



# Form 3115 (Not Just) Change in Accounting Method

Cheryl A. Morse, EA



# Course Objectives

- Assess the applicability of Form 3115
- Properly correct depreciation errors.
- Understand the basics of accounting method changes, including Sec. 481(a) positive and negative adjustments.
- Complete Form 3115 for a taxpayer correcting depreciation calculations.
- Complete Form 3115 for a taxpayers changing accounting methods.



# What is Form 3115?

8 page form

- 4 parts
- 5 schedules
- statements required

Used to request a change in accounting method



# When to File Form 3115

- Does it affect the timing?
- Does it affect the overall amount of lifetime income or deduction?



# What Isn't an Accounting Change?

- Permanently impact "lifetime income or deductions"
- Mathematical Error
- Posting Error
- Change in Facts



# Automatic Change Request

- List in Instructions
- Referred to as DCNs



## Automatic - Requirements

- Described in List
- Taxpayer Meets Requirements
- No Liquidation or Reorganization
- Not Final Year
- Five Year Lookback



# Non-Automatic Change Request

- Consent before filing return
- Letter Ruling

Income of Taxpayer	January 2, 2024
Less than \$250,000	\$3,000
At least \$250,000 but less than \$1,000,000	\$8,500
\$1,000,000	\$12,6000





# Non-Automatic - Requirements

- Taxpayer Not Allowed Automatic
- Not Final Year (Generally)



## Differences

- Non-Automatic

Automatic

Costly  
Slow  
Rejection  
Wait for Letter Ruling

Free  
Fast  
No Waiting



# Similarities

- Audit protection
- Cannot be retroactive
- §481(a) adjustment



# What is an Accounting Method?



# Overall Methods

- Cash
- Accrual
- Special method
- Hybrid
- Prohibited from Cash
- Gross receipts in excess of \$5,000,000
- Inventory (large taxpayer)
- Tax shelters



# Material Items

- Facts and circumstances
- Item can include:
  - Income
  - Deductions
  - Depreciation
  - Capital outlay
  - Any other



# Material Item Examples

- Deferrals for advanced payments
- Materials and supplies versus depreciation
- Prepaid expenses
- Accrued interest on nonqualified deferred compensation
- Capitalize versus repair
- FIFO versus LIFO
- Vacation pay



# Consistency

- Two-year rule
- Two filed tax returns = method





# Common Reasons to File Form 3115

- Changing from Cash to Accrual
- Changing from Accrual to Cash
- Changing from Impermissible Method to Permissible Method



# Steps to Make an Accounting Change

- ***Determine the current Accounting Method***
- Determine the change
- Calculate the §481(a) adjustment
- Complete Form 3115



# Determining the Method

- Timing
- Consistency



# Steps

- Define the current accounting method
- ***Determine the change***
- Calculate the §481(a) adjustment
- Complete Form 3115



## Determining the Change

- What do you want to do?
- Most changes you make as if the taxpayer had used new method entire time
- Some require a “cut-off” method
- Prospective only



## Determine the Change - Steps

- Change Number
- Form 3115 Instructions
- Rev. Proc.



## Finding Rev. Procs.

- Tax Research Subscription
- IRS.gov – Search
- Search Engine



## Rev. Proc 2022-14

- Review Most Recent Rev. Proc. Carefully!
- Reduced Filing Requirement Available?
- Lookback
- Audit protection





## Steps

- Define the current accounting method
- Determine the change
- ***Calculate the §481(a) adjustment***
- Complete Form 3115



## §481(a) Adjustment

- Prevents duplication or omission
- Additional income or deduction



## Example

- Jesse didn't depreciate his machinery because he was worried about recapture. It was placed into service on 1-1-2020. He bought it for \$10,000.
- Jesse should have depreciated as follows.

Year	Depreciation	Accumulated Depreciation
2020	\$1,429	\$1,429
2021	2,449	3,878
2022	1,749	5,627
2023	1,249	6,876



## §481(a) Adjustment

- Positive
  - Increases taxable income
  - Spread ratably over four years, including year of change
  - Can include it all at once only if less than \$50,000
- Negative
  - Decreases taxable income
  - Must take all at once



## §481(a) Adjustment

- Reasonable Time
- Materiality



# Steps

- Define the current accounting method
- Determine the change
- Calculate the §481(a) adjustment
- ***Complete Form 3115***



## Form 3115

- Eight pages long
- First two pages necessary
- Rest depends on the request
- Automatic – attach to timely filed return and send to UT
- Non-Automatic – file as early as possible-sent to DC



## Parts I - IV

- Heading
- Part I - DCN
- Part II - Questions about business status
- Part III – Non-automatic change requests only
- Part IV – The adjustment





# Statements Required

- State the obvious
- Restate the obvious
- Samples in text and various whitepapers



# Schedules

- Only use needed schedule
  - A- Change in overall method of accounting
  - B- Change to deferral method for advance payments- informational
  - C- Change to LIFO-informational
  - D- Change in long term contracts, inventories, 263A
  - E- Change in depreciation—most used



# Cash to Accrual Illustration

## Mia George



# Steps

- Define the current accounting method
- Determine the change
- Calculate the §481(a) adjustment
- ***Complete Form 3115***



## Section 481(a) Adjustment - Mia

	12-31-22 Cash	12-31-22 Accrual	§481(a) Adjustment
Cash	\$10,000	\$10,000	
Accounts Receivable		\$24,000	\$24,000
Fixtures	\$36,000	\$36,000	
Accumulated Depr.	\$36,000	\$36,000	
Total Assets	\$10,000	\$34,000	\$24,000(A)
Accounts Payable		\$6,000	(\$6,000)
Total Liabs and Cap		\$6,000	(\$6,000)(B)
Net §481(a) Adjust		(A) + (B)	\$18,000



# Missed Depreciation Illustration

## Cole Ruby



# Steps

- Define the current accounting method
- Determine the change
- Calculate the §481(a) adjustment
- ***Complete Form 3115***



## §481(a) Adjustment – Cole Ruby

	<b>Basis</b>	<b>12-31-21</b>	<b>12-31-22</b>	<b>12-31-23</b>	
<b><i>Old Method</i></b>	<b><i>No Depr.</i></b>				
Building	\$100,000	0	0	0	0
Land	20,000	0	0	0	0
Total	\$120,000	0	0	0	0 (A)
<b><i>New Method</i></b>	<b><i>MACRS</i></b>	<b><i>Under</i></b>	<b><i>§168</i></b>		
Building	\$100,000	\$3,485	\$3,636	\$3,636	\$10,757
Land	20,000	0	0	0	0
Total	\$120,000				\$10,757(B)
Net§481(a) Adjustment		(A)-(B)			(\$10,757)





**Questions?**

**[Info@mtsfp.com](mailto:Info@mtsfp.com)**