

Example 9.

- In 2000, a calendar year taxpayer
- Engaged in a manufacturing business (knitted goods)
- Purchased and placed in service a building at a cost of \$10,000,000 for use in its manufacturing operations.
- Taxpayer classified the \$10,000,000 as nonresidential real property under section 168(e) with no elections under section 168 on its 2000 Federal tax return.
- On its 2000, 2001, and 2002 tax returns, taxpayer depreciated the \$10,000,000 cost using the S/L method of depreciation, a 39-year recovery period, and the mid-month convention.
- In 2003, taxpayer completes a cost segregation study on the building and identified building components that cost \$1,500,000 as section 1245 property.
- As a result, the \$1,500,000 should have been classified in 2000 as 5-year property and depreciated on taxpayer's 2000, 2001, and 2002 tax returns using the 200-percent declining balance method of depreciation, a 5-year recovery period, and the half-year convention.
- Pursuant to paragraph (e)(2)(ii)(d)(2)(i) of this section, Taxpayer's change to this depreciation method, recovery period, and convention is a change in method of accounting. This method change results in a section 481 adjustment. The useful life exception under paragraph (e)(2)(ii)(d)(3)(i) of this section does not apply because the assets are depreciated under section 168.