

# BDO KNOWS: FIXED ASSETS

## ► TITLE

### CLASSIFICATION OF SERVICE STATIONS FOR DEPRECIATION PURPOSES

## ► SUBJECT

Oil change businesses, repair shops, car washes, and automobile dealerships owning such facilities, as well as other taxpayers, may benefit from a recent IRS clarification of the definition of real property eligible to be depreciated as a 15-year motor vehicle service station.

## ► DETAILS

The Service recently issued informal guidance, in the form of a Chief Counsel Advice, to the effect that an industrial building containing office space, restrooms, work rooms, a mechanical room, truck service center, and a truck wash was depreciable over 15 years for federal income tax purposes.<sup>1</sup> The site also consisted of a fuel island, paved lot with parking spaces, and billboards. At issue was whether the building was depreciable as 15-year property, pursuant to Rev. Proc. 87-56, Activity Class 57.1: Distributive Trades and Services - Billboards, Service Station Buildings and Petroleum Marketing Land Improvements. In reaching this conclusion, the Service stated that the primary use of the building, consisting of approximately 84% of its square footage, was as a service station building. Accordingly, the entire building was classified under Activity Class 57.1.

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<sup>1</sup> CCA 201123001 (Feb. 24, 2011). Pursuant to section 6110(k)(3), this document may not be used or cited as precedent. However, such guidance does provide the public with an indication of how the Service may apply the relevant provisions of law to other similarly-situated taxpayers.



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Further enhancing the tax benefit for this group of assets is the eligibility of 15-year property for bonus depreciation. For property acquired after September 8, 2010, and before January 1, 2012, and placed into service before January 1, 2012, the *entire* cost of the property or improvements may be deducted as an expense through the 100% bonus depreciation provisions in its first year of use as long as the property's original use also begins with the taxpayer. Additionally, for property or improvements for this group of assets placed in service after December 31, 2007, and prior to September 9, 2010, as well as all of 2012, 50% bonus depreciation may be available.

## ► SUMMARY

Nonresidential real property is typically depreciated over 39 years, but Activity Class 57.1 of Rev. Proc. 87-56 effectively creates an exception for service station buildings, car washes, and other property related to the marketing of petroleum products to be depreciated over 15 years, allowing taxpayers to recover their costs more quickly. When that property is eligible for 100% bonus depreciation, its entire cost may be deducted in the year it is placed in service.

Even if service stations or car washes were originally depreciated over 39 years, Form 3115, Application for Change in Accounting Method, may be filed under Rev. Proc. 2011-14 to reclassify those assets as 15-year property and reclaim the originally-missed depreciation. This is an automatic change that does not require the prior consent of the Service. A section 481(a) "catch-up" deduction will capture the missed deductions, including bonus depreciation, in the year of the method change. Oil change businesses, repair shops, car washes, and automobile dealerships owning such facilities are among the taxpayers benefitting from these provisions.

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