

Application for Change in Accounting Method

Name of filer (name of parent corporation if a consolidated group) (see instructions)	Identification number (see instructions)
Principal business activity code number (see instructions)	531110
Number, street, and room or suite no. If a P.O. box, see the instructions.	Tax year of change begins (MM/DD/YYYY) 01/01/2014
City or town, state, and ZIP code	Tax year of change ends (MM/DD/YYYY) 12/31/2014
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)	Name of contact person (see instructions)
Contact person's telephone number	

If the applicant is a member of a consolidated group, check this box

If **Form 2848**, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

Check the box to indicate the type of applicant.

Individual Cooperative (Sec. 1381)

Corporation Partnership

Controlled foreign corporation (Sec. 957) S corporation

10/50 corporation (Sec. 904(d)(2)(E)) Insurance co. (Sec. 816(a))

Qualified personal service corporation (Sec. 448(d)(2)) Insurance co. (Sec. 831)

Exempt organization. Enter Code section ▶

Check the appropriate box to indicate the type of accounting method change being requested. (see instructions)

Depreciation or Amortization

Financial Products and/or Financial Activities of Financial Institutions

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 all information requested on this Form 3115 (including its instructions), as well as any other information that is not specifically requested.

The taxpayer must attach all applicable supplemental statements requested throughout this form.

Part I Information For Automatic Change Request

	Yes	No
1 Enter the applicable designated automatic accounting method change number for the requested automatic change. Enter only one designated automatic accounting method change number, except as provided for in guidance published by the IRS. If the requested change has no designated automatic accounting method change number, check "Other," and provide both a description of the change and citation of the IRS guidance providing the automatic change. See instructions. ▶ (a) Change No. <u>7</u> (b) Other <input type="checkbox"/> Description ▶		
2 Do any of the scope limitations described in section 4.02 of Rev. Proc. 2008-52 cause automatic consent to be unavailable for the applicant's requested change? If "Yes," attach an explanation.		✓

Note. Complete Part II below and then Part IV, and also Schedules A through E of this form (if applicable).

Part II Information For All Requests

	Yes	No
3 Did or will the applicant cease to engage in the trade or business to which the requested change relates, or terminate its existence, in the tax year of change (see instructions)? If "Yes," the applicant is not eligible to make the change under automatic change request procedures.		✓
4a 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 5.		✓
b Is the method of accounting the applicant is requesting to change an issue (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)) either (i) under consideration or (ii) placed in suspense (see instructions)?		

Signature (see instructions)

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.

Filer

Preparer (other than filer/applicant)

Signature and date

Name and title (print or type)

Signature of individual preparing the application and date

Name of individual preparing the application (print or type)

Name of firm preparing the application

Part II Information For All Requests (continued)		Yes	No
4c	Is the method of accounting the applicant is requesting to change an issue pending (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)) for any tax year under examination (see instructions)?		
d	Is the request to change the method of accounting being filed under the procedures requiring that the operating division director consent to the filing of the request (see instructions)? If "Yes," attach the consent statement from the director.		
e	Is the request to change the method of accounting being filed under the 90-day or 120-day window period? If "Yes," check the box for the applicable window period and attach the required statement (see instructions). <input type="checkbox"/> 90 day <input type="checkbox"/> 120 day: Date examination ended ► _____		
f	If you answered "Yes" to line 4a, enter the name and telephone number of the examining agent and the tax year(s) under examination. Name ► _____ Telephone number ► _____ Tax year(s) ► _____		
g	Has a copy of this Form 3115 been provided to the examining agent identified on line 4f?		
5a	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 "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) ► _____		✓
b	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 5a?		
c	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.		
6	If the applicant answered "Yes" to line 4a and/or 5a 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.		
7	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? If "Yes," the applicant is not eligible to make the change.		✓
8a	Does the applicable revenue procedure (advance consent or automatic consent) state that the applicant does not receive audit protection for the requested change (see instructions)?		✓
b	If "Yes," attach an explanation.		
9a	Has the applicant, its predecessor, or a related party requested or made (under either an automatic change procedure or a procedure requiring advance consent) a change in method of accounting within the past 5 years (including the year of the requested change)?	✓	
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.		
10a	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?		✓
b	If "Yes," for each request attach a statement providing the name(s) of the taxpayer, identification number(s), the type of request (private letter ruling, change in method of accounting, or technical advice), and the specific issue(s) in the request(s).		
11	Is the applicant requesting to change its overall method of accounting? If "Yes," check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting. Also, complete Schedule A on page 4 of this form.		✓
	Present method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description)		
	Proposed method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description)		

Part II Information For All Requests (continued)				Yes	No	
12	If the applicant is either (i) not changing its overall method of accounting, or (ii) is changing its overall method of accounting and also changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following:					
a	The item(s) being changed.					
b	The applicant's present method for the item(s) being changed.					
c	The applicant's proposed method for the item(s) being changed.					
d	The applicant's present overall method of accounting (cash, accrual, or hybrid).					
13	Attach a detailed and complete description of the applicant's trade(s) or business(es), and the principal business activity code for each. If the applicant has more than one trade or business as defined in Regulations section 1.446-1(d), describe: whether each trade or business is accounted for separately; the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; the overall method of accounting for each trade or business; and which trade or business is requesting to change its accounting method as part of this application or a separate application.					
14	Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions If "No," attach an explanation.			✓		
15a	Has the applicant engaged, or will it engage, in a transaction to which section 381(a) applies (e.g., a reorganization, merger, or liquidation) during the proposed tax year of change determined without regard to any potential closing of the year under section 381(b)(1)?				✓	
b	If "Yes," for the items of income and expense that are the subject of this application, attach a statement identifying the methods of accounting used by the parties to the section 381(a) transaction immediately before the date of distribution or transfer and the method(s) that would be required by section 381(c)(4) or (c)(5) absent consent to the change(s) requested in this application.					
16	Does the applicant request a conference with the IRS National Office if the IRS proposes an adverse response?			✓		
17	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, or inventories subject to section 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.					
	1st preceding year ended: mo.	yr.	2nd preceding year ended: mo.	yr.	3rd preceding year ended: mo.	yr.
	\$		\$		\$	
Part III Information For Advance Consent Request				Yes	No	
18	Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? If "Yes," attach an explanation describing why the applicant is submitting its request under advance consent request procedures.				✓	
19	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. Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. Also, include either a discussion of the contrary authorities or a statement that no contrary authority exists.					
20	Attach a copy of all documents related to the proposed change (see instructions).					
21	Attach a statement of the applicant's reasons for the proposed change.					
22	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? If "No," attach an explanation.					
23a	Enter the amount of user fee attached to this application (see instructions). ▶ \$ _____					
b	If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).					
Part IV Section 481(a) Adjustment				Yes	No	
24	Does the applicable revenue procedure, revenue ruling, notice, regulation, or other published guidance require the applicant to implement the requested change in method of accounting on a cut-off basis rather than a section 481(a) adjustment? If "Yes," do not complete lines 25, 26, and 27 below.				✓	
25	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ▶ \$ <u> -1,144,746 </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 same application, attach a list of the name, identification number, principal business activity code (see instructions), and the amount of the section 481(a) adjustment attributable to each applicant.					

Part IV Section 481(a) Adjustment (continued)	Yes	No
26 If the section 481(a) adjustment is an increase to income of less than \$25,000, does the applicant elect to take the entire amount of the adjustment into account in the year of change?		
27 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.		✓

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)	Amount
1 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 1a through 1g.	
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 1a–1g.) 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 25.	\$
2 Is the applicant also requesting the recurring item exception under section 461(h)(3)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
3 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 (e.g., tax-exempt organization returns) for that period. If the amounts in Part I, lines 1a through 1g, do not agree with those shown on both the profit and loss statement and the balance sheet, attach a statement explaining the differences.	

Part II Change to the Cash Method For Advance Consent 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 described in section 5.02 of Rev. Proc. 2004-34, 2004-1 C.B. 991, attach the following information:
a A statement explaining how the advance payments meet the definition in section 4.01 of Rev. Proc. 2004-34.
b If the applicant is filing under the automatic change procedures of Rev. Proc. 2008-52, the information required by section 8.02(3)(a)-(c) of Rev. Proc. 2004-34.
c If the applicant is filing under the advance consent provisions of Rev. Proc. 97-27, the information required by section 8.03(2)(a)-(f) of Rev. Proc. 2004-34.
2 If the applicant is requesting to change to the deferral method for advance payments described in Regulations section 1.451-5(b)(1)(ii), attach the following.
a A statement explaining how the advance payments meet the definition in Regulations section 1.451-5(a)(1).
b A statement explaining what portions of the advance payments, if any, are attributable to services, whether such services are integral to the provisions of goods or items, and whether any portions of the advance payments that are attributable to non-integral services are less than five percent of the total contract prices. See Regulations sections 1.451-5(a)(2)(i) and (3).
c A statement explaining that the advance payments will be included in income no later than when included in gross receipts for purposes of the applicant's financial reports. See Regulations section 1.451-5(b)(1)(ii).
d A statement explaining whether the inventoriable goods exception of Regulations section 1.451-5(c) applies and if so, when substantial advance payments will be received under the contracts, and how the exception will limit the deferral of income.

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 (e.g., unit method or dollar-value method).
 - b** Pooling (e.g., 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 (e.g., double-extension, index, link-chain, link-chain index, IPIC method, etc.).
 - d** Determining the current-year cost of goods in the ending inventory (i.e., most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, 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 section 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).

Schedule D—Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets (see instructions)

Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8.)

- 1** To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletion) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.
- 2a** Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)? **Yes** **No**
- b** If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)? **Yes** **No**
If line 2b is "No," attach an explanation.
- c** If line 2b is "Yes," is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)? **Yes** **No**
- d** If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)? **Yes** **No**
If line 2d is "Yes," attach an explanation of what cost comparison the applicant will use to determine a contract's completion factor.
If line 2d is "No," attach an explanation of what method the applicant is using and the authority for its use.
- 3a** Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)? **Yes** **No**
- b** If "Yes," attach an explanation of the applicant's present and proposed method(s) of accounting for long-term manufacturing contracts.
- c** Attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.
- 4** To determine a contract's completion factor using the percentage-of-completion method:
 - a** Will the applicant use the cost-to-cost method in Regulations section 1.460-4(b)? **Yes** **No**
 - b** If line 4a is "No," is the applicant electing the simplified cost-to-cost method (see section 460(b)(3) and Regulations section 1.460-5(c))? **Yes** **No**
- 5** Attach a statement indicating whether any of the applicant's contracts are either cost-plus long-term contracts or Federal long-term contracts.

Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8.)

- 1** Attach a description of the inventory goods being changed.
- 2** Attach a description of the inventory goods (if any) NOT being changed.
- 3a** Is the applicant subject to section 263A? If "No," go to line 4a **Yes** **No**
- b** Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)?
If "No," attach a detailed explanation **Yes** **No**
- 4a** Check the appropriate boxes below.

	Inventory Being Changed		Inventory Not Being Changed
	Present method	Proposed method	Present method
Identification methods:			
Specific identification			
FIFO			
LIFO			
Other (attach explanation)			
Valuation methods:			
Cost			
Cost or market, whichever is lower			
Retail cost			
Retail, lower of cost or market			
Other (attach explanation)			
- b** Enter the value at the end of the tax year preceding the year of change
- 5** If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).
 - a** Copies of Form(s) 970 filed to adopt or expand the use of the method.
 - b** **Only for applicants requesting advance consent.** A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
 - c** **Only for applicants requesting an automatic change.** The statement required by section 22.01(5) of the Appendix of Rev. Proc. 2008-52 (or its successor).

Part III Method of Cost Allocation (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460 (see instructions)).

Section A—Allocation and Capitalization Methods

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate and, where appropriate, capitalize direct and indirect costs properly allocable to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (i.e., specific identification, burden rate, standard cost, or other reasonable allocation method).
- 2 The method of allocating mixed service costs (i.e., direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).
- 3 The method of capitalizing additional section 263A costs (i.e., simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

Section B—Direct and Indirect Costs Required To Be Allocated

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

	Present method	Proposed method
1 Direct material		
2 Direct labor		
3 Indirect labor		
4 Officers' compensation (not including selling activities)		
5 Pension and other related costs		
6 Employee benefits		
7 Indirect materials and supplies		
8 Purchasing costs		
9 Handling, processing, assembly, and repackaging costs		
10 Offsite storage and warehousing costs		
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
12 Depletion		
13 Rent		
14 Taxes other than state, local, and foreign income taxes		
15 Insurance		
16 Utilities		
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity		
18 Engineering and design costs (not including section 174 research and experimental expenses)		
19 Rework labor, scrap, and spoilage		
20 Tools and equipment		
21 Quality control and inspection		
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant		
23 Licensing and franchise costs		
24 Capitalizable service costs (including mixed service costs)		
25 Administrative costs (not including any costs of selling or any return on capital)		
26 Research and experimental expenses attributable to long-term contracts		
27 Interest		
28 Other costs (Attach a list of these costs.)		

Part III Method of Cost Allocation (see instructions) (continued)

Section C—Other Costs Not Required To Be Allocated (Complete Section C only if the applicant is requesting to change its method for these costs.)

	Present method	Proposed method
1 Marketing, selling, advertising, and distribution expenses		
2 Research and experimental expenses not included in Section B, line 26		
3 Bidding expenses not included in Section B, line 22		
4 General and administrative costs not included in Section B		
5 Income taxes		
6 Cost of strikes		
7 Warranty and product liability costs		
8 Section 179 costs		
9 On-site storage		
10 Depreciation, amortization, and cost recovery allowance not included in Section B, line 11		
11 Other costs (Attach a list of these costs.)		

Schedule E—Change in Depreciation or Amortization (see instructions)

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants **must** provide this information for each item or class of property for which a change is requested.

Note. See the **List of Automatic Accounting Method Changes** in the instructions for information regarding automatic changes under sections 56, 167, 168, 197, 1400I, 1400L, or former section 168. **Do not** file Form 3115 with respect to certain late elections and election revocations (see instructions).

- 1** Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)? **Yes** **No**
If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).
- 2** Is any of the depreciation or amortization required to be capitalized under any Code section (e.g., section 263A)? **Yes** **No**
If "Yes," enter the applicable section ► _____
- 3** Has a depreciation, amortization, or expense election been made for the property (e.g., the election under sections 168(f)(1), 179, or 179C)? **Yes** **No**
If "Yes," state the election made ► _____
- 4a** To the extent not already provided, attach a statement describing the property being changed. Include in the description the type of property, the year the property was placed in service, and the property's use in the applicant's trade or business or income-producing activity.
- b** If the property is residential rental property, did the applicant live in the property before renting it? . . . **Yes** **No**
- c** Is the property public utility property? **Yes** **No**
- 5** To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the property is treated under the applicant's present method (e.g., depreciable property, inventory property, supplies under Regulations section 1.162-3, nondepreciable section 263(a) property, property deductible as a current expense, etc.).
- 6** If the property is not currently treated as depreciable or amortizable property, attach a statement of the facts supporting the proposed change to depreciate or amortize the property.
- 7** If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information for both the present (if applicable) and proposed methods:
 - a** The Code section under which the property is or will be depreciated or amortized (e.g., section 168(g)).
 - b** The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
 - c** The facts to support the asset class for the proposed method.
 - d** The depreciation or amortization method of the property, including the applicable Code section (e.g., 200% declining balance method under section 168(b)(1)).
 - e** The useful life, recovery period, or amortization period of the property.
 - f** The applicable convention of the property.
 - g** A statement of whether or not the additional first-year special depreciation allowance (for example, as provided by section 168(k), 168(l), 168(m), 168(n), 1400L(b), or 1400N(d)) was or will be claimed for the property. If not, also provide an explanation as to why no special depreciation allowance was or will be claimed.

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Form 3115 - Application for Change in Accounting Method - ATTACHMENT 1
Year Ended 12/31/14

Form 3115, Page 2, Part II

Question 9b - The taxpayer has pending a request for automatic accounting methods 184, 186 and 192 (concurrently).

Question 12a - Depreciable life of fixed assets. The Taxpayer is changing the classification of various items previously classified as non-residential real property as shown below.

Questions 12b and 12c:

Year Placed in Service	Description	Corrected Asset Class	12b Current Method	12c Corrected Method
1999	Building	00.3 - Land Improvements	MACRS 27.5 yr, SL	MACRS 15 yr, 150DB
1999	Building	00.12 - Information Systems	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
1999	Building	57.0 - Distributive Trades and services	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2000	Building	00.3 - Land Improvements	MACRS 27.5 yr, SL	MACRS 15 yr, 150DB
2000	Building	00.12 - Information Systems	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2000	Building	57.0 - Distributive Trades and services	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2001	Building	00.3 - Land Improvements	MACRS 27.5 yr, SL	MACRS 15 yr, 150DB
2001	Building	00.12 - Information Systems	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2001	Building	57.0 - Distributive Trades and services	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2002	Building	00.3 - Land Improvements	MACRS 27.5 yr, SL	MACRS 15 yr, 150DB
2002	Building	00.12 - Information Systems	MACRS 27.5 yr, SL	MACRS 5yr, 200DB
2002	Building	57.0 - Distributive Trades and services	MACRS 27.5 yr, SL	MACRS 5yr, 200DB

Question 12d - Taxpayer's overall method of accounting is the accrual method. Taxpayer has claimed less than the allowable amount of depreciation with regard to certain assets.

Question 13 - Taxpayer owns and operates an apartment complex property. Business activity code is 531110 and overall method of accounting is accrual.

Question 14 - No, the taxpayer keeps its financial statement depreciation on the estimated asset lives and rules not described in the IRS code.

Form 3115, Page 3, Part IV

Question 25 - The IRC 481(a) adjustment was computed by comparing the accumulated depreciation at December 31, 2013 using the current method to the accumulated depreciation at the same date using the proposed recovery periods and methods.

Accumulated Depreciation before Change	6,256,977
Accumulated Depreciation after Change	<u>7,401,723</u>
481(a) Adjustment	<u><u>(1,144,746)</u></u>

Form 3115, Page 8, Schedule E, Part II

Question 4a - See answer to Question 12b above.

Question 5 - See answer to Question 12b above.

Question 7a - The land improvements, information systems, and distributive trades and services are depreciated and will continue to be depreciated per the Accelerated Cost Recovery System provisions of IRC Section 168.

Question 7b - See answer to Question 12b above.

Question 7c - The taxpayer has performed a cost segregation study on various assets and has determined that some of these identified assets were being depreciated using the incorrect method. The taxpayer has identified the following assets in its change in accounting method.

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

Asset Classification Summary

	5yr Property	7yr Property	15yr Property	27.5yr Property	Totals
Site Preparation	-	-	51,413	61,651	113,064
Land Improvements	-	-	574,276	-	574,276
Structural Concrete	-	-	-	470,554	470,554
Structural Members/Framing	-	-	-	2,392,571	2,392,571
Thermal & Moisture Protection	-	-	-	148,270	148,270
Plumbing	-	-	-	2,201,787	2,201,787
HVAC	-	-	-	1,660,389	1,660,389
Electrical	315,926	-	-	1,154,464	1,470,390
Doors & Windows	-	-	-	407,973	407,973
Cabinetry / Millwork	766,254	-	-	-	766,254
Finishes	630,938	-	-	640,502	1,271,440
Miscellaneous Specialties	79,426	-	-	621,890	701,316
Totals	\$ 1,792,544	\$ -	\$ 625,689	\$ 9,760,051	\$ 12,178,284

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

Site Preparation

The depreciation of costs associated with site preparation such as grading is supported by Revenue Ruling 65-265, 1965, C.B. 52. It states:

“The cost attributable to excavation, grading, and removing soil necessary for the proper setting of the buildings and paving of the roadways are part of the cost of those assets, and should be included in the depreciable base for the buildings and roadways...”

Revenue Ruling 68-193, 1968-1, C.B. 79, clarified Revenue Ruling 65-265 stating:

“The costs paid or incurred for the grading (and excavation) are depreciable since the grading (and excavation) would be retired, abandoned, or replaced with the depreciable asset with which it is directly associated...”

Also, in *Trailmont Park, Inc.*, TC Memo 1971-212, the Court held that the costs of clearing, grading, terracing, and landscaping were an integral part of the construction and development of a mobile home park and were depreciable over the same period as the pads, patios, and other improvements.

Revenue Ruling 74-265, 1974-1, C.B. 56 further supports this position. It states:

“Land preparation may be subject to the depreciation allowance, however, if it is closely associated with depreciable assets so that it is possible to establish a determinable period over which the preparation will be useful in a particular trade or business.”

Accordingly, the site preparation costs attributable to the land improvements qualify as Asset Class #00.3 (Land Improvements) for tax depreciation purposes.

Land Improvements

Revenue Procedure 87-56 defines Land Improvements as follows:

“Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in Class 51), wharves and docks, bridges, fences, landscaping, shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations.”

Section 167 of the Internal Revenue Code sets forth the general rule that there shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held for the production of income. Section 167(a)-2 of the Income Tax Regulations provides, in part, that the depreciation allowance does not apply to land apart from the improvement or physical development added to the land, which has a limited period of use and experiences exhaustion and wear and tear.

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

Also, in *Trailmont Park, Inc.*, TC Memo 1971-212, the Court held that the costs of clearing, grading, terracing, and landscaping were an integral part of the construction and development of a mobile home park and were depreciable over the same period as the pads, patios, and other improvements. The IRS conceded in its Action on Decision:

“The useful life of the landscaping is comparable to that of other depreciable improvements such as water and sewer lines and paving, since the construction required in replacing these items would probably destroy much, if not all, of the landscaping.”

Accordingly, the subject property’s landscaping, sidewalks, light poles, pool, tennis court and sand volleyball court qualify as Asset Class #00.3 (Land Improvements) for tax depreciation purposes.

Electrical

Special Purpose and Decorative Lighting

Special purpose and decorative lighting found in the buildings include supplemental emergency lighting, exit signs, chandeliers, and lighted ceiling fans. In the Senate Finance Committee Report, Revenue Act of 1978 (S. Rep. 95-1263, 1978-3, C.B. 315, 410-423), Congress recognized that:

“Special lighting, which has no more than an incidental relationship to the operation or maintenance of a building, constitutes personal property.”

In *Morrison, Inc. v Commissioner*, No. 34300-83, TCM 1986-129, March 31, 1986, the Court reaffirmed Congress’ decision holding that the taxpayer’s emergency lighting constituted personal property and noted that lighting fixtures and electrical connections that “do not provide basic illumination” and that are “accessory to a business” do not constitute structural components of a business. Again, in *Metro National Corp. v. Commissioner*, TCM 1987-38, 52 TCM 1440, the Court concluded that special purpose, security, decorative, and ornamental lighting are tangible personal property.

Tangible personal property includes all tangible property except building, structural components, and other inherently permanent items. Revenue Ruling 75-178, 1975-1, C.B. 9, states:

“The problem of classification of property as personal or inherently permanent should be made on the basis of the manner of attachment to the land or the structure and how permanently the property is designed to remain in place.”

The light fixtures in question are removable and movable and not permanently attached to the building. They meet the six-point test developed by the Tax Court in *Whiteco Industries, Inc. v. Commissioner*, 65 TC (1975, Acq., 180-24 IRB p. 5).

Reg. Sec. 1.48 (e) (2) included “electric wiring and lighting fixtures” as an example of a structural component. Nonetheless, the Courts have generally recognized that the definition of structural components in Reg. 1.48-1(e)(2) was not intended to be all-inclusive nor intended to list items which are structural components under all circumstances. The courts have generally

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

stated that the defining factor is the last item of the definition in Reg. Sec. 1.48-1(e) (2), “and other components relating to the operation and maintenance of the building.” None of the lighting included in this category relates to the normal operation of the building; it was intended for a purpose other than providing general illumination in the building.

Accordingly, the special purpose lighting qualifies as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

Exterior lighting

The exterior building lights qualify as tangible personal property in accordance with Reg. Sec. 1.1245-3(b), as defined by Reg. Sec. 1.48-1(c). Tangible personal property includes all tangible property except building, structural components, and other inherently permanent items. Revenue Ruling 75-178, 1975-1, CB 9, states that the classification of property as personal, or inherently permanent, is to be made on the basis of the manner of attachment to the building and how permanently the property is designed to remain in place. These light fixtures are easily removable and movable, interchangeable, and not permanently attached. They meet the stringent six-point test developed by the Tax Court in *Whiteco Industries v. Commissioner*, 65 TC 664 (1975, Acq., 1980-24 IRB p. 5) under which much more permanently affixed items have been characterized as tangible personal property. See also, *Minot Federal Savings & Loan Association v. U.S.*, 313 F. Supp. 294 (DND, 1970), aff’d 435 F. 2d 1368 (CA-8, 1971).

Reg. Sec. 1.48-1(e) (2) includes “electric wiring and lighting fixtures” as an example of a structural component. Nonetheless, in the Senate Finance Committee Report, the Revenue Act of 1978 (S. Rep. 95-1263, 1978-3, CB 315, 410-423), Congress recognized that “special lighting,” which has no more than an incidental relationship to the operation or maintenance of a building, constitutes personal property. Congress cited lighting illuminating the exterior of a building or store as an example. It has long been recognized that the list of structural components in Reg. Sec. 1.48-1(e) (2) is neither all-inclusive nor intended to represent assets which are structural components under all circumstances. The defining factor in the definition of structural components is the last item listed, “and other components relating to the operation and maintenance of the building.” None of the exterior lighting included in this category relates to the normal operation of the building.

See also, *Morrison, Inc. v. Commissioner*, TC Memo 1986-129; *Metro National Corp. v. Commissioner*, TC Memo 1987-38, 52 TCM 1440; *King Radio Corporation, Inc. v. U.S.*, 486 F.2d 1091 (CA-10, 1973); and *Estate of Shirley Morrison v. Commissioner*, 448 F.2d 1397 (CA-9, 1971).

Accordingly, the exterior building lights qualify as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

Telephone and Information Systems Accessories

The telephone and information systems accessories include data equipment and related wiring. These items are used only and directly with the telephone and computer equipment. Absent the existence of these items, the equipment would be inoperable.

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

The telephone and information system accessories qualify as tangible personal property in accordance with Reg. Sec. 1.1245-3(b), as defined by Reg. Sec. 1.48-1(c). See Revenue

Ruling 66-299, 1966-2 C.B. 14; Revenue Ruling 69-588, 1969-2 C.B. 4; *Scott Paper Co. v. Commissioner*, 74 TC 137 (1980); *Morrison, Inc. v Commissioner*, No. 34300-83, TCM 1986-129, March 31, 1986; and *Central Citrus Co. v. Commissioner*, 58 TC 365 (1972). All contend that items which are necessary and used directly with specific items of machinery or equipment are essentially items of machinery or equipment, thus qualifying as tangible personal property. *Hospital Corporation of America and Subsidiaries v. Commissioner*, 109 TC 21, CCH Dec. 52,163 (1997), reaffirmed those earlier decisions stating that conduit, floor boxes, power boxes, outlet jacks, and wiring relating to telephone equipment and internal communication equipment constitutes tangible personal property.

Furthermore, these items do not bear any relationship to the operation and maintenance of the building. Therefore, they do not qualify as structural components in accordance with Reg. Sec. 1.48-1(e) (2). The courts have long recognized that the defining factor in the definition of structural components is the last item in Reg. Sec. 1.48-1(e) (2), “and other components relating to the operation and maintenance of the building.”

Accordingly, the telephone and information systems accessories qualify as Asset Class #00.12 (Information Systems) for tax depreciation purposes.

Cabinetry

The buildings contain base and wall cabinetry in the kitchens. Although these assets are screwed down to provide stability, in no way are they permanent, nor were they intended to be permanent. Revenue Ruling 75-178, 1975-1, C.B. 9 states:

“The problem of classification of property as personal or inherently permanent should be made on the basis of the manner of attachment to the land or the structure and how permanently the property is designed to remain in place.”

Also, in *Metro National Corp. v. Commissioner*, TCM 1987-38, cabinetry that caused no damage to the building upon removal, was considered non-permanent and found to be tangible personal property. The court stated:

“...cabinets are not structural components relating to the operation and maintenance of the buildings. They are not designed or constructed to remain in place, but are capable of being, and have been, removed or eliminated, depending on the tenant’s business needs. They are, in our judgment, accessory to a business... They are not related to the operation and maintenance of the building.”

Accordingly, the cabinetry qualifies as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

Flooring

Flooring finishes include heavy traffic carpet. Carpet was specifically designated as tangible personal property in Revenue Ruling 67-349, 1967-2, C.B. 48. The Senate Finance Committee Report, Revenue Act of 1978 (s. Rep. 95-1263, 1978-3, CB 315, 410-423), provides additional support stating:

“Floor coverings which are not an integral part of the floor itself, such as floor tile, generally installed in a manner to be readily removed (that is it is not cemented, mudded, or otherwise permanently affixed to the building floor but, instead, has adhesives applied which are designed to ease its removal)...are considered tangible personal property and not structural components.”

In *Hospital Corporation of America and Subsidiaries v. Commissioner*, 109 TC 21 (1997), carpet was determined to be tangible personal property. The Court concluded:

“Carpeting is not an integral part of the floor and satisfies the criteria for tangible personal property outlined in *Whiteco Industries, Inc v. Commissioner*, 65 TC 644 (1975, Acq., 1980-24 IRB p. 5)... Petitioners have shown that they did not intend for the carpeting to be permanently affixed to the underlying floor.”

Accordingly, the carpet qualifies as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

Miscellaneous Specialties

Alarm System

The buildings are equipped throughout with smoke detectors. These qualify as tangible personal property in accordance with Reg. Sec. 1.1245-3(b), as defined by Reg. Sec. 1.48-1(c). Tangible personal property includes all tangible property except buildings, structural components, and other inherently permanent structures.

Revenue Ruling 75-178, 1975-1, C.B. 9, states:

“Classification of property as personal or inherently permanent should be made on the basis of the manner of attachment to the land or the structure and how permanently the property is designed to remain in place.”

The detectors are not permanently attached to the buildings. Furthermore, they do not bear any relationship to the operation and maintenance of the buildings; therefore, they do not qualify as structural components in accordance with Reg. Sec. 1.48-1(e) (2). The courts have long recognized that the defining factor in the definition of structural components is the last item in Reg. Sec. 1.48-1(e) (2), “and other components relating to the operation and maintenance of the building.”

Accordingly, the smoke detectors qualify as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

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Form 3315 – Application for Change in Accounting Method – ATTACHMENT 1 (CONTINUED)
Year Ended 12/31/14

Fire Extinguishers

The buildings contain fire extinguishers as required by code. These assets qualify as tangible personal property in accordance with Reg. Sec. 1.1245-3(b), as defined by Reg. Sec. 1.48-1(c). Tangible personal property includes all tangible property except buildings, structural components, and other inherently permanent structures.

Revenue Ruling 75-178, 1975-1, C.B. 9, states:

“Classification of property as personal or inherently permanent should be made on the basis of the manner of attachment to the land or the structure and how permanently the property is designed to remain in place.”

They are not permanently attached to the buildings, nor do they bear any relationship to the operation and maintenance of the buildings; therefore, they do not qualify as structural components in accordance with Reg. Sec. 1.48-1(e) (2). The courts have long recognized that the defining factor in the definition of structural components is the last item in Reg. Sec. 1.48-1(e) (2), “and other components relating to the operation and maintenance of the building.”

Accordingly, the fire extinguishers qualify as Asset Class #57.0 (Distributive Trades and Services) for tax depreciation purposes.

TIN: [REDACTED]

Form 3115 - Application for Change in Accounting Method - ATTACHMENT 2
Year Ended 12/31/14

Question 7d, 7e, and 7f:

Year Placed in Service	Description	7d		7e		7f	
		Present Method	Proposed Method & IRC Sect.	Present Recovery Period	Proposed Recovery Period	Present Convention	Proposed Convention
1999	Building	MACRS SL	MACRS 150DB Sec 168(b)(2)	27.5	15	Mid-month	Half-year
1999	Building	MACRS SL	MACRS 150DB Sec 168(b)(1)	27.5	5	Mid-month	Half-year
2000	Building	MACRS SL	MACRS 150DB Sec 168(b)(2)	27.5	15	Mid-month	Half-year
2000	Building	MACRS SL	MACRS 150DB Sec 168(b)(1)	27.5	5	Mid-month	Half-year
2001	Building	MACRS SL	MACRS 150DB Sec 168(b)(2)	27.5	15	Mid-month	Half-year
2001	Building	MACRS SL	MACRS 150DB Sec 168(b)(1)	27.5	5	Mid-month	Half-year
2002	Building	MACRS SL	MACRS 150DB Sec 168(b)(2)	27.5	15	Mid-month	Half-year
2002	Building	MACRS SL	MACRS 150DB Sec 168(b)(1)	27.5	5	Mid-month	Half-year

Question 7g - Adjustment includes the maximum allowable special depreciation deductions as provided in code section 168(k).

Additional Information Required by Rev. Proc. 2011-14, Section 6.01 Appendix

- (i) Detailed description of the former and new methods of accounting - See answer to Question 12b above.
- (ii) Statement describing the taxpayer's business or income producing activities - See answer to Question 13 above.
- (iii) Statement of the facts and law supporting the new method of accounting, new classification or the item of property, and new asset class in Rev. Proc. 87-56 - See answer to Question 7c above.
- (iv) The year in which the property was placed in service - See answer to Question 12b above.
- (v) Public utility property - Not applicable.

(vi) Retail motor fules outlet under Section 168(e)(3)(E)(iii) - Not applicable.

(vii) Statement of the facts and law supporting the change of classification of Section 1250 property to Section 1245 property and related representation:

Each item of depreciable property that is the subject of the application filed under section 6.01 of the Appendix of Rev. Proc. 2011-14 for the year of change ending on or after April 30, 2010, and that is reclassified from non-residential real property, residential rental property, qualified leasehold improvement property, qualified restaurant property, or qualified retail improvement property to an asset class of Rev. Proc. 87-56, that does not explicitly include Section 1250 property, is Section 1245 property for depreciation purposes.

Miscellaneous Information

The taxpayer agrees to the terms and conditions of Revenue Procedure 2011-14 that are necessary to effect the method change included in this application.

The taxpayer deducts negative 481(a) adjustments over one year and adds back positive 481(a) adjustments over four years per Revenue Procedure 2002-54.