset under the taxpayer's present and proposed methods of accounting is a change in the method of accounting under §446(e). This means that a taxpayer can take the position that a change in computing depreciation is not a change in accounting, and he or she can file amended returns to change the accounting for depreciation or amortization.

On July 12, 2004, the IRS issued Chief Counsel Notice 2004-024 to clarify the application of Chief Counsel Notice 2004-007.

Key provisions of Chief Counsel Notice 2004-024 include:

- If the taxpayer files amended returns to implement the change in depreciation or amortization, no §481(a) adjustment is required or permitted.
- If the taxpayer is only making a depreciation or amortization change to one asset, the taxpayer cannot file amended returns for some tax years and Form 3115 for other tax years. However, if a taxpayer is making changes to two or more assets,

the taxpayer can file amended returns for some assets and file Form 3115 for different assets. If the taxpayer filed Form 3115 before Chief Counsel Notice 2004-007, and all years affected by the §481(a) adjustment are still open for assessment under the statute of limitations, the taxpayer can undo the Form 3115 and file an amended return to implement the change.

Changing Accounting Method

Taxpayers can get automatic approval from the IRS to change their method of accounting for depreciation under Rev. Proc. 2015-13 (modified by Rev. Proc. 2015-33 and Rev. Proc. 2017-59). Taxpayers can recoup missed or understated allowable depreciation from open and closed years using this revenue procedure, and the approval is automatic; thus, no user fee applies.

NOTE: If taxpayers do not qualify to use the automatic consent procedures, they can use the advance consent request procedures covered in Rev. Proc. 2015-13.

Rev. Proc. 2015-13 applies to taxpayers who are changing from an impermissible to a permissible method of accounting for depreciation for any item of depreciable property that meets all of the following basic requirements.

- The taxpayer used the impermissible method of accounting for depreciation in at least two taxable years immediately preceding the year of change (one year for property placed in service in the taxable year immediately preceding the year of change).
- The property must be owned by the taxpayer at the beginning of the year of change, except for property disposed of before the year of change.
- The property must be depreciable under §56(a)(1) (AMT depreciation), §56(g)(4)(A) (ACE depreciation), §§167 and 168 (ACRS and MACRS), §197 (amortization), §1400I (commercial revitalization deduction), or §1400L (New York Liberty Zone property), or under any first-year bonus depreciation provisions.
- The change in depreciation is a change in method of accounting under Reg. §1.446-1(e)(2)(ii)(d).

Form 3115

To make a change under Rev. Proc. 2015-13, the taxpayer must attach Form 3115 to a timely filed (including extensions) original return for the year of the change. In addition, the taxpayer must file a copy of Form 3115 with the IRS National Office no earlier than the first day of the year of change and no later than when Form 3115 is filed with the federal income tax return for the year of change.

NOTE: The Form 3115 instructions provide that the automatic change number is “7” for changes from an impermissible method to a permissible method of depreciation for depreciable property owned at the beginning of the year of change.

An automatic six-month extension from the due date of the return (excluding any extensions) for the year of change is available if the taxpayer:

- Timely filed its federal income tax return for the year of change.
- Files an amended return within the six-month extension period in a manner consistent with the new method of accounting.
- Attaches the original Form 3115 to the amended return.
- Files a copy of Form 3115 with the National Office no later than when the original is filed with the amended return.
- Attaches a statement to Form 3115 that it is being filed pursuant to Reg. §301.9100-2.

In general, there are no other extensions of time to file Form 3115, except in unusual and compelling circumstances. See Reg. §301.9100-3 for the standards that must be met.

Understated Depreciation on Disposed Assets

Rev. Proc. 2007-16 allows taxpayers to change their method of accounting for depreciation for property that has been disposed of if they used an impermissible method of accounting under which they did not claim any depreciation or less than the amount allowable in the “year of change” or any prior years. For this purpose, the year of change is the year the property was disposed of by the taxpayer.

Under Rev. Proc. 2015-13, this automatic change can be made:

- On a timely-filed (including extensions) original tax return for the year the property was disposed of by the taxpayer.
- On an amended tax return for the year the property was disposed of if the taxpayer files the original Form 3115 with the amended return prior to the expiration of the statute of limitations for such year (generally three years from the due date, including extensions). A copy of Form 3115 must be filed with the IRS National Office no later than when the original Form 3115 is filed with the amended return. The amended return must include the adjustments to taxable income and any collateral adjustments to taxable income or tax liability resulting from this change in method of accounting.

NOTE: The instructions to Form 3115 provide that the change number for post-disposition depreciation is “107.”

§481(a) Adjustment

The adjusted basis of the depreciable property is changed when the taxpayer changes from an impermissible method of depreciation to a permissible method. This change results in a §481(a) adjustment. The adjustment is usually taken into account over a four-year period, beginning in the year of change. However, if the entire §481(a) adjustment is less than \$50,000, a *de minimis* rule permits taxpayers to take 100% of the amount into account in the year of change. A negative adjustment (in the taxpayer’s favor) can be taken in full in the year of change.

The §481(a) adjustment equals the difference between the total depreciation taken in prior years under the old method and the total depreciation allowable for those years under the new method. As of the beginning of the year of change, the basis of the depreciable property must reflect the §481(a) adjustment.

Conclusion

This opportunity to correct missed depreciation deductions may result in some taxpayers deliberately not claiming depreciation in year then when they have a low income so they can fix it in a later year when their income is higher. This is not advisable since in Rev. Rul. 56-407 states a taxpayer cannot choose not to claim deductions. Knowing a deduction is available and not claiming it would be a violation of this revenue ruling.

Example

In June 2017, Fred Jones bought residential rental property for \$210,000 (exclusive of land) that was 27.5-year MACRS property. When filing his 2019 tax return Fred determined that he never claimed depreciation on the property. Fred determines that his missed depreciation for the property is \$11,773

Fred wants to claim his missed depreciation by filing Form 3115. Since he owned the property on January 1, 2019, and used it in his rental activity, he is eligible to claim the missed depreciation. Fred’s §481(a) adjustment is (\$11,773), which is allowed in full in the year of change since it is a negative adjustment. The “§481(a) adjustment” is shown as other expense on his 2019 Schedule E.

Appendix

Form 3115 (Rev. December 2018) Department of the Treasury Internal Revenue Service	Application for Change in Accounting Method ▶ Go to www.irs.gov/Form3115 for instructions and the latest information.	OMB No. 1545-0152				
Name of filer (name of parent corporation if a consolidated group) (see instructions) FRED JONES Number, street, and room or suite no. If a P.O. box, see the instructions. 575 MAIN ST City or town, state, and ZIP code ANYTOWN WI 12345		Identification number (see instructions) 123-45-6789 Principal business activity code number (see instructions)				
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)		Contact person's telephone number 920-555-1212				
If the applicant is a member of a consolidated group, check this box <input type="checkbox"/>						
If Form 2848, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box <input type="checkbox"/>						
Check the box to indicate the type of applicant. <input checked="" type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> Controlled foreign corporation (Sec. 957) <input type="checkbox"/> 10/50 corporation (Sec. 904(d)(2)(E)) <input type="checkbox"/> Qualified personal service corporation (Sec. 448(d)(2)) <input type="checkbox"/> Exempt organization. Enter Code section ▶		Check the appropriate box to indicate the type of accounting method change being requested. See instructions. <input checked="" type="checkbox"/> Depreciation or Amortization <input type="checkbox"/> Financial Products and/or Financial Activities of Financial Institutions <input type="checkbox"/> Other (specify) ▶				
<input type="checkbox"/> Cooperative (Sec. 1381) <input type="checkbox"/> Partnership <input type="checkbox"/> S corporation <input type="checkbox"/> Insurance co. (Sec. 816(a)) <input type="checkbox"/> Insurance co. (Sec. 831) <input type="checkbox"/> Other (specify) ▶						
Caution: To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115. The taxpayer must attach all applicable statements requested throughout this form.						
Part I Information for Automatic Change Request						
1 Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th style="width:50%;">Yes</th> <th style="width:50%;">No</th> </tr> <tr> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> </tr> </table>	Yes	No		
Yes	No					
a (1) DCN: 7 (2) DCN: (3) DCN: (4) DCN: (5) DCN: (6) DCN: (7) DCN: (8) DCN: (9) DCN: (10) DCN: (11) DCN: (12) DCN:						
b Other <input type="checkbox"/> Description ▶						
2 Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;"></td> <td style="width:50%; text-align: center;">X</td> </tr> </table>		X		
	X					
3 Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions. Note: Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%; text-align: center;">X</td> <td style="width:50%;"></td> </tr> </table>	X			
X						
Part II Information for All Requests						
4 During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;"></td> <td style="width:50%; text-align: center;">X</td> </tr> </table>		X		
	X					
5 Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)? If "No," go to line 6a. If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;"></td> <td style="width:50%; text-align: center;">X</td> </tr> </table>		X		
	X					
Sign Here	Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.					
	Signature of filer (and spouse, if joint return)	Date	Name and title (print or type)			
Preparer (other than filer/applicant)	Print/Type preparer's name	Preparer's signature	Date			
	Firm's name ▶					

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Part II Information for All Requests <i>(continued)</i>		Yes	No
6a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		X
b	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions.		
c	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____		
d	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?		
7a	Does audit protection apply to the applicant's requested change in method of accounting? See instructions. If "No," attach an explanation.	X	
b	If "Yes," check the applicable box and attach the required statement. <input checked="" type="checkbox"/> Not under exam <input type="checkbox"/> 3-month window <input type="checkbox"/> 120 day: Date examination ended ▶ _____ <input type="checkbox"/> Method not before director <input type="checkbox"/> Negative adjustment <input type="checkbox"/> CAP: Date member joined group ▶ _____ <input type="checkbox"/> Audit protection at end of exam <input type="checkbox"/> Other		
8a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		X
b	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions. If "Yes," attach an explanation.		
c	If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____		
d	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?		
9	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.		
10	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?		
11a	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the five tax years ending with the tax year of change? If "No," go to line 12.		X
b	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.		
c	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.		
12	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s).		X
13	Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of the form.		X

Part II Information for All Requests <i>(continued)</i>		Yes	No						
<p>14 If the applicant is either (i) not changing its overall method of accounting, or (ii) changing its overall method of accounting and changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions):</p> <p>a The item(s) being changed.</p> <p>b The applicant's present method for the item(s) being changed.</p> <p>c The applicant's proposed method for the item(s) being changed.</p> <p>d The applicant's present overall method of accounting (cash, accrual, or hybrid).</p>									
<p>15a Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d).</p> <p>b If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application.</p> <p>Note: If you are requesting an automatic method change, see the instructions to see if you are required to complete lines 16a–16c.</p>									
<p>16a Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method.</p> <p>b Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method.</p> <p>c Include either a discussion of the contrary authorities or a statement that no contrary authority exists.</p>									
<p>17 Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions.</p> <p>If "No," attach an explanation.</p>	X								
<p>18 Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response?</p>	X								
<p>19a If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.</p> <table border="1" style="width:100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">1st preceding year ended: mo. yr.</th> <th style="text-align: left;">2nd preceding year ended: mo. yr.</th> <th style="text-align: left;">3rd preceding year ended: mo. yr.</th> </tr> </thead> <tbody> <tr> <td style="border-top: 1px solid black;">\$ _____</td> <td style="border-top: 1px solid black;">\$ _____</td> <td style="border-top: 1px solid black;">\$ _____</td> </tr> </tbody> </table>	1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.	\$ _____	\$ _____	\$ _____			
1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.							
\$ _____	\$ _____	\$ _____							
<p>b If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change:</p> <p>4th preceding year ended: mo. yr. \$ _____</p>									
Part III Information for Non-Automatic Change Request		Yes	No						
<p>20 Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request?</p> <p>If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.</p>									
<p>21 Attach a copy of all documents related to the proposed change (see instructions).</p>									
<p>22 Attach a statement of the applicant's reasons for the proposed change.</p>									
<p>23 If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed?</p> <p>If "No," attach an explanation.</p>									
<p>24a Enter the amount of user fee attached to this application (see instructions). ▶ \$ _____</p>									
<p>b If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).</p>									

Part IV Section 481(a) Adjustment		Yes	No
25	Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? If "Yes," attach an explanation and do not complete lines 26, 27, and 28 below.		X
26	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ► \$ <u>11,773</u> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant.		
27	Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions). <input type="checkbox"/> \$50,000 de minimis election <input type="checkbox"/> Eligible acquisition transaction election		X
28	Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? If "Yes," attach an explanation.		X

Schedule A—Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.)

Part I Change in Overall Method (see instructions)

1 Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting.
Present method: Cash Accrual Hybrid (attach description)
Proposed method: Cash Accrual Hybrid (attach description)

2 Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.

	Amount
a Income accrued but not received (such as accounts receivable)	\$ _____
b Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method.	_____
c Expenses accrued but not paid (such as accounts payable).	_____
d Prepaid expenses previously deducted	_____
e Supplies on hand previously deducted and/or not previously reported	_____
f Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II.	_____
g Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. ► _____	_____
h Net section 481(a) adjustment (Combine lines 2a–2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26.	\$ _____

3 Is the applicant also requesting the recurring item exception under section 461(h)(3)? Yes No

4 Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as, tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on both the profit and loss statement and the balance sheet, attach a statement explaining the differences.

5 Is the applicant making a change to the overall cash method as a small business taxpayer (see instructions)? Yes No

Part II Change to the Cash Method for Non-Automatic Change Request (see instructions)

- Applicants requesting a change to the cash method must attach the following information:
- 1 A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
 - 2 An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations.

Schedule B—Change to the Deferral Method for Advance Payments (see instructions)

- 1 If the applicant is requesting to change to the deferral method for advance payments, as described in the instructions, attach the following information:
 - a Explain how the advance payments meet the definition of advance payment, as described in the instructions.
 - b Does the taxpayer use an applicable financial statement as described in the instructions and, if so, identify it.
 - c Describe the taxpayer's allocation method, if there is more than one performance obligation, as defined in the instructions.
 - d Describe the taxpayer's legal basis for deferral. See instructions.
 - e If the applicant is filing under the non-automatic change procedures, see the instructions for the information required.

Schedule C—Changes Within the LIFO Inventory Method (see instructions)**Part I General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all Forms 970, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
 - a Valuing inventory (for example, unit method or dollar-value method).
 - b Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).
 - c Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).
 - d Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).
- 2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3 If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.
- 4 If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.
- 5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.
- 6 If changing to the IPIC method, attach a completed Form 970.

Part II Change in Pooling Inventories

- 1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):
 - a A description of the types of products produced by the applicant. If possible, attach a brochure.
 - b A description of the types of processes and raw materials used to produce the products in each proposed pool.
 - c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.
 - d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
 - e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
 - f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
 - g A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

Form 3115 Required Attachments

Part II of Form 3115

- Line 14(a)** Item being changed: unclaimed depreciation of \$11,773 on residential rental property purchased in 2017.
- Line 14(b)** Present method: no depreciation has previously been taken.
- Line 14(c)** Proposed method: depreciation under §168 (MACRS) using mid-month straight-line method over a 27.5 year life.
- Line 14(d)** Present overall method of accounting: cash.
- Line 15** Description of business: residential rental real estate.

Part IV of Form 3115

- Line 26** 2017 Depreciation $\$210,000 \times 1.970\% = \$ 4,137$
 2018 Depreciation $\$210,000 \times 3.636\% = \underline{7,636}$
 Total 2017 & 2018 Missed Depreciation \$11,773

Schedule E of Form 3115

- Line 7(a)** Code section under which the property will be depreciated: Section 168 and regulations.
- Line 7(b)** Asset Class: residential rental property.
- Line 7(d)** Depreciation method: Section 168 (MACRS) straight-line.
- Line 7(e)** Useful life: 27.5 years.
- Line 7(f)** Convention: Mid-month.
- Line 7(g)** First-year special depreciation: No, property does not qualify.
- Line 7(h)** Account: Single asset account.