

SUMMARY RESULTS AND PROPERTY DETAILS

Property details and property type		Single Family Home
Project type		Purchase and renovated
Building square feet		1,380
Street address		
City, state, zip code		Los Angeles, CA 91423
Acquisition cost		\$630,000
Land allocation*		\$315,000
Unadjusted basis for study		\$315,000
Date property initially placed in service		3/10/2021
Additional capital improvements for study		\$76,250
Current tax filing year		2025
Bonus Depreciation on initial placed in service property		0.00%

Initial placed in service date results	Unadjusted basis	Ratio to basis
5 year recovery period	\$22,619.83	7%
7 year recovery period	\$0.00	0%
15 year recovery period	\$55,101.18	17%
27.5 year recovery period	\$237,278.99	75%
Unadjusted basis	\$315,000.00	100%

Additional capital improvement results	Unadjusted basis	Ratio to basis
5 year recovery period	\$10,913.83	14%
7 year recovery period	\$0.00	0%
15 year recovery period	\$21,200.00	28%
27.5 year recovery period	\$44,136.17	58%
Additional CAPEX basis	\$76,250.00	100%

Depreciation increase and estimated tax savings		
Depreciation through December 31, 2025	\$53,564.00	\$122,852.67
Estimated net depreciation increase		\$69,288.67
Current year tax benefit with study***		\$25,636.81
R.E. Cost Seg fee		\$2,240
Payback ratio (Current year benefit : Fee)		11:1

*Land value taken from the depreciation schedule provided by the client. **Indirect Costs are distributed by weight to direct cost assets. As a result the 'Year Assets' contain total direct and indirect costs. ***Tax savings based on 37% rate.

What to Enter:

1. Replace the one Building with 3 entries. Because you are splitting into 3, you must also split prior depreciation. Prior Depr is total from 2021 to 2024.

Description	In Service	Cost Basis	Method	Prior Depreciation
4750 Buffalo -Cost Seg 5 Year	3/10/2021	\$22,620	53 (5 year %)	\$prior amount x 7%
4750 Buffalo -Cost Seg 15 Year	3/10/2021	\$55,101	66 (15 year %)	\$prior amount x 18%
4750 Buffalo -Cost Seg 27.5 Year	3/10/2021	\$237,279	85 (27.5 yr SL)	\$prior amount x 75%
Total Building still =		\$315,000		\$Prior Amount
it's just distributed across it's true tax lifespans				

2. Add 3 additional lines for Additional Capital Improvements / CAPEX (capital expenditures)

Description	In Service	Cost Basis	Method	Prior Depreciation
4750 Buffalo -Cost Seg CAPEX 5 Year	ck excel	\$10,914	53 (5 year %),	\$0
4750 Buffalo -Cost Seg CAPEX 15 Year	ck excel	\$21,200	66 (15 year %)	\$0
4750 Buffalo -Cost Seg CAPEX 27.5 Year	ck excel	\$44,136	85 (27.5 yr SL)	\$0
Total CAPEX		\$76,250		
CAPEX Inservice Date , check excel to see when improvement was completed				

3. ALL other existing depreciated items; ex appliances, tools, etc. Check to see if they have been included in capex.
 - a. If existing items are not in capex, leave items as is in depreciation
 - b. If existing items are included in capex, reduce capex amount by these items
4. 481(a) Adjustment. This is where you get catch-up adjustment. I.E., additional deduction. Amount should be on cost seg report.
 - The amount is \$69,289
 - **Enter on Form 3115**, page 4, 481(a) as negative number. AND **on Schedule E, Other Deductions** as positive number. Desc="Section 481(a) Adj (form 3115) -Cost Seg"
 - Schedule E will contain current year depreciation on depr line and catch up depr in other deductions
 - 481(a) = Old / Taken Depreciation – New Depreciation (53,564 – 122,853 = -69,289)

Enter Info on - Form 3115, Page 8, Schedule E

Great. Let's look at how to fill out the **Old Method vs. New Method** details on **Form 3115, Schedule E (Change in Depreciation)** inside Lacerte.

Lacerte has a dedicated sub-screen specifically for Schedule E of Form 3115. Because you are splitting one macro-asset into three segments, the cleanest way to report this on Schedule E is to handle the descriptions by asset class types (27.5-year property, 5-year personal property, and 15-year land improvements).

Step 1: Navigate to the 3115 Schedule E Screen – Screen 66

Step 2: Input the "Old Method" vs. "New Method" Details

You will create line entries or a text statement describing the properties undergoing the change. For your cost segregation adjustments, fill out the columns using these exact technical specifications:

1. For the 5-Year Personal Property Segment

- **Description of Property:** Personal Property (5-Year MACRS reclassified via Cost Segregation)
- **Date Placed in Service:** 03/10/2021
- **Old Depreciation Method:** Straight Line (as part of 27.5-year macro building asset)
- **Old Recovery Period:** 27.5 Years
- **Old Convention:** Mid-Month
- **New Depreciation Method:** 200% Declining Balance (MACRS) *or* Straight Line (MACRS) (*Choose the method you selected in Screen 22*)
- **New Recovery Period:** 5 Years
- **New Convention:** Half-Year (*or Mid-Quarter if applicable, though Half-Year is standard*) [1, 3, 4]

2. For the 15-Year Land Improvements Segment

- **Description of Property:** Land Improvements (15-Year MACRS reclassified via Cost Segregation)
- **Date Placed in Service:** 03/10/2021
- **Old Depreciation Method:** Straight Line (as part of 27.5-year macro building asset)
- **Old Recovery Period:** 27.5 Years
- **Old Convention:** Mid-Month
- **New Depreciation Method:** 150% Declining Balance (MACRS) *or* Straight Line (MACRS)
- **New Recovery Period:** 15 Years
- **New Convention:** Half-Year [1, 3, 4]

3. For the Remaining 27.5-Year Structural Component

- **Description of Property:** Residential Rental Structural Component (27.5-Year)
 - **Date Placed in Service:** 03/10/2021
 - **Old Depreciation Method:** Straight Line
 - **Old Recovery Period:** 27.5 Years
 - **Old Convention:** Mid-Month
 - **New Depreciation Method:** Straight Line (*The method stays the same, but the overall cost basis drops to \$237,278.99*)
 - **New Recovery Period:** 27.5 Years
 - **New Convention:** Mid-Month [1]
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Step 3: Complete the Rest of Schedule E (Form 3115)

Lacerte will ask a few standard checkbox questions at the bottom of the Schedule E data entry screen: [1, 2]

- **Is the change made under an automatic revenue procedure?** Check **Yes**.
- **Did you attach a copy of the cost segregation study?** The IRS technically requires a descriptive statement of the property. Many tax professionals attach the summary page of the cost segregation report as a PDF attachment in Lacerte.

Step 4: Verify the Math Ties Out

Scroll down to the bottom of the Form 3115 inputs to ensure your calculation summary fields match your report:

1. **Total "New" Depreciation Allowable:** 122,852.67
2. **Total "Old" Depreciation Claimed:** 53,564.00
3. **Net Section 481(a) Adjustment:** 69,288.67