9 Depreciation

Tab 9 Contents

MACRS Half-Year Convention Depreciation Rates 3-, 5-, 7-, 10-, 15-, and 20-Year Property

Year	*200DB 3-year*	*200DB 5-year*	*200DB 7-year*	*200DB 10-year*	*150DB 15-year*	*150DB 20-year*
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

New for 2024

- **Section 179 limits.** Section 179 deduction limits have increased. See *Section 179 Limits,* page 9-7.
- **Phase down of special depreciation allowance.** The special depreciation allowance is 60% for qualified property placed in service in 2024. See *Special depreciation limits,* page 9-10.

Common Elections

- Election to use the alternative depreciation system (ADS), page 9-4.
- Election to claim Section 179 deduction, page 9-7.
- Election out of special depreciation, page 9-11.
- Capitalize repair and maintenance costs election, page 9-12.
- De minimis safe harbor election, page 9-12.
- Small taxpayer safe harbor election – improvements, page 9-12.
- Election to capitalize certain materials and supplies, page 9-13.
- Election to use general asset account (GAA), page 9-14.
- Election to make a positive section 481 adjustment in the year of change, page 9-16.
- Election to treat a like-kind exchange or involuntary conversion as a disposition, page 9-18.

MACRS Recovery Periods (page 9-18)

Common Assets	GDS
Any property without a designated class life	7 years
Appliances, carpets, furniture, etc., used in residential rental real estate activities	5 years
Automobiles and trucks	5 years
Computers and peripheral equipment	5 years
Farm buildings (other than single-purpose)	20 years
Farm machinery and equipment (new)[1]	5 years
Farm machinery and equipment (used)	7 years
Fences	15 years
Fences (agricultural)	7 years
Land	Not depreciable
Land improvements	15 years
Nonresidential real estate (including home office)	39 years
Office machinery (calculators, copiers, etc.)	5 years
Office furniture and fixtures (desks, files, safes)	7 years
Qualified improvement property	15 years
Rent-to-own property (qualified)	3 years
Residential rental property (buildings)	27.5 years
Single-purpose agricultural or horticultural structures	10 years
Tractor units for over the road	3 years
Trees or vines bearing fruit or nuts	10 years

[1] Does not include grain bin, cotton ginning asset, fence, or other land improvements.

Depreciation Formulas Under MACRS (page 9-2)

Depreciation in first year:

$$\text{Cost} \times \frac{1}{\text{Recovery period}} \times \begin{matrix}\text{200\% (200DB) or}\\ \text{150\% (150DB) or}\\ \text{100\% (SL)}\end{matrix} \times \text{Convention} = \text{Depreciation}$$

Depreciation in subsequent years:

$$\begin{matrix}\text{Cost minus}\\ \text{depreciation in}\\ \text{previous years}\end{matrix} \times \frac{1}{\text{Recovery period}} \times \begin{matrix}\text{200\% (200DB) or}\\ \text{150\% (150DB) or}\\ \text{100\% (SL)}\end{matrix} = \text{Depreciation}$$

Depreciation and Amortization (Form 4562)

Cross References

- Form 4562, *Depreciation and Amortization*
- Form 4797, *Sales of Business Property*
- IRS Pub. 534, *Depreciating Property Placed in Service Before 1987*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §167, *Depreciation*
- IRC §168, *Accelerated cost recovery system*

Related Topics

- Business Use of Home, page 5-13
- Depreciation Recapture—Sale of Business or Investment Property, page 6-17
- Business Deductions, page 8-4
- Automobiles and Listed Property, Tab 10

Basics of Depreciation

Depreciation is an annual deduction that allows the taxpayer to recover the cost of certain property over a prescribed number of years. Depreciation is generally required for property that has a useful life more than one year. For exceptions, see *Section 179 Deduction,* page 9-7, and *Special Depreciation Allowance,* page 9-10.

To be depreciable, property must meet all of the following requirements.

- The taxpayer generally must own the property (for an exception, see *Leased property,* page 9-3),
- The property must be used in the taxpayer's business or income-producing activity,
- The property must have a determinable useful life, and
- The property must be expected to last more than one year.

Land. Because land does not wear out, become obsolete, or get used up, the cost of land is not depreciable. Costs of clearing, grading, planting, and landscaping generally are included in the cost of the land. Certain land preparation costs incurred in preparing land for business use may be depreciable. See *Land preparation and improvements,* page 9-3.

Amortization. Amortization is another method of recovering certain costs over a fixed period of time. Amortization is used for intangible assets and is similar to straight-line depreciation. The IRS has designated certain "Section 197 intangibles" as eligible for amortization over 15 years. See *Intangible Assets,* page 9-13. Other examples of costs that can be amortized are business start-up costs, reforestation, and pollution control facilities.

Form 4562

File a separate Form 4562, *Depreciation and Amortization,* for each business or activity for which Form 4562 is required. See *When to File Form 4562* chart, next column.

Exception: Combine all Section 179 deductions from different activities and report the total on a single Form 4562.

If Form 4562 is not required, report ongoing depreciation and amortization amounts directly on the appropriate line of the applicable form or schedule, such as Schedule C (Form 1040) for a sole proprietor. If Form 4562 is required for any reason, fill the form out completely including depreciation or amortization from prior year acquisitions.

Section 179 for partnerships and S corporations. If a Section 179 expense is reported by a partnership or S corporation on Form 4562, do not include the amount in the total on line 22 of Form 4562. The Section 179 expense instead flows through to partners and S corporation shareholders on Schedules K-1. For more information about reporting pass-through items, see *S Corporations,* Tab 19, and *Partnerships and LLCs,* Tab 20.

When to File Form 4562

	Depreciation	*Amortization*	*Section 179 Expense*
Individuals, Partnerships, and S Corporations	Property placed in service during the year.	Amortization beginning during the year.	Current-year Section 179 expense, including carryovers from a prior year.
C Corporations	All property, regardless of when placed in service.	Amortization beginning during the year.	Current-year Section 179 expense, including carryovers from a prior year.

Individuals also need to file Form 4562 in the following situations.

- Depreciation details for vehicles or other listed property used in business or investment, regardless of when placed in service.
- Mileage and other information for any vehicle using the standard mileage rate or when deducting lease expense on Schedule C (Form 1040), if other depreciation is being claimed on the same Schedule C.
- Mileage and other information for any vehicle use claimed on a form other than Schedule C (such as Schedule E or Schedule F). If claiming additional deductions on Form 2106, report mileage information there instead.

Business start-up and organizational costs. Instead of capitalizing costs incurred to start up or organize a business, a taxpayer can elect to deduct up to $5,000 for start-up costs and $5,000 for organizational expenses. The deduction is phased out dollar-for-dollar when start-up or organizational costs exceed $50,000. Remaining costs are amortized over a term of 180 months. See *Start-Up/Organizational Costs,* page 8-22.

Computing Depreciation

The following factors determine the depreciation deduction.

Depreciable basis. See *Depreciable Basis,* page 9-3.

Recovery period. Recovery periods under MACRS are predetermined based on the type of asset. See *MACRS Recovery Periods* chart, page 9-1, and *MACRS Recovery Periods,* page 9-18.

Depreciation method. Depreciation methods under MACRS include the 200% declining-balance method (200DB), the 150% declining-balance method (150DB), and the straight-line method (SL). The declining-balance methods accelerate depreciation over the early years and switch to SL in the year that SL will produce a higher deduction. See *Regular MACRS (GDS),* page 9-4.

Convention. The convention used to compute depreciation is the point during the tax year when property is considered to have been placed in service. Depending on the type of property, a mid-month, mid-quarter, or half-year convention applies. The first and last years of recovery will be partial years. 5-year property, for example, will be depreciated over six tax years. See *Conventions,* page 9-5.

Amortization. Amortization is the SL method applied to intangible assets. See *Intangible Assets,* page 9-13.

Depreciation Formulas Under MACRS

Depreciation in first year:

$$\text{Cost} \times \frac{1}{\text{Recovery period}} \times \begin{array}{c}200\%\ (200\text{DB})\ \text{or}\\ 150\%\ (150\text{DB})\ \text{or}\\ 100\%\ (\text{SL})\end{array} \times \text{Convention} = \text{Depreciation}$$

Depreciation in subsequent years:

$$\begin{array}{c}\text{Cost minus}\\ \text{depreciation in}\\ \text{previous years}\end{array} \times \frac{1}{\text{Recovery period}} \times \begin{array}{c}200\%\ (200\text{DB})\ \text{or}\\ 150\%\ (150\text{DB})\ \text{or}\\ 100\%\ (\text{SL})\end{array} = \text{Depreciation}$$

Example: Lance is a self-employed over-the-road truck driver. On March 1, 2024, Lance purchased a tractor unit for $80,000, which is the only asset he placed in service during the year. The tractor unit has a 3-year recovery period. Lance chooses to depreciate the tractor unit using the 200DB method. Since the tractor falls under the half-year convention, Lance gets a half-year of depreciation in 2024.

To compute depreciation, Lance uses the *MACRS Half-Year Convention Depreciation Rates* chart, page 9-1.

2024	$80,000	×	33.33%	=	$26,664
2025	$80,000	×	44.45%	=	35,560
2026	$80,000	×	14.81%	=	11,848
2027	$80,000	×	7.41%	=	5,928
			Total	=	$80,000

Depreciable Basis

The starting point for determining the depreciable basis in property is its cost. Also include sales tax, freight, installation charges, legal fees to transfer title, and other acquisition costs.

Exception: A taxpayer can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A (Form 1040). If state and local general sales taxes are deducted, then the taxpayer cannot also include those sales taxes as part of the cost basis.

Property converted from personal use. When property is held for personal use, then later used in a business or income-producing activity, the basis for depreciation is the lesser of the following.

- The FMV of the property on the date of the change of use, or
- The original cost or basis in the property:
  - Increased by the cost of any permanent improvements or additions and other costs which must be added to basis, and
  - Decreased by any deductions claimed for casualty and theft losses and other items which must reduce basis.

Improvements. The cost of an improvement is depreciated based on the MACRS class and recovery period of the underlying property. Depreciation of an improvement begins on the date the improvement is placed in service.

Also see *Repairs and Improvements,* page 9-11, and *Cost Segregation,* page 9-16.

Allowed or Allowable

Depreciation allowed is depreciation which is actually deducted and from which the taxpayer receives a tax benefit.

Depreciation allowable is depreciation the taxpayer is entitled to deduct, whether or not actually deducted.

If the taxpayer fails to claim allowable depreciation, the basis of the property must still be reduced by the full amount of the allowable depreciation, even though no tax benefit was realized. See *Correcting Depreciation Errors,* page 9-15.

What Can Be Depreciated

In order to be eligible for depreciation, property must:

- Be owned by the taxpayer,
- Be used in a trade or business or income-producing activity, and
- Have a determinable useful life that extends substantially beyond the year placed in service.

Exception: See *Leased property*, next column.

Intangible property. Certain intangible property, such as patents, copyrights, and software, are eligible for straight-line depreciation or amortization. See *Intangible Assets,* page 9-13.

Computer software. Computer software may be treated as a Section 197 intangible, part of a computer, a separately depreciable asset (SL method only), or a current expense. See *Recovering the Cost of Computer Software* chart, page 9-14.

Land. The cost of land cannot be depreciated.

Partial business or investment use. If a taxpayer uses property for business or investment purposes and for personal purposes, then depreciation can be deducted based only on the business or investment use. The taxpayer must keep records showing the business, investment, and personal use of the property.

Leased property. Generally, leased property is depreciable only if the taxpayer retains incidents of ownership. Incidents of ownership include legal title to the property, legal obligation to pay for the property, responsibility to pay maintenance and operating expenses, responsibility for taxes, and risk of loss if the property is destroyed, damaged, or diminishes in value. For exceptions, see *Qualified Improvement Property,* page 9-11.

Cooperative apartments. A tenant-stockholder in a cooperative housing corporation who uses the cooperative apartment in his or her business or for the production of income, can depreciate the stock in the corporation even though the corporation owns the apartment. Adjustments for the value of land and nonresidential space are required, and the depreciation deduction cannot exceed the stockholder's adjusted basis in the stock that is allocated to his or her business.

Land preparation and improvements. Although costs associated with land, such as grading and excavating, generally cannot be depreciated, certain land preparation costs incurred in preparing the land for business use may be eligible for depreciation. In order to qualify, land preparation costs must be so closely associated with other depreciable business property that a life can be determined for the preparation costs.

Example: Tim constructed a building for his business and paid for clearing, grading, and seeding to prepare the site for the structure. He also planted bushes next to the new building. If Tim were to replace the building, those bushes would have to be destroyed. The bushes are closely associated with the building so they have a determinable useful life and can be depreciated. Other land preparation costs are added to Tim's basis in the land.

Home office. A part of the home used for business may be depreciated over 39 years as nonresidential real property. For more information about deducting expenses for business use of the home, see *Business Use of Home,* page 5-13.

Excluded Property

The following property is not eligible for depreciation.

- Property placed in service and disposed of in the same year.
- Equipment used to build capital improvements. Otherwise allowable depreciation is added to the basis of improvements during the period of construction.
- Section 197 intangibles. See *Intangible Assets,* page 9-13.
- Land.
- Inventory. See *Inventory,* page 8-13.
- Certain term interests.

Certain term interests in property. A taxpayer cannot depreciate a term interest in property created or acquired after July 27, 1989 for any period during which the remainder interest is held, directly or indirectly by a person related to the taxpayer. A term interest in property means a life interest in property, an interest in property for a term of years, or income interest in a trust.

Films, videotapes, and recordings. Films, videotapes, and recordings are not eligible to be depreciated under MACRS and must generally be depreciated using the SL method or the income forecast method. See *Income Forecast Method,* page 9-16.

Equipment held for sale and rental. The IRS Office of Chief Counsel stated that a business could not depreciate equipment simultaneously held for sale to customers and designated as rental equipment. In the case in question, more than 90% of the business income came from sales. The equipment was inventory, not a depreciable asset. (CCA 201025049)

Placed in Service Date

Property is considered to be placed in service when it is ready and available for a specific use, whether in a business or an income-producing activity.

Example: On April 6, Breanne purchased a house to use as residential rental property. She made several repairs and had the house ready for rent on July 5. At that time, she began to advertise the house for rent. In July, the house was ready and available for rent and, therefore, considered to be placed in service. Breanne can claim depreciation on the house beginning in July, regardless of when she begins receiving rent.

Did You Know? Qualifying property can be considered placed in service even if it is not being used. For example, in December, 2023, Allison purchased and took delivery of a machine for her business. However, it was not installed and operational until February, 2024. Had the machine been ready and available for use when it was delivered, it would have been considered placed in service in 2023 even if it was not actually used until 2024.

Regular MACRS (GDS)/ Alternative Depreciation System (ADS)

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §168, *Accelerated cost recovery system*

Related Topics

- Sales of Business Property (Form 4797), page 6-16
- Rental Real Estate, page 7-3

Regular MACRS (GDS)

MACRS consists of two depreciation systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). A taxpayer must use GDS unless specifically required to use ADS or an election is made to use ADS.

GDS, referred to as "regular MACRS," uses shorter recovery periods and accelerated depreciation percentages compared to ADS.

200% declining-balance (200DB). 200DB is the regular MACRS method for 3-, 5-, 7-, and 10-year property. The 200DB method provides accelerated depreciation in early recovery years then switches to straight-line (SL) when the SL method yields a larger depreciation deduction.

Exception: The 150% declining-balance depreciation method applies to 3-, 5-, 7-, or 10-year property used in a farming business that was placed in service prior to January 1, 2018.

150% declining-balance (150DB). 150DB is the regular MACRS method for 15- and 20-year property. The 150DB method provides accelerated depreciation in early recovery years then switches to straight-line (SL) when the SL method yields a larger depreciation deduction.

Straight-line (SL). SL is the regular MACRS method for residential rental property, nonresidential real property, qualified improvement property, and fruit or nut bearing trees and vines.

Optional methods. The taxpayer may elect to depreciate MACRS property more slowly than under the default methods. The election is made by using one of the optional methods on Form 4562 in the year the property is placed in service. The election must cover all property in the same class placed in service that year. [IRC §168(b)(5)]

Optional GDS Depreciation Methods

If the property qualifies for…	*The optional GDS method is…*
200DB	150DB or SL
150DB	SL

Alternative minimum tax (AMT). If an accelerated depreciation method is used, a taxpayer may be subject to an AMT depreciation adjustment. See *AMT Depreciation Adjustments,* page 9-15.

Alternative Depreciation System (ADS)

Depreciation under ADS uses the SL method. ADS recovery periods are longer for most assets, resulting in a less accelerated method of cost recovery than under GDS. See *MACRS Recovery Periods,* page 9-18.

Mandatory use of ADS. ADS must be used for the following.

- Listed property used 50% or less for business. See *Business-use requirement,* page 10-9.
- Tangible property used predominantly outside the United States.
- Property used for tax-exempt purposes.
- Property financed by tax-exempt bonds.
- Farm property placed in service in any tax year in which an election not to apply UNICAP rules is in effect. See *Uniform Capitalization (UNICAP) Rules,* page 8-14.
- Certain imported property involved in trade restrictions with foreign countries covered by a Presidential Executive Order.
- Certain property of an electing real property trade or business or an electing farm business.

Special depreciation. If ADS must be used, a taxpayer cannot claim any special depreciation allowance for the property.

Election to use ADS. A taxpayer may elect to use ADS even if the property qualifies for GDS. The election is made when ADS is used on Form 4562, *Depreciation and Amortization,* on a timely-filed return (including extensions) for the year in which the property was placed in service.

The election generally must cover all property in the same property class placed in service during the year. However, the election for residential rental property and nonresidential real property can be made on a property-by-property basis. Once made, the election is irrevocable.

Alternative minimum tax (AMT). An AMT adjustment is not required for property depreciated under ADS.

Comparison of MACRS Depreciation Methods

Method	*Type of Property*	*Benefit*
GDS using 200DB	• Nonfarm 3-, 5-, 7-, and 10-year property. • Farm 3-, 5-, 7-, or 10-year property placed in service after December 31, 2017. • Method not allowed for AMT purposes.	• Provides a greater deduction during the earlier recovery years. • Changes to SL when SL provides an equal or greater deduction.
GDS using 150DB	• Farm 3-, 5-, 7-, or 10-year property placed in service before 2018. • All 15- and 20-year property. • May be elected for any property eligible for 200DB. • Must be used for AMT purposes unless SL is elected.	• Provides a greater deduction during the earlier recovery years. • Changes to SL when SL provides an equal or greater deduction.

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Comparison of MACRS Depreciation Methods continued

Method	Type of Property	Benefit
GDS using SL	• Nonresidential real property. • Residential rental property. • Qualified improvement property placed in service after 2017, page 9-11. • Trees or vines bearing fruit or nuts. • Water utility property. • May be elected for any property eligible for 200DB or 150DB.	• Provides equal yearly deductions (except for prorated first and last years). • Shorter recovery periods than ADS SL.
ADS using SL	• Listed property used 50% or less for business. • Imported property and property used predominantly outside the U.S. • Tax-exempt property. • Tax-exempt bond-financed property. • Farm property when electing not to use UNICAP rules. • Nonresidential real property, residential rental property, or qualified improvement property held by a real property trade or business electing out of the business interest expense limitation, [IRC §163(j)(7)(B)] • Property with a recovery period of 10 years or more under GDS that is held by a farming business electing out of the business interest expense limitation. [IRC §163(j)(7)(C)] • May be elected for any property.	• Provides equal yearly deductions (except for prorated first and last years). • Longer recovery periods than GDS SL.

Conventions

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*

Related Topics

- Like-Kind Exchanges (Form 8824), page 6-19
- Accounting Periods and Methods, page 8-23

MACRS Conventions

Conventions establish the point in the tax year when MACRS property is considered to be placed in service or disposed of for the purpose of computing depreciation. Use of conventions is mandatory.

MACRS Conventions

Convention	Eligible Property
Mid-Month (MM)	Use for nonresidential real property, residential rental property, and any railroad grading or tunnel bore.
Mid-Quarter (MQ)	All property placed in service during a tax year in which more than 40% of total depreciable basis was placed in service during the last three months of the tax year. When determining total depreciable basis for this purpose: • Do not reduce the total depreciable basis of property by the amount of any special depreciation allowance. • Do not include mid-month property, property placed into service and disposed of in the same year, non-MACRS property, or property expensed under Section 179.
Half-Year (HY)	Required for all property unless the mid-month or mid-quarter conventions apply.

Year placed in service. All depreciable property is considered to be placed in service on the midpoint of the month, quarter, or year, regardless of the actual date it is placed in service during the year.

Convention—Year Placed in Service

Convention	Allowable Depreciation in Year Placed in Service
Mid-Month	Multiply full-year depreciation amount by the fraction with numerator equal to the number of months the property was in service and denominator equal to 12. ***Note:*** The numerator will include a half-month.
Mid-Quarter	Multiply full-year depreciation by the following percentages, depending on quarter placed in service. 1st Quarter.................. 87.5% (= 3.5 ÷ 4) 2nd Quarter.................. 62.5% (= 2.5 ÷ 4) 3rd Quarter .... 37.5% (= 1.5 ÷ 4) 4th Quarter.................. 12.5% (= 0.5 ÷ 4)
Half-Year	Multiply full-year depreciation by 50%.

Year of disposition. All dispositions of depreciable property are considered to have occurred on the midpoint of the month, quarter, or year, regardless of the actual date of disposition during the year.

Convention—Year of Disposition

Convention	Allowable Depreciation in Year of Disposition
Mid-Month	Multiply full-year depreciation amount by the fraction with numerator equal to the number of months the property was in service and denominator equal to 12. ***Note:*** The numerator will include a half-month.
Mid-Quarter	Multiply full-year depreciation by the following percentages, depending on the quarter of disposition. 1st Quarter.................. 12.5% (= 0.5 ÷ 4) 2nd Quarter.................. 37.5% (= 1.5 ÷ 4) 3rd Quarter .... 62.5% (= 2.5 ÷ 4) 4th Quarter.................. 87.5% (= 3.5 ÷ 4)
Half-Year	Multiply full-year depreciation by 50%.

Example: On June 29, 2021, Steve purchased nonresidential real estate for $200,000 and began depreciating the property over 39 years. A full year of depreciation would be $5,128. His depreciation deduction for 2021 was $2,778 ($5,128 × 6.5 ÷ 12). Steve sold the property on March 2, 2024. Steve's depreciation for 2024 is $1,068 ($5,128 × 2.5 ÷ 12).

Did You Know? Mid-quarter and half-year conventions are determined with respect to a fiscal year, as well as a calendar year. For example, if the tax year begins on May 1 and ends on April 30, the mid-quarter dates are June 15, September 15, December 15, and March 15, and the mid-year date is October 31. See *Accounting Periods and Methods,* page 8-23.

Depreciation Recapture

Cross References

- Form 4797, *Sales of Business Property*
- IRS Pub. 946, *How To Depreciate Property*

Related Topics

- Depreciation Recapture—Sale of Business or Investment Property, page 6-17
- Installment Sales (Form 6252), page 6-17
- Depreciation Recapture, page 10-7
- Depreciation for Listed Property, page 10-9

When a taxpayer disposes of property that he or she depreciated with MACRS, any gain on the disposition is generally recaptured as ordinary income up to the amount of the depreciation previously allowed or allowable for the property. Depreciation, for this purpose, includes the following (not all inclusive).

continued on next page

- Any Section 179 deduction claimed on the property. See *Section 179 Recapture,* page 9-9.
- Any special depreciation allowance previously allowed or allowable for the property (unless an election was made not to claim the special depreciation allowance).

There is no recapture for residential rental and nonresidential real property unless that property is qualified property for which the special depreciation allowance was claimed. For more information, see IRS Pub. 544, *Sales and Other Disposition of Assets.*

Reporting depreciation recapture. Depreciation recapture is calculated on Form 4797, *Sales of Business Property,* using:
- Part III, *Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255.*
- Part IV, *Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less.*

Short Tax Year Depreciation

Cross References
- Form 1128, *Application to Adopt, Change, or Retain a Tax Year*
- IRS Pub. 538, *Accounting Periods and Methods*
- IRS Pub. 946, *How To Depreciate Property*

Related Topics
- Business Deductions, Tab 8
- Accounting Periods and Methods, page 8-23

Short Tax Year
A short tax year is any tax year with less than 12 full months. A short tax year can occur in the first or last year of a partnership, corporation, or estate's existence, or when a taxpayer changes from a fiscal year to a calendar year or vice versa. The MACRS percentage tables cannot be used with a short tax year.

Author's Comment: It is not clear if the short tax year rules apply to individual taxpayers who start a new trade or business. The issue is not addressed in Rev. Proc. 89-15 and all examples involve corporations. In February 1984, the IRS issued Proposed Regulation section 1.168-2(f), which included individuals in the examples of the short tax year rules, however, this regulation has not been finalized.

Planning Tip: The Section 179 deduction and special depreciation allowance are not limited by short-year depreciation rules. Short-year depreciation limitations may be avoided by claiming the Section 179 deduction or special depreciation allowance for property placed in service in a short tax year.

Also see *MACRS Short-Year Depreciation—Short Cut Percentage Method* chart, page 9-24.

Short Tax Year Conventions
Mid-month convention. Under the mid-month convention, property is always treated as placed in service or disposed of on the midpoint of the month it is placed in service or disposed of. This rule is applied regardless of whether a short tax year exists.

Half-year convention. Under the half-year convention, the midpoint of the short tax year is determined by dividing the number of months in the tax year by 2. A short tax year may begin or end with a partial month. Use these rules for counting months and determining midpoints.

First or last day of month. If the short tax year begins on the first day of a month or ends on the last day of a month, treat the partial month as a full month for determining the midpoint. The midpoint of the short year will be the first day or midpoint of a month.

Example: Patches Company was incorporated on March 15, 2024, and is a calendar year taxpayer. Since the short tax year ends on the last day of a month (December 31, 2024), the partial month of March is treated as a full month. Therefore, for purposes of computing short-year depreciation, the short tax year is considered to begin on March 1 and is a 10-month tax year ending on December 31.

Patches Company purchases a depreciable asset that falls under the half-year convention. The company treats the asset as being placed in service on the first day of the sixth month of the tax year, or on August 1, 2024.

Not on first or last day of month. If the short tax year does not begin on the first day of a month and does not end on the last day of a month, determine the midpoint by dividing the number of days in the tax year by 2. If the result is not the first day or midpoint of a month, treat property as placed in service or disposed of on the nearest preceding midpoint or first day of the month.

Using these rules, property subject to the half-year convention in a short tax year is always treated as being placed in service or disposed of on the first day or midpoint of a month.

Mid-quarter convention. In general, property falls under the mid-quarter convention if more than 40% of the depreciable basis of all property placed in service was placed in service during the last three months of the tax year, regardless of the length of the tax year. For example, all depreciable property placed in service during a short tax year of three months or less is subject to the mid-quarter convention. Use these rules to divide the short tax year into quarters and determine midpoints.
- If the short year consists of four or eight full calendar months, then the quarters consist of one month or two full months, respectively. The midpoint of each quarter in the short year is either the midpoint of a month or the first day of a month.
- For any other short tax year, divide the number of days in the short year by 4 to establish the quarters. Divide the number of days in each quarter by 2. If the result is not the first day or midpoint of a month, treat property as placed in service or disposed of on the nearest preceding midpoint or first day of the month.

Using these rules, property subject to the mid-quarter convention in a short tax year is always treated as being placed in service or disposed of on the first day or midpoint of a month.

Example: Britches Company has a short tax year that extends from September 11 to December 31. There are 112 days in Britches Company's short tax year, which computes to four quarters of 28 days each. The midpoint of each quarter falls 14 days after the start of the quarter. Since the first quarter of the short tax year began on September 11, the midpoint of the first quarter is September 25. Since the midpoint does not fall on the first day or midpoint of a month, property placed in service in the first quarter will be considered to have been placed in service on September 15, the nearest preceding midpoint of the month.

Computing Depreciation in a Short Tax Year
Section 179 and special depreciation. Even in a short tax year, the full amount of the Section 179 expense and special depreciation allowance are allowed, subject to normal limits.

Property placed in service in a short tax year. MACRS percentage tables cannot be used to compute short-year depreciation. Use the following procedure instead.
1) Determine the short tax year convention for the property and the number of months the property is treated as being in service. This is the midpoint.
2) Calculate full year depreciation by multiplying the depreciable basis by the applicable depreciation rate.

continued on next page

3) Multiply the full year depreciation by a fraction. The numerator is the number of months (including parts of a month) from step 1. The denominator is 12.

The same results may be obtained by using the *MACRS Short-Year Depreciation—Short Cut Percentage Method* chart, page 9-24.

Short-Year Depreciation Formulas (First Year)

Depreciable Basis	×	1 / Recovery period	×	200% (200DB) or 150% (150DB) or 100% (SL)	×	Midpoint / 12	=	Depreciation

Short year for calendar year entities. The first year of a partnership, corporation, or estate is a short year if it begins in any month other than January. Count the first month as a full month regardless of the date when the entity begins. A calendar year entity that begins during January does not have a short year for depreciation purposes. Calendar year entities that begin in October, November, or December must use the mid-quarter convention rules. See *Mid-quarter convention,* page 9-6.

First or last day of month. For a short tax year beginning on the first day of a month or ending on the last day of a month, the tax year consists of the number of months in the tax year. If the short tax year includes part of a month, generally include the full month in the number of months in the tax year. Determine the midpoint of the tax year by dividing the number of months in the tax year by 2. For the half-year convention, treat property as placed in service or disposed of on either the first day or the midpoint of a month.

For example, a short tax year that begins on June 20 and ends on December 31 consists of seven months. Use only full months for this determination, so treat the tax year as beginning on June 1 instead of June 20. The midpoint of the tax year is the middle of September. Treat property as placed in service or disposed of on this midpoint.

Example #1: Whisper Company has a short tax year beginning on March 15, 2024, and ending on December 31, 2024. On March 16, the company purchased a depreciable asset with a 5-year recovery period for $1,000. No other assets were placed in service during the short tax year; so the asset falls under the half-year convention. The midpoint of the short tax year is August 1. The midpoint of the short tax year will allow five months of depreciation for the year (see Example under *Half-year convention,* page 9-6, for how to determine the midpoint). Whisper Company did not claim the Section 179 deduction and elected out of the special depreciation allowance for the asset and uses the 200DB depreciation method.

Using the formula shown above, the first-year depreciation computation is as follows:

$1,000 basis × ⅕ × 200% × 5⁄12 = $167 first-year depreciation

Depreciation after a short tax year. MACRS percentage tables cannot be used to compute full-year depreciation for property previously placed in service during a short tax year. Use the following procedure instead.

- For 12-month tax years occurring after an initial short tax year, multiply the adjusted basis of the property at the beginning of each tax year by the applicable depreciation rate. If using 200DB or 150DB, switch to SL in the year the SL method yields a higher deduction.
- For a short tax year occurring after an initial short tax year, multiply the adjusted basis of the property at the beginning of the tax year by the applicable depreciation rate and then by a fraction. The numerator of the fraction is the number of months in the short tax year the property is considered to be in service based on the applicable convention, and the denominator is 12.

The same results may be obtained by using the *MACRS Short-Year Depreciation—Short Cut Percentage Method* chart, page 9-24.

Example #2: Assume the same facts as Example #1, previous column. Depreciation for all years is calculated as follows.

2024	$1,000	basis × ⅕ × 200% × 5⁄12	= $167
2025	$ 833	basis × ⅕ × 200%	= $333
2026	$ 500	basis × ⅕ × 200%	= $200
2027	$ 300	basis × ⅕ × 200%	= $120

In 2028, the SL method produces a higher depreciation deduction than the 200DB method.

2028	$ 180	basis ÷ (19 mos. ÷ 12 mos.)	= $114
2029	$ 66	remaining basis recovered	= $ 66

Section 179 Deduction

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §179, *Election to expense certain depreciable business assets*

Related Topics

- Depreciation Recapture—Sale of Business or Investment Property, page 6-17
- Separately Stated S Corporation Items, Tab 19
- Separately Stated Partnership Items, page 20-10

Section 179 Limits

The Section 179 deduction is generally the cost of the qualifying property. However, the total amount a taxpayer can elect to deduct under Section 179 is subject to maximum dollar limits, investment limits, and a business income limit.

Section 179 Limits

	2024	*2023*	*2022*
Deduction limit	$1,220,000	$1,160,000	$1,080,000
Investment limit	$3,050,000	$2,890,000	$2,700,000

Deduction limit. The regular deduction limit under Section 179 is $1,220,000 (2024).

Sport utility vehicles (SUVs). The Section 179 deduction limit for SUVs is $30,500 (2024).

Investment limit. If the cost of Section 179 property placed in service in 2024 exceeds $3,050,000, the available Section 179 deduction is reduced by the amount of the excess (but not below zero). Amounts disallowed because of the investment limit may not be carried forward.

Business income limitation. The maximum Section 179 deduction cannot exceed the taxpayer's business income. See the *Section 179 Business Income Limitation* chart, page 9-9.

Planning Tip: Because Form W-2 wage income counts as business income for purposes of the Section 179 deduction, it may be best to use only enough of the Section 179 deduction to reduce the net profit of a Schedule C (Form 1040) to zero, and not produce a net loss for the year. This allows a future depreciation deduction against self-employment tax that would otherwise be lost.

Section 179 Election / Revocation

Election. Make the election to claim a Section 179 deduction by completing Part I, Form 4562, *Depreciation and Amortization,* and filing the form with an original or amended tax return for the year the property was placed in service.

- The Section 179 deduction may be claimed on a late original return.
- If claiming a previously-omitted Section 179 deduction on an amended return, specify the item of property to which the deduction applies and the portion of the cost of each item taken into account.

Revocation. A Section 179 election can be revoked by the taxpayer without IRS consent. Once revoked, the election cannot be reinstated.

Section 179 Qualifying Property

The following property used more than 50% in a taxpayer's trade or business and acquired by purchase may be claimed as a Section 179 deduction.

- Tangible personal property. For example:
  - Machinery, equipment, and furniture. Exceptions apply.
  - Livestock not treated as inventory. See *Farm Inventory,* Tab 5.
  - Gasoline storage tanks and pumps at retail service stations.
  - Portable air conditioning or heating units.
  - Property such as ranges, refrigerators, or furniture used in connection with furnishing lodging such as residential rental property if placed in service after December 31, 2017.
- Qualified real property.
  - Qualified improvement property. See *Qualified Improvement Property,* page 9-11.
  - Certain nonresidential real property improvements placed in service after the nonresidential property was first placed in service. Qualifying improvements are roofs, heating, ventilating and air-conditioning (HVAC) property, fire protection and alarm systems, and security systems.
- Other tangible property (except buildings and building components) used as an integral part of manufacturing, production or extraction, or of furnishing transportation, communication, electricity, gas, water, or sewage disposal services. Research and certain storage facilities used in conjunction with these properties also qualify.
- Single-purpose agricultural or horticultural structures.
- Off-the-shelf computer software.
- Storage facilities (except buildings and their structural components) used in conjunction with petroleum or petroleum product distribution.

Over 50% business use. Property must be used over 50% in a trade or business to qualify for a Section 179 deduction. A portion of the deduction must be recaptured if business use falls below 50% in any year during the recovery period. See *Section 179 Recapture,* page 9-9.

Acquired by purchase. Property must be acquired by purchase and may be new or used. For example, property acquired by gift or inheritance does not qualify for a Section 179 deduction.

Trade-in of other property. If qualifying property is purchased with cash and a trade-in, its cost for purposes of the Section 179 deduction includes only the cash paid.

Author's Comment: As of 2018, like-kind exchanges apply only to real property. Therefore, it appears that the limitation on trade-in property would no longer apply since the taxpayer must recognize full gain or loss on the traded-in property. However, as of the time this publication went to print, the regulations had not been updated to reflect this. [Reg. §1.179-4(d)]

Section 179 Nonqualifying Property

Leased property. Generally, a Section 179 deduction cannot be claimed for the cost of property the taxpayer leases to others. This rule does not apply to corporations. However, a noncorporate taxpayer can claim a Section 179 deduction for the following property.

- Property the taxpayer manufactures or produces and leases to others.
- Property purchased and leased to others if:
  - The lease term (including options to renew) is less than 50% of the property's class life, and
  - For the first 12 months of the lease, business deductions on the property exceed 15% of its rental income. [IRC §179(d)(5)]

Real property. Land and land improvements, such as buildings and their structural components, are generally not eligible for a Section 179 deduction. Exceptions exist for single-purpose agricultural or horticultural structures and qualified real property. See *Qualified Improvement Property,* page 9-11.

Related parties. If property is purchased from a related party, and related party rules would result in the disallowance of losses under IRC section 267 or IRC section 707(b), the property does not qualify for a Section 179 deduction. [Reg. §1.179-4(c)(ii)]

To determine whether property qualifies for the Section 179 deduction, treat as an individual's family only his or her spouse, ancestors, and lineal descendants.

Other nonqualifying property:

- Property used predominantly outside the United States, except property described in IRC section 168(g)(4), which includes certain transportation property such as aircraft for travelling to and from the U.S.
- Property used for tax-exempt purposes except property used in connection with the production of income subject to the tax on unrelated trade or business income.
- Property used by governments and foreign persons.

Court Case: The IRS contended that a kennel built by a canine officer for his specially trained police dog did not qualify for a Section 179 deduction and should be capitalized, but the court ruled in favor of the taxpayer. Before allowing the officer to keep the dog at home in connection with his work, the police department required him to construct, at his own expense, a kennel that met certain specifications. The Tax Court ruled that the kennel was section 1245 depreciable personal property and not a building and therefore qualified as Section 179 property. (*Le,* T.C. Summary 2009-109)

Common Property for Section 179 Deduction

Qualifying Property	*Nonqualifying Property*
• Agricultural fences. • Automobiles and trucks. • Machinery and equipment. • Furniture. • Improvements to nonresidential real property including roofs, HVAC systems, fire protection and alarm systems, and security systems. • Livestock not treated as inventory. • Off-the-shelf computer software. • Office equipment—copiers, fax machines, computers. • Office furniture—desks, book shelves, chairs, file cabinets. • Oil and gas well equipment. • Portable air conditioner and heating units (placed in service after 2015). • Qualified improvement property. • Qualified property used predominantly to furnish lodging or in connection with furnishing lodging. • Single-purpose agricultural (livestock) or horticultural structures. • Storage facilities (except buildings and their structural components).	• Bridges. • Buildings and their structural components. • Elevators and escalators. • Gifts. • Government property. • Inheritances. • Investment property. • Land and land improvements. • Nonagricultural fences. • Paved parking areas. • Property purchased from related party. • Property used predominantly outside the United States. • Residential rental buildings. • Swimming pools. • Tax-exempt purpose property. • Wharves and docks.

Section 179 Business Income Limitation	
Individual (see *Married taxpayers,* below)	Total of the following: • Net profit from sole proprietorships before Section 179 deduction and self-employment tax deduction. • Employee wages, even if unrelated to the Section 179 property. • Ordinary pass-through income from partnerships or S corporations. • Gain/loss from sales of business assets under section 1231.
S Corporation or Partnership	Total net taxable income from all trades or businesses actively conducted by the entity, without considering: • The Section 179 deduction, credits, tax-exempt income, and guaranteed payments. • Shareholder-employee compensation. • Partner's allocable share of taxable income.
C Corporation*	Total net taxable income from all trades or businesses actively conducted by the entity, without considering: • The Section 179 deduction, net operating losses, and special deductions. • Income or deductions derived from a trade or business not actively conducted during the tax year.

* Section 179 expense claimed by a C corporation must be depreciated over five years using the SL method for purposes of computing earnings and profits (E&P) [IRC §312(k)]. See *Earnings and Profits (E&P),* page 18-17.

Married taxpayers. Married taxpayers are treated as one taxpayer in determining the maximum deduction, investment limits, and business income limits, regardless of who is claiming the Section 179 deduction. If separate returns are filed, the Section 179 deduction must be divided.
- Each spouse is allocated 50% of the total allowed deduction.
- Any other allocation of the total allowed deduction may be elected as long as both spouses agree and the percentages add up to 100%.

Section 179 Carryover
- Section 179 deduction limits apply both to the partnership/S corporation and to each partner/shareholder.
- If the business income limit prevents an individual taxpayer from deducting all or part of the cost of Section 179 property, the disallowed amount is reported on line 13, Form 4562, *Depreciation and Amortization,* and carried over to the next tax year. The disallowed deduction can be carried over for an unlimited number of years.
- If the investment limit prevents an individual taxpayer from deducting all or part of the cost of Section 179 property, no carryover of the disallowed amount is permitted.

Planning Tip: It is often advantageous to claim the entire eligible Section 179 amount even when the deduction is reduced by the business income limit. The amount carried over is available for future years when business income may be higher. However, if the deduction is reduced by the investment limit, claim only the allowed amount (or less), and recover the remaining cost of the property through depreciation.

Excess Section 179 deduction from a pass-through entity. A taxpayer with multiple business interests may be allocated, from his or her pass-through entities, more Section 179 deduction in a single year than the annual deduction limit (after considering all sources). In this case:
- The disallowed amount is not deductible and may not be carried over by the partner or shareholder.
- The partner or shareholder's basis in the entity is reduced by the entire amount of the Section 179 deduction even if the deduction is unused by the partner or shareholder. (Rev. Rul. 89-7)
- The partnership or S corporation reduces its basis in Section 179 property by the full amount of the deduction elected.

Example: Julie is 100% shareholder in an S corporation and also has an interest in a partnership. She receives a Schedule K-1 (Form 1120-S) from the S corporation showing a pass-through Section 179 deduction of $600,000 and a Schedule K-1 (Form 1065) from the partnership showing a pass-through Section 179 deduction of $650,000. Since the deduction limit of $1,220,000 applies to Julie individually, the excess $30,000 Section 179 deduction is lost and does not carry over. Julie must reduce her basis in the S corporation and/or the partnership by the entire amount of the pass-through deduction, even though part of it is lost.

A taxpayer may carryforward the amount of allocated Section 179 deduction from a pass-through entity that is disallowed as a deduction due to the taxable income limitation. In this case:
- The partner or shareholder's basis in the entity and the partnership or S corporation's basis in the Section 179 property is reduced as stated in the previous column.
- If the interest or ownership in the entity is disposed of, the partner or shareholder's basis for determining gain or loss is increased by any outstanding carryover of the disallowed Section 179 deduction.

Author's Comment: A tax preparer could have a conflict of interest if he or she prepares the return for a pass-through entity as well as the individual returns for the entity's partners or share holders. For example, one partner might benefit from taking a Section 179 deduction but another might be limited because of other business interests he or she has.

Section 179 Recapture
If business use of property falls to 50% or less during the regular MACRS recovery period, all or part of the Section 179 deduction must be recaptured as excess depreciation.
- Include the recapture amount as ordinary income in Part IV, Form 4797, *Sales of Business Property.* See *Recapture amount,* below.
- The recapture amount is reported as Other Income on the same form or schedule on which the original Section 179 deduction was claimed. ***Note:*** This may cause the recapture amount to be subject to self-employment tax.
- Increase the basis of the property by the recapture amount.

Disposition of property. The Section 179 recapture rules do not apply if property is sold, exchanged, or otherwise disposed of. Instead, see *Depreciation Recapture—Sale of Business or Investment Property,* page 6-17.

Did You Know? Conversion of property from trade or business use to investment or income-producing use is considered a conversion to personal use. For example, a truck initially used 100% in a landscaping business, but later used 100% in a residential rental activity, is treated as having been converted to personal use. Recapture rules would apply. [Reg. §1.179-1(e)(2)]

Recapture amount:
1) Compute depreciation that would have been allowable on the property under regular MACRS. Begin with the year the property was placed in service and include the year of recapture.
2) Subtract the depreciation in (1) from the Section 179 deduction actually claimed. The result is the recapture amount.

Example #1: In January 2022, Jerry purchased a $10,000 piece of equipment (5-year property) for which he claimed a Section 179 deduction for the full amount. He used it exclusively in his business until 2024 when the business use dropped to 40%. Jerry calculates his recapture amount as follows.

continued on next page

Section 179 deduction claimed		$10,000
Minus: Allowable depreciation using the *MACRS Half-Year Convention Depreciation Rates* chart, page 9-1.		
2022	$2,000	
2023	3,200	
2024 (1,920 × 40%)	768	5,968
2024 recapture amount		$4,032

Listed property recapture. If business use of listed property falls to 50% or less during the asset's ADS recovery period, the excess depreciation (including any Section 179 expense) must be recaptured. The recapture amount is the amount of depreciation allowable (including any Section 179 and special depreciation allowance claimed) in previous years in excess of the depreciation that would have been allowed using the SL method and ADS recovery period. See *Listed Property,* page 10-8.

Example #2: Assume the same facts as Example #1, page 9-9, except that the piece of equipment is listed property.

Section 179 deduction claimed		$10,000
Minus: Allowable depreciation using the straight-line method.		
2022	$1,000	
2023	2,000	
2024 (2,000 × 40%)	800	3,800
2024 recapture amount		$6,200

Special Depreciation Allowance

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §168(k), *Special allowance for certain property*
- TD 9874

Related Topics

- Sales of Business Property (Form 4797), page 6-16

Special Depreciation Allowance (Bonus Depreciation)

New for 2024 **Special depreciation limits.** The special depreciation allowance is 60% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft).

Special Depreciation Percentage

Placed in Service Year	Depreciation Percentage	
	Qualified Property in General	Long Production Period Property, Certain Aircraft
Portion of Basis of Qualified Property Acquired After September 27, 2017		
September 28, 2017 – December 31, 2022	100%	100%
2023	80%	100%
2024	60%	80%
2025	40%	60%
2026	20%	40%
2027	0%	20%*
2028 and after	0%	0%

* Applies to the adjusted basis attributable to the manufacture, construction, or production in prior years with the remaining adjusted basis not qualifying for special depreciation.

Section 179 versus special depreciation. Unlike the Section 179 deduction, there is no maximum deduction limit for the special depreciation allowance. While the Section 179 deduction generally provides enough first-year depreciation for most small business needs, the special depreciation allowance allows larger corporations to deduct larger amounts.

Section 179 vs. Special Depreciation

Provision	Special Depreciation Allowance	Section 179 Deduction
New or used property	Yes [1]	Yes
Specific date range for eligibility	Yes	No
Annual limits [2]	No	Yes
Rental activity personal property	Yes	Yes
Property qualifies if used 50% or less for business purposes	Yes [3]	No
Recapture if business use of property decreases to 50% or less	No [3]	Yes
Property (new) may be acquired from related party	Yes	No
AMT adjustment	No	No

1 Property acquired before September 28, 2017, must be new.

2 Additional section 280F limits apply to passenger vehicles, and $30,500 (2024) SUV limit.

3 Listed property does not qualify if used 50% or less for business and special depreciation must be recaptured if listed property use falls to 50% or less.

Author's Comment: Check state law prior to claiming either the special depreciation allowance or Section 179 deduction. In many states it may be more advantageous to claim one over the other.

Qualified property. New or used property acquired after September 27, 2017, and placed in service before January 1, 2025 (or before January 1, 2026, for certain property with a long production period and for certain aircraft) is considered qualified property if it is property of the following types.

- Tangible property depreciated under MACRS with a recovery period of 20 years or less.
- Computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified.
- Qualified film, television, and live theatrical productions.
- Water utility property depreciated under MACRS.
- A specified plant for the tax year in which the plant is planted or grafted. See *Specified plant,* below.

Long production period property. Long production period property must meet the following requirements.

- Have a recovery period of at least 10 years or is transportation property. Transportation property is tangible personal property used in the trade or business of transporting persons or property.
- The property is subject to IRC section 263A (UNICAP rules).
- The property has an estimated production period exceeding one year and an estimated production cost exceeding $1 million.

Noncommercial aircraft. Qualified noncommercial aircraft must meet the following requirements.

- Must not be tangible personal property used in the trade or business of transporting persons or property (except for agricultural or firefighting purposes).
- Must be purchased by a purchaser who at the time of the contract for purchase, makes a nonrefundable deposit of the lesser of 10% of the cost or $100,000.
- Must have an estimated production period exceeding four months and a cost exceeding $200,000.

Specified plant. A specified plant is:

- Any tree or vine that bears fruits or nuts, or

continued on next page

- Any other plant that will have more than one yield of fruits or nuts and generally has a pre-productive period of more than two years from planting or grafting to the time it begins bearing fruits or nuts.

Any property planted or grafted outside the United States does not qualify as a specified plant.

Used property. Used property acquired after September 27, 2017, may qualify for special depreciation. Final regulations clarify that qualifying used property must not have been used by the taxpayer or a predecessor within the past five calendar years and must not have been acquired from a related party. Property is treated as previously used if the taxpayer or predecessor had a depreciable interest in the property, even if no depreciation was claimed. (TD 9916)

Excepted property. Qualified property does not include any of the following.
- Property placed in service and disposed of in the same tax year.
- Property converted from business use to personal use in the same tax year acquired. Property converted from personal use to business use in the same or later tax year may be qualified property.
- Property required to be depreciated under the Alternative Depreciation System (ADS). This includes listed property used 50% or less in a qualified business use.
- Property for which the taxpayer elected not to claim any special depreciation allowance.
- Certain nonresidential real property, residential rental property, or farm property held by a business electing out of interest expense limitations in IRC section 163(j).

Election out of special depreciation. Special depreciation is the default method for qualifying property in the year placed in service. An election is required to opt out of special depreciation.

Making the election. Elect out for all property in a class by attaching a statement to a timely-filed return (including extensions), indicating the class of property and stating that the taxpayer elects not to use special depreciation for any property in that class.

An omitted election may be made on an amended return filed within six months of the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2" on the amended return.

Alternative minimum tax (AMT). If special depreciation has been used, or could have been used, no AMT adjustment is required for any depreciation computed on the remaining basis of qualified property.

Ordering rules for special depreciation. The special depreciation allowance is claimed the year the property is placed in service, in addition to regular depreciation and any Section 179 deductions. Claim the deductions in the following order.
1) Section 179 deduction, then
2) Special depreciation allowance, then
3) Regular depreciation allowance.

Any remaining basis is recovered in subsequent years using regular MACRS.

Example: On November 1, 2024, Billy bought and placed in service for his business qualified property that cost $400,000. He elected to claim $200,000 as a Section 179 deduction. He elected out of claiming a special depreciation allowance. Billy uses the remaining $200,000 of the cost basis to compute his regular MACRS depreciation deduction for 2024. The $200,000 is the adjusted depreciable basis going forward for future regular MACRS deductions.

Note: Had Billy claimed the special depreciation allowance after the Section 179 deduction, his special depreciation allowance would have been $120,000 ($200,000 × 60%) and his remaining basis for regular depreciation would have been $80,000 ($200,000 – $120,000).

Qualified Improvement Property

Cross References
- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §168(e)(6), *Qualified improvement property*
- IRC §179(e), *Qualified real property*

Related Topics
- Sales of Business Property (Form 4797), page 6-16
- Depreciation Recapture—Sale of Business or Investment Property, page 6-17

Cost Recovery for Qualified Improvement Property
Nonresidential real estate and structural components are generally depreciated under MACRS using the straight-line method over 39 years. An exception applies to qualified improvement property.

Qualified improvement property. Generally, qualified improvement property is any improvement to an interior part of a building that is nonresidential real property, and the improvement is section 1250 property that is placed into service by a taxpayer after 2017 and after the date the building was first placed in service by any taxpayer. Consequently, a taxpayer who leases nonresidential real property and makes a qualified improvement to the interior of the property can treat the improvement as qualified improvement property.

Qualified improvement property does not include improvements for which the expenditure is attributable to:
- The enlargement of the building,
- Any elevator or escalator, or
- The internal structural framework of the building.

Recovery period. Qualified improvement property is 15-year property under MACRS (20-year property under ADS).

Special depreciation. Qualified improvement property placed in service after December 31, 2017, is eligible for special depreciation.

Section 179. Qualified improvement property is eligible for the Section 179 expense deduction.

Repairs and Improvements

Cross References
- IRC §162, *Trade or business expenses*
- IRC §263, *Capital expenditures*
- Reg. §1.162-3 and -4
- Reg. §1.263(a)-1 through -6
- Rev. Proc. 2015-56
- Notice 2015-82

Related Topics
- Sales of Business Property (Form 4797), page 6-16
- Depreciation Recapture—Sale of Business or Investment Property, page 6-17

Repairs vs. Improvements
The cost of repairing or improving property used in a trade or business is either a deductible expense or a capital expense.

Repair. Routine maintenance expenditures that keep property in a normal efficient operating condition but that do not materially increase the value or substantially prolong the useful life of the property are deductible in the year incurred. The cost of repairs includes the costs of labor, supplies, and certain other items. The value of the taxpayer's own labor is not deductible.

Improvement. An improvement is an addition to or partial replacement of property that adds to its value, appreciably lengthens the time it can be used, or adapts it to a different use.

If a taxpayer improves depreciable property, he or she must treat the improvement as separate depreciable property.

Repairs vs. Improvements

Repairs	*Improvements*
Costs that are deductible: • Keep the property in good operating condition. • Do not materially add value. • Do not substantially prolong the property's life.	*Costs that must be capitalized:* * • Improve or better the property. • Restore the property. • Adapt the property to new or different uses.
Examples: • Repainting inside or out. • Fixing gutters and leaks. • Fixing damaged carpet. • Plastering. • Replacing a broken window. • Servicing office equipment. • Cleaning and lubricating machinery.	*Examples:* • Room additions/remodeling. • Landscaping. • Replacing a gravel driveway with concrete. • New roof or flooring/carpeting. • Wiring upgrades. • New heating/cooling and plumbing systems. • Installing a security system.

* The cost of an improvement is depreciated according to the MACRS class and recovery period of the underlying property.

Example #1: Penny owns a large office building with 300 exterior windows that represent 25% of the total surface area of the building. In 2024, she replaces 100 damaged windows and has no future plans to replace others. The cost is a repair because she is not replacing a major component or substantial structural part of the building.

Example #2: Assume the same facts as Example #1, except Penny replaces 200 of the 300 windows. The cost must be capitalized as an improvement because 200 windows comprise a major component of the building structure.

Example #3: Assume the same facts as Example #1, except the 300 windows represent 90% of the total surface area of the building. The cost must be capitalized as an improvement because 100 windows comprise a substantial structural part of the building. [Reg. §1.263(a)-3(k)(7)]

Tangible Property Regulations

Treasury regulations clarify the difference between repairs and improvements, define units of property, and identify certain safe harbors and elections. The regulations require capitalization of permanent improvements, betterments, restorations, and adaptations as related to units of property. Expenses capitalized for improving property are depreciated as if the improvement is separate property.

Units of property–buildings. A building structure and each of the following key building systems are separate units of property.

- Heating and air conditioning system (HVAC).
- Electrical system.
- Elevator system.
- Escalator system.
- Fire-protection and alarm system.
- Gas distribution system.
- Plumbing system.
- Security system.

Units of property–other than a building. All functionally interdependent components comprise a single unit of property.

Routine Maintenance Safe Harbor

A taxpayer can expense amounts paid for routine maintenance if they are deemed not to improve the property. Under the routine maintenance safe harbor, a taxpayer may deduct amounts that meet all of the following requirements.

- Paid for recurring activities the taxpayer expects to perform as a result of using the property in a trade or business,
- Necessary to keep the property in its ordinarily efficient operating condition, and
- Taxpayer reasonably expects, at the time property is placed in service, to perform activities more than once during the class life of the unit of property (within a 10-year period for buildings and building systems).

Routine maintenance activities. Inspecting, cleaning, and testing of a unit of property, and the replacement of damaged or worn parts with comparable and commercially available replacement parts are all considered routine maintenance activities. These do not include a betterment, restoration, or adaptation to a unit of property.

Not an election. The routine maintenance safe harbor is not an election. It is a method of accounting adopted by currently deducting expenses and using it every year thereafter.

Capitalize Repair and Maintenance Costs Election

A taxpayer may elect to capitalize and depreciate repair and maintenance costs as an improvement as long as the taxpayer incurs the amounts in carrying on a trade or business and treats the amounts as capital expenditures for financial accounting purposes. This election applies to all amounts paid for repair and maintenance treated as capital expenditures on a taxpayer's books or records for the taxable year.

Making the election. The annual election is made by attaching a statement to the taxpayer's timely filed original tax return (including extensions). The statement must be titled "Section 1.263(a)-3(n) Election." The election may not be revoked without IRS consent.

De Minimis Safe Harbor Election

A taxpayer can expense amounts paid for property up to $5,000 per invoice or item (as substantial by invoice) if the taxpayer has an applicable financial statement. If the taxpayer does not have an applicable financial statement, then the amount is limited to $2,500 per invoice or item (as substantiated by invoice). (Notice 2015-82)

Applicable financial statement. An applicable financial statement is one required for SEC reporting, a financial statement audited by a CPA, or a financial statement required by certain government agencies.

Not applicable. The de minimis safe harbor election does not include amounts paid for inventory, land, or rotable, temporary, and standby emergency spare parts the taxpayer elects to capitalize and depreciate. See *Election to capitalize certain materials and supplies,* page 9-13.

Making the election. The annual election is made by attaching a statement to the taxpayer's timely filed original tax return (including extensions). The statement must be titled "Section 1.263(a)-1(f) de minimis safe harbor election." The election may not be revoked.

Small Taxpayer Safe Harbor Election

Qualifying small taxpayers (gross receipts $10 million or less) may elect not to apply the improvement rules to an eligible building property if the total amount paid for repairs, maintenance, improvements, and similar activities does not exceed the lesser of:

- $10,000, or
- 2% of the unadjusted basis of the eligible building.

Under this election, include amounts expensed as described in *De Minimis Safe Harbor Election,* above, and *Routine Maintenance Safe Harbor,* previous column.

Eligible building. An eligible building must be owned or leased by the qualifying taxpayer with an unadjusted basis of $1 million or less. The unadjusted basis of the building does not include land.

Making the election. The annual election is made on a building-to-building basis by including a statement on the taxpayer's timely filed original tax return (including extensions). The statement must be titled "Section 1.263(a)-3(h) Safe Harbor Election for Small Taxpayers." The election may not be revoked.

Materials and Supplies

Non-inventory items. Materials and supplies are tangible, non-inventory items purchased to repair, maintain, or improve a unit of property owned, leased, or serviced.

Acquired components. These are costs of components acquired to maintain, repair, or improve a unit of tangible property, including rotable, temporary, and standby emergency spare parts.

Consumables. These are costs of fuel, lubricants, water, and similar items, reasonably expected to be consumed in 12 months or less, beginning when first used in the taxpayer's operations.

12-month property. These are costs of tangible property with an economic useful life of 12 months or less, beginning when the property is first used or consumed in the taxpayer's operations.

$200 property. These are costs of tangible property that has an acquisition cost or production cost of $200 or less.

Types of Materials and Supplies

Incidental	Carried on hand and no record of consumption or inventory is kept. (e.g., routine office supplies or shop materials)	Deductible when paid or incurred.
Non-incidental	Record of consumption or inventory is kept. (e.g., spare parts or bulk supplies)	Deductible when first used or consumed.

Spare parts. Rotable spare parts are acquired for installation on a unit of property, removable from that property, generally repaired or improved, and reinstalled on the same or other property. Standby emergency spare parts are acquired when machinery or equipment is acquired and set aside for use as replacements.

Capitalization required. Building materials such as paint, nails, and wood are considered materials and supplies and are currently deductible. However, if a taxpayer uses those materials as part of a project of improvement, betterment, restoration, or adaptation, he or she may have to capitalize and depreciate the cost instead.

Note: If the de minimis safe harbor election is made, it must also be used for all materials and supplies. See *De Minimis Safe Harbor Election,* page 9-12.

Election to capitalize certain materials and supplies. Taxpayers may elect to capitalize and depreciate amounts paid for rotable, temporary, or standby emergency spare parts only. The election is made by capitalizing the amounts paid in the taxable year the parts are purchased and beginning to depreciate the costs when the asset is placed in service. The election must be made on a timely filed (including extensions) original tax return for the taxable year the asset is placed in service. The election may be revoked only by obtaining IRS consent through a private letter ruling. [Reg. §1.162-3(d)(3)]

Remodel-Refresh Safe Harbor

The remodel-refresh safe harbor method can be used to determine whether expenses paid to remodel or refresh a qualified building are currently deductible or are required to be capitalized. The safe harbor allows a current deduction for 75% of qualified costs, with capitalization of the remaining 25%. Qualified businesses include certain retail and restaurant property, and may be used whether the taxpayer owns or leases the property. Qualified projects include but are not limited to improvements in appearance, maintaining building standards, and addressing changing demographics. (Rev. Proc. 2015-56)

Taxpayers without an applicable financial statement are not eligible. See *Applicable financial statement*, page 9-12.

Intangible Assets

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §174, *Amortization of research and experimental expenditures*
- IRC §197, *Amortization of goodwill and certain other intangibles*

Related Topics

- Sales of Business Property (Form 4797), page 6-16
- Change in Accounting Method, page 8-25

Section 197 Intangibles

The acquisition costs of purchasing goodwill and certain other Section 197 intangible assets are amortized over a 15-year period (180 months). Amortization begins the later of (1) the month the intangible is acquired, or (2) the month the trade or business or activity engaged in for the production of income begins.

Section 197 intangibles include only assets that were purchased by the taxpayer. Self-created assets are not Section 197 intangibles.

Section 197 intangibles defined. The following acquired assets must be amortized over 180 months.

- Goodwill.
- Going concern value.
- Workforce in place.
- Business books and records, operating systems, or any other information base, including lists or other information concerning current or prospective customers.
- Patent, copyright, formula, process, design, pattern know-how, format, or similar item.
- Customer-based intangibles (such as a customer base, circulation base, or mortgage servicing contract).
- Supplier-based intangible (such as favorable credit rating or favorable supply contact).
- Licenses, permits, or other rights granted by a governmental unit or agency.
- Covenant not-to-compete in connection with the acquisition of an interest in a trade or business.
- Franchise, trademark, or trade names.
- A contract for the use of, or a term interest in, any item in this list.

Example: Leah sells her business to Eric. The purchase price of $100,000 is allocated $80,000 to machinery and $20,000 to goodwill. Since the goodwill in Leah's hands was self-created, it is not a Section 197 intangible. However, once Eric purchased the goodwill, it became a Section 197 intangible in his hands.

Software development. Computer software development expenditures are considered research or experimental expenditures and must be capitalized and amortized over a five-year period. Software development taking place outside the U.S. requires amortization over 15 years. (IRC §174)

See *Recovering the Cost of Computer Software* chart, page 9-14.

Recovering the Cost of Computer Software	
Software Type	***Recovery Method***
Off-the-shelf software.	Amortize over 36 months. Eligible for a Section 179 deduction.
Software included with computer purchase.	Depreciate as part of cost of computer (five years).
Software not available to general public and acquired in connection with purchase of a business.	Amortize as a Section 197 intangible over 15 years. See *Section 197 Intangibles,* page 9-13.
Useful life less than one year.	Deduct as a current expense.

Dispositions of Section 197 intangibles. If the intangible was held for more than one year, any gain on disposition is ordinary income up to the amount of allowable amortization (section 1245 gain). Any remaining gain or loss is an section 1231 gain or loss. See *Section 1231—Special Treatment for Gains and Losses on Sale of Business Assets,* page 6-17.

If the Section 197 intangible was held for one year or less, any gain or loss is ordinary gain or loss.

Note: Amortization is not allowed for the month of disposition of a Section 197 intangible.

Self-created property. A self-created patent, invention, model or design, secret formula or process, copyright, composition, letter or similar property is not considered a capital asset and a gain from the sale is taxed as ordinary income. [IRC §1221(a)(3)]

Covenant not-to-compete. A covenant not-to-compete that is a Section 197 intangible cannot be treated as disposed of until the entire interest in the trade or business for which the covenant was entered into is disposed of. Members of controlled groups are treated as a single entity in determining whether a member has disposed of its entire interest in a trade or business.

Loss disallowed. If more than one Section 197 intangible is acquired in a transaction (or series of related transactions), no loss is allowed on any disposition until the entire group is disposed of. If a single Section 197 intangible is disposed of at a loss, basis of the remaining Section 197 intangibles is increased by the amount of the loss. The basis adjustments are allocated pro-rata according to each remaining Section 197 intangible's adjusted basis.

General Asset Account (GAA)

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*
- IRS Pub. 946, *How To Depreciate Property*
- Reg. §1.168(i)-1

Related Topics

- Vehicle Depreciation Limitations (Section 280F), page 10-1

GAA Election

An election is available to group separate properties into a general asset account (GAA) if all the assets have the same asset class, recovery period, depreciation method, and convention. This can make the computation for depreciation simpler if multiple assets are placed in service in the same tax year.

The election is made by checking the box on line 18, Form 4562, *Depreciation and Amortization,* on a return filed no later than the due date (including extensions) for the tax year in which the assets were placed in service. An omitted election may be made on an amended return filed within six months of the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2" on the election statement.

The election can only be revoked if the GAA results in a substantial distortion of income due to certain foreign income or if property is removed from the GAA as described in *Terminating GAA* treatment, below.

Example #1: Tina is a sole proprietor. She purchased 10 machines for a total cost of $20,000 and placed them all in service in June 2024. One of the machines cost $8,200, and the total for the rest was $11,800. All the machines have a recovery period of seven years, all will be depreciated using the 200DB method, and all fall under the half-year convention. Tina groups the 10 machines into a GAA and reports the depreciation as if there was one asset.

Property ineligible for a GAA. Property used in both a personal activity and in a trade or business (or for the production of income) cannot be grouped into a GAA.

Disposing of GAA property. Upon disposal of property included in a GAA, the following rules apply.

- The depreciable basis of the GAA is not affected.
- The property being disposed of is treated as having an adjusted basis of zero. A loss is not allowed on disposition.
- Income realized on the disposition is treated as ordinary income up to the following limit.
  1) The unadjusted depreciable basis of the GAA, plus
  2) Any expensed costs for property in the GAA that are subject to recapture as depreciation (such as Section 179 expense), minus
  3) Any amount previously recognized as ordinary income upon the disposition of other property from the GAA.

Example #2: Assuming the same facts as Example #1, above. Tina later sells the $8,200 machine for $5,000. The machine is treated as having an adjusted basis of zero and $5,000 is realized as ordinary income.

Terminating GAA treatment. The following property must be removed from a GAA.

- Property held by a partnership that terminates due to all partnership operations being discontinued by all partners.
- Property disposed of in a nonrecognition transaction or an abusive tax-avoidance transaction.
- Property disposed of in a like-kind exchange or an involuntary conversion. See *Involuntary Conversions,* page 6-25.
- Property disposed of in a qualifying disposition or in a disposition of all the property in the GAA.
- Property converted to personal use.
- Property for which the taxpayer must recapture any allowable credit.

Nonrecognition transactions. If a taxpayer disposes of GAA property in a nonrecognition transaction, the property must be removed from the GAA. The following are nonrecognition transactions.

- Distribution of property to one corporation in complete liquidation of another corporation.
- The transfer of property to a corporation solely in exchange for stock in that corporation if the transferor is in control of the corporation immediately after the exchange.
- The transfer of property by a corporation that is a party to a reorganization in exchange solely for stock and securities in another corporation that is also a party to the reorganization.
- Contribution of property to a partnership in exchange for an interest in the partnership.
- Distribution of property (including money) from a partnership to a partner.
- Any transaction between members of the same affiliated group during any year for which the group makes a consolidated return.

Qualifying dispositions. A taxpayer may choose to remove the property from the GAA in a qualifying disposition. A qualifying disposition is one that does not involve all the property, or the last item of property, remaining in a GAA and that is described by any of the following.

- A disposition that is a direct result of fire, storm, shipwreck, other casualty, or theft.
- A charitable contribution for which a deduction is allowed.
- A disposition that is a direct result of a cessation, termination, or disposition of a business, manufacturing or other income-producing process, operation, facility, plant, or other unit (other than by transfer to a supplies, scrap, or similar account).
- A nontaxable transaction other than a nonrecognition transaction, such as a like-kind exchange or involuntary conversion, or a transaction that is nontaxable only because it is a disposition from a GAA.

Disposition of all property in a GAA. If the taxpayer disposes of all property in a GAA, or the last item of property, the taxpayer can choose to end the GAA. Gain or loss is computed by comparing the adjusted depreciable basis of the GAA with the amount realized. If the result is a gain, the amount subject to recapture as ordinary income is limited to the result of the following.

- The depreciation allowed or allowable for the GAA, including any expensed costs (such as Section 179 expense), minus
- The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Depreciation Adjustments for Alternative Minimum Tax

Cross References

- Form 6251, *Alternative Minimum Tax—Individuals*

Related Topics

- Alternative Minimum Tax, page 14-2

AMT Depreciation Adjustments

If an accelerated depreciation method is used, a taxpayer may be subject to an alternative minimum tax (AMT) depreciation adjustment.

AMT adjustment required. Depreciation must be recomputed for purposes of the AMT for the following property.

- Property placed in service after 1998 that is depreciated for regular tax purposes using the 200DB method, except for qualified property eligible for the special depreciation allowance.
- Section 1250 property placed in service after 1998 that is not depreciated for regular tax using the SL method.
- Tangible property placed in service after 1986 and before 1999.

AMT adjustment is not required. An AMT adjustment is not required for the following property.

- Residential rental property placed in service after 1998.
- Section 1250 property, including nonresidential real property with a class life of 27.5 years or more, placed in service after 1998 that is depreciated for regular tax purposes using the SL method.
- Property (other than the section 1250 property) placed in service after 1998 that is depreciated for regular tax using the 150DB or the SL method.
- Any part of the cost of property for which a Section 179 expense deduction was claimed.
- Property depreciated under ADS.
- Qualified property eligible for a special depreciation allowance if the depreciable basis of the property for AMT is the same as that for regular tax. For property placed in service after 2015, this rule applies even if the election not to claim the special depreciation allowance was made.
- Motion picture films, videotapes, or sound recordings.
- Property depreciated under the unit-of-production method or any other method not expressed in a term of years.
- Qualified Indian reservation property. [IRC §168(j)]
- A natural gas gathering pipeline placed in service after April 11, 2005.

Property placed in service after 1998. Use the same convention and recovery period used for regular tax. For property other than section 1250 property, use the 150DB method, switching to straight-line for the first tax year it gives a larger deduction. For section 1250 property, use the SL method.

Property placed in service before 1999. Recalculate depreciation for AMT using the ADS with the same convention used for regular tax.

AMT adjustment for depreciation. To compute the AMT adjustment for depreciation, subtract the AMT depreciation amount from the regular tax depreciation amount. Enter the difference, whether a positive or negative number, on line 2l, Form 6251, *Alternative Minimum Tax—Individuals.*

Correcting Depreciation Errors

Cross References

- Form 3115, *Application for Change in Accounting Method*
- IRS Pub. 946, *How To Depreciate Property*
- Rev. Proc. 2024-23

Related Topics

- Amended Returns, page 14-12

Correcting Depreciation Errors

If an incorrect amount of depreciation was deducted in any year, depending on the circumstances, the taxpayer may make the correction by filing an amended return or requesting IRS consent on Form 3115, *Application for Change in Accounting Method.*

Correcting Depreciation Errors

Amended Return	*Form 3115*
• An incorrect amount of depreciation was claimed due to a mathematical or posting error. • Change in the use of an asset in the hands of the same taxpayer. • The taxpayer used the wrong placed-in-service date for the asset. • Certain changes in the election to claim a special depreciation allowance. • The taxpayer has not adopted a method of accounting for property placed in service during the tax year.	• Change in the treatment of an asset from depreciable to non-depreciable or vice versa. • Change in the depreciation method, recovery period, or convention of a depreciable asset. • Change from not claiming to claiming the special depreciation allowance if the taxpayer did not make the election to not claim any special allowance. • Change from claiming a wrong percentage amount for the special depreciation allowance.

Did You Know? A taxpayer who uses an incorrect method of depreciation for only one year is not considered to have adopted a method of accounting and, therefore, the error can be corrected on an amended return.

If an incorrect method of depreciation is used on two or more consecutive returns, the taxpayer is considered to have adopted a method of accounting, and IRS approval is required to change the method.

Section 481 Adjustment

If Form 3115, *Application for Change in Accounting Method,* is filed to change from an incorrect depreciation method to a correct method, an adjustment is made to account for the difference between the depreciation actually claimed and the depreciation that should have been claimed. This is referred to as an IRC section 481 adjustment.

Depreciation claimed is less than the correct amount. If the depreciation deducted is less than the amount that would have been allowed under the correct method, the difference is accounted for as a deduction in the year of change. This is referred to as a "negative IRC section 481 adjustment," and results in a decrease in taxable income. A negative adjustment is taken into account in the year of change. Report the entire negative IRC section 481 adjustment as "Other Expenses" on the applicable form or schedule, such as Schedule C (Form 1040) for a sole proprietor.

Depreciation claimed is more than the correct amount. If too much depreciation was deducted using an incorrect method, the difference is referred to as a "positive IRC section 481 adjustment," which increases taxable income. A positive adjustment is generally reported ratably over a 4-year period beginning with the year of change. Report income from a positive IRC section 481 adjustment as "Other Income" on the applicable form or schedule, such as Schedule C (Form 1040) for a sole proprietor, in the year of change and for the next three years.

Election. An election is available to account for a positive IRC section 481 adjustment all in the year of change if the total adjustment is less than $50,000. The election is made by completing the appropriate line on Form 3115, *Application for Change in Accounting Method.*

Miscellaneous Depreciation Issues

Cross References

- Form 8866, *Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*
- IRS Pub. 946, *How To Depreciate Property*
- IRC §167(g), *Depreciation under income forecast method*

Related Topics

- Foreclosures, Repossessions, and Cancellation of Debit, page 6-27

Income Forecast Method

The income forecast method may be used instead of straight-line depreciation for motion picture films and videotapes, sound recordings, copyrights, books, and patents. Each year's depreciation deduction is equal to the cost of the property, multiplied by a fraction. The numerator of the fraction is the current year's net income from the property, and the denominator is the total income anticipated from the property through the end of the 10th taxable year following the taxable year the property is first placed in service. [IRC §167(g)]

Unit-of-Production Method

The unit-of-production method computes depreciation not over time, but relative to use. It is determined by estimating the number of units that can be produced before the property is worn out. For example, if it is estimated that a machine will produce 1,000 units before its useful life ends, and it actually produces 100 units in a year, the percentage to compute depreciation for that year is 10%. This method is used for equipment and improvements used in manufacturing, mining, oil and gas wells, timber, and other natural deposits.

Abandonment

When an asset is abandoned, loss is recognized in the amount of adjusted basis at the time of abandonment. In order to qualify, the intent of the taxpayer must be irrevocably to discard the asset so that it will neither be used again nor retrieved for sale, exchange, or other disposition. [Reg. §1.167(a)-8(a)(4)]

Loss from abandonment of business or investment property is deductible as an ordinary loss, even if the property is a capital asset. This rule also applies to leasehold improvements the lessee made for the lessor that were abandoned. The abandonment of most worthless securities is a capital loss (Reg. §1.165-5). Loss from abandonment of personal-use property is not deductible. Also see *Foreclosures, Repossessions, and Cancellation of Debt,* page 6-27.

Note: Scrapping a capital asset is considered a sale or exchange, not abandonment, and results in a capital gain or loss.

Idle Property

Continue to claim a deduction for depreciation on property even if it is temporarily idle. For example, if use of a machine stops because there is a temporary lack of a market for a product made with the machine, continue to deduct depreciation.

Cost Segregation

Taxpayers who have purchased, constructed, or renovated commercial real estate may benefit from allocating as much of the cost as possible to personal property to more quickly deduct the depreciation. A cost segregation study is usually required to determine the portion allocable to personal property and to withstand potential IRS review. The IRS does not require any specific methodology for cost segregation studies but notes it depends on the facts and circumstances of the project.

Example: Gretchen's Coffee Shop adds a three-season porch on July 1 for $30,000. If depreciated over 39 years, her first-year depreciation would be $353. If 25% of the cost could be allocated to 7-year property, using the half-year convention and the 200DB method, her first-year depreciation would be $1,337 ($1,072 on personal property and $265 on the real property).

Buildings include structural components such as walls, fixed partitions, floors, and ceilings, as well as any permanent coverings such as paneling or tiling, windows and doors, and all components of a central air-conditioning or heating system including motors, compressors, pipes, and ducts. Buildings also include plumbing fixtures such as sinks, bathtubs, electrical wiring and light fixtures, and other parts that together form an entire structure. [Reg. §1.48-1(e)]

Based on case law, there are three landmarks to determine whether an item is a structural component. (*AmeriSouth,* T.C. Memo. 2012-67)

1) **Accessory to a business.** The item serves a particular purpose for the business. Examples include grocery store counters, printing presses, and handrails used to aid patients. These are not generally considered structural components.
2) **Permanence.** Removal of the item would cause the building to cease functioning or cause damage. The item is designed to remain permanently in place, and is generally considered a structural component.
3) **Ornamentation.** Items which are purely decorative, such as special shrubbery lights, false balconies, and lattice millwork. These are not generally considered structural components.

In one case, a raised floor that was constructed to permit wiring and duct work was deemed not to be a structural component of a building, but more closely related to a computer installation. The asset was therefore determined to be personal property, and the cost was allowed to be recovered along with the cost of the computer over five years (CCA 200033002). However, in a case where removal of a raised floor would require renovation of the building, the floor was considered a structural component, and the cost had to be depreciated along with the rest of the building over 39 years. (CCA 200110001)

Court Case: The taxpayer completed a cost segregation study and submitted an application for change in accounting method to reclassify acquired property from nonresidential real property to other asset classes. The IRS denied the change in accounting method and the court agreed stating the taxpayer is bound by the original allocation schedule from the purchase price allocation. (*Peco Foods*, T.C. Memo. 2012-18)

Did You Know? Carpeting used in a rental real estate activity is not considered to be a structural component but is treated as 5-year property. (Announcement 99-82)

Depletion

Cross References

- Schedule E (Form 1040), *Supplemental Income and Loss*
- Form T (Timber), *Forest Activities Schedule*
- IRS Pub. 225, *Farmer's Tax Guide*
- IRC §611–§614
- IRC §631, *Gain or loss in the case of timber, coal, or domestic iron ore*

Related Topics

- Timber Sales by Farmers, page 5-30
- Rental, Passive, and At-Risk, Tab 7
- Business Deductions, page 8-4

Depletion Allowance

The depletion allowance accounts for the reduction in natural resource reserves resulting from mining, oil and gas wells, or harvesting timber. A taxpayer with an economic interest in mineral property or standing timber can take a deduction for depletion. The economic interest must have been acquired by investment, and there must be a right to income from the extraction of the mineral or cutting of the timber.

There are two methods of computing the deduction for depletion.
- Cost depletion.
- Percentage depletion.

Required method. For mineral property, the taxpayer generally must use the method that results in the largest deduction. For standing timber, the cost depletion method must be used.

Mineral property. Mineral property includes oil and gas wells, mines, and other natural deposits including geothermal deposits. The term property means each separate interest owned.

Basis adjustment for depletion. A taxpayer must reduce the basis of his or her property by the depletion allowed or allowable, whichever is greater.

Cost depletion for timber. To calculate cost depletion, multiply the number of timber units cut or sold during the tax year by the depletion unit.

Timber unit. The number of timber units is the estimated quantity of marketable timber existing on a property at the time of acquisition, measured using board feet, log scale, cords, or other standard units. This estimate must be adjusted if it is later determined to be incorrect.

Depletion unit. The depletion unit is calculated at the end of each tax year for each timber account. Divide cost or basis by quantity of timber units, defined below. The resulting number is the depletion unit for that tax year and is usually expressed as dollars per unit of measure.

Cost Depletion for Timber

Cost or basis of timber units	Add the cost of timber units acquired during the year to the cost or adjusted basis[1] of timber on hand at the beginning of the tax year, plus additions to capital.
Quantity of timber units	Add the number of timber units acquired during the year to the number on hand at the beginning of the year, then adjust as needed to estimate the number of timber units remaining at the end of the year.

Standing timber that is part of a land acquisition has an initial basis for depletion equal to the adjusted basis of the entire property, less:
- Residual land and improvements value after all timber is cut,
- Cost of land acquired for purposes other than timber production,
- Amounts recoverable through depreciation, deferred expenses, and deductions other than depletion.

Form T (Timber), Forest Activities Schedule. Attach Form T to the tax return if electing to treat cut timber as a sale or exchange, making an outright sale of timber, or claiming cost depletion. Form T is not required if the taxpayer has only an occasional sale of timber.

Forestation or reforestation costs. A taxpayer can elect to deduct up to $10,000 ($5,000 if filing MFS, $0 for a trust) of qualified reforestation costs for each qualified timber property. Any remaining costs can be amortized over an 84-month period. Separate timber accounts should be maintained for each timber property. Any qualified timber property that is subject to the deduction or amortization cannot be included in any other timber account for which depletion is allowed.

Author's Comment: In cases where the taxpayer has only an occasional sale of timber and deducts or amortizes any reforestation costs, he or she may have no cost basis in the timber that is harvested and cost depletion will not apply in these cases.

Cost depletion for mineral property. Calculate cost depletion for mineral property using these steps.
1) First determine the following amounts.
   - The property's basis for depletion.
   - Number of units of mineral sold during the year.
   - Total number of recoverable units of mineral in the property's natural deposit, defined as number of units remaining at the end of the year plus the number of units sold during the year.
2) Then divide the basis for depletion by the number of recoverable units to arrive at the rate per unit.
3) Finally, multiply the number of units sold by the rate per unit.

Note: The deduction cannot exceed the basis in the mineral property.

Percentage depletion for mineral property. Calculate percentage depletion by multiplying gross income from the property by the applicable percentage specified in the *Mineral Property Type* chart, page 9-18. Total percentage depletion claimed on mineral property may exceed the adjusted basis in the property.

Oil and Gas Wells

Percentage depletion may not be used for oil and gas wells unless the taxpayer is either an independent producer or a royalty owner, or the well produces natural gas sold under a fixed contract or produced from geopressurized brine. Certain refiners, retailers, related parties, and transferees may not use percentage depletion for oil and gas wells.

Oil or Gas Type	Rate
Natural gas from domestic wells sold under a fixed contract in effect from February 1, 1975, until the date of sale.	22.0%
Oil and gas wells.	15.0%
Certain natural gas obtained from geopressured brine.	10.0%

Income for depletion. Apply the percentage depletion rate to gross income from sale of oil or gas.

Deduction limits. The percentage depletion deduction for oil and gas wells generally cannot exceed the lesser of:
- 100% of taxable income from the property, or
- 65% of taxable income from all sources, computed without taking into account the depletion deduction, qualified business income deduction, or any net operating or capital loss carrybacks.

Carryforward of nondeductible amounts. Percentage depletion amounts that are nondeductible because of the 65%-of-taxable-income limitation above may be carried forward. Carryforward depletion is added to current year depletion before applying current year income limitations.

Oil and gas depletion for partnerships and S corporations. Each partner or shareholder computes the depletion deduction separately and decides whether to use cost or percentage depletion on the individual tax return. Basis in the partnership or S corporation must be reduced by the depletion allowed or allowable each year. The 65% limitation (based on the taxpayer's income from all sources) applies if percentage depletion is used.

Geothermal Property and Other Mineral Property

Certain mines, wells, geothermal deposits, and other natural deposits qualify for percentage depletion.

Mineral Property Type *See IRC section 613(b) for a complete list.*	Rate
Sulphur, uranium, and, if from deposits in the United States, asbestos, lead ore, zinc ore, nickel ore, and mica.	22.0%
Gold, silver, copper, iron ore, certain oil shale, and geothermal deposits if from the United States.	15.0%
Certain metal mines and all other minerals, including borax, granite, limestone, marble, mollusk shells, potash, slate, soapstone, and carbon dioxide produced from a well.	14.0%
Coal, lignite, and sodium chloride.	10.0%
Clay and shale used or sold for use in making sewer pipe or bricks or used or sold for use as sintered or burned lightweight aggregates.	7.5%
Clay used or sold for use in making drainage and roofing tile, flower pots, and kindred products, and gravel, sand, and stone (other than stone used or sold for use by a mine owner or operator as dimension or ornamental stone).	5.0%
Corporations must reduce the percentage depletion deduction for iron ore, coal, and lignite by 20% of the following quantity: the depletion deduction (computed without respect to this reduction), minus the adjusted basis of the property at the end of the tax year (before the depletion deduction).	

Income for depletion. Apply the percentage depletion rate to gross income from selling geothermal energy derived from the property or from mining the property less (except for geothermal property) any rents or royalties paid or incurred.

Deduction limits. The percentage depletion deduction on geothermal deposits generally cannot exceed 50% of taxable income from the property, before taking depletion and qualified business income deductions or any net operating or capital loss carrybacks.

Depreciation for Like-Kind Exchanges and Involuntary Conversions

Cross References

- Form 8824, *Like-Kind Exchanges*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*
- IRC §1031, *Exchange of real property held for productive use or investment*
- IRC §1033, *Involuntary conversions*

Related Topics

- Like-Kind Exchanges (Form 8824), page 6-19
- Involuntary Conversions, page 6-25
- Business auto trade-in rules, page 10-7

Depreciating Replacement Property

MACRS property that has a carryover (or exchanged) basis because it was acquired in a like-kind exchange or involuntary conversion must generally be depreciated as if the exchange or conversion had not occurred. [Reg. §1.168(i)-6]

Carryover Basis Depreciation	Excess Basis Depreciation
• Continue depreciating the carryover basis using the remaining recovery period and method as that of the exchanged or converted property. • If the replacement property has a longer recovery period, continue depreciating the carryover basis using the longer recovery period. • If the replacement property has a less accelerated method of depreciation, continue depreciating the carryover basis using the less accelerated method.	• Excess basis may include cash and is the amount by which the taxpayer's basis in the replacement property exceeds the basis in the relinquished property. • Depreciate as newly purchased property under the applicable MACRS recovery period, method, and convention. • Excess basis may be eligible for Section 179 deduction and special depreciation allowance.

Did You Know? Like-kind exchanges are limited to real property that is not held primarily for sale. Personal property, including vehicles, does not qualify. See *Like-Kind Exchanges (Form 8824),* page 6-19, and *Business Auto Trade-In Rules,* page 10-7.

Elect to treat as disposition. The taxpayer may elect to treat a like-kind exchange or involuntary conversion as a disposition for purposes of depreciation. The election is made on a timely filed return (including extensions) for the year of replacement and may not be revoked without IRS consent.

MACRS Recovery Periods

Cross References

- IRS Pub. 946, *How To Depreciate Property*

Related Topics

- Uniform Capitalization (UNICAP) Rules, page 8-14

MACRS Recovery Periods, GDS, and ADS

The recovery period of an asset is the number of years during which a taxpayer fully recovers the cost basis of the asset through depreciation. MACRS recovery periods are established by the IRS. The tables on the following pages list recovery periods for most assets.

MACRS depreciation uses either GDS (General Depreciation System) or ADS (Alternative Depreciation System). See *Regular MACRS (GDS)/Alternative Depreciation System (ADS)*, page 9-4.

GDS	ADS
Default system for all property unless: • Required by law to use ADS, or • Electing to use ADS on Part III, Form 4562.	Mandatory for the following property: • Listed property used 50% or less for business. • Tangible property used predominantly outside the U.S. • Property used for tax-exempt purposes. • Property financed by tax-exempt bonds. • Farm property placed into service when an election not to use UNICAP is in effect. See *Uniform Capitalization (UNICAP) Rules,* page 8-14. • Certain property involved in trade restrictions with foreign countries covered by a Presidential Executive Order.

3-Year Property

Asset Class	*Description of Asset*	*GDS*	*ADS*
00.26	Tractor units for over-the-road use.	3	4
01.222	Any breeding or work horse that is more than 12 years old at the time it is placed in service.	3	10
01.223	Any race horse that is more than two years old at the time it is placed in service.	3	12
01.224	Any horse that is more than 12 years old at the time it is placed in service that is neither a race horse nor a horse described in class 01.222, above.	3	12
01.23	Breeding hogs.	3	3

5-Year Property

Asset Class	*Description of Asset*	*GDS*	*ADS*
00.12	Information systems. Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval, and analysis. Information systems are defined as: 1) Computers. 2) Peripheral equipment such as high speed printers, optical character readers, mass storage units, and disc drives.	5	5
00.13	Data handling equipment; except computers. Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.	5	6
00.21	Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines).	5	6
00.22	Automobiles, taxis.	5	5
00.23	Buses.	5	9
00.241	Light general purpose trucks. Includes trucks for use over the road (actual weight less than 13,000 pounds).	5	5
00.242	Heavy general purpose trucks. Includes heavy general purpose trucks, concrete ready mix-trucks, and ore trucks, for use over the road (actual unloaded weight 13,000 pounds or more).	5	6
00.27	Trailers and trailer-mounted containers.	5	6
01.21	Cattle, breeding or dairy.	5	7
01.24	Sheep and goats, breeding.	5	5
15.0	Construction. Includes assets used in construction by general building, special trade, heavy and marine construction contractors, operative and investment builders, real estate subdividers and developers, and others, except railroads.	5	6

continued in next column

5-Year Property continued

Asset Class	*Description of Asset*	*GDS*	*ADS*
41.0	Motor transport—passengers. Includes assets used in the urban and interurban commercial and contract carrying of passengers by road, except the transportation assets included in classes with the prefix 00.2.	5	8
42.0	Motor transport—freight. Includes assets used in the commercial and contract carrying of freight by road, except the transportation assets included in classes with the prefix 00.2.	5	8
57.0	Distributive trades and services. Includes assets used in wholesale and retail trade, and personal and professional services. Includes IRC section 1245 assets used in marketing petroleum and petroleum products. Also includes personal property used in a rental real estate activity, such as appliances, carpeting, furniture, etc. (Announcement 99-82)	5	9

7-Year Property

Asset Class	*Description of Asset*	*GDS*	*ADS*
	Any property that does not have a class life and has not been designated by law as being in any other class.[1]	7	12
00.11	Office furniture, fixtures, and equipment. Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes.	7	10
01.1	Agriculture. Includes machinery and equipment, grain bins, and fences, but no other land improvements, that are used in the production of crops or plants, vines, and trees; livestock; the operation of farm dairies, nurseries, greenhouses, sod farms, mushroom cellars, cranberry bogs, apiaries, and fur farms; the performance of agriculture, animal husbandry, and horticultural services.	7[2]	10
01.221	Any breeding or work horse that is 12 years old or less at the time it is placed in service	7	10
01.225	Any horse not described in classes 01.221, 01.222, 01.223, or 01.224.	7	12
24.4	Manufacture of wood products and furniture. Includes assets used in the production of plywood, hardboard, flooring, veneers, furniture, and other wood products, including the treatment of poles and timber.	7	10
27.0	Printing, publishing, and allied industries. Includes assets used in printing by one or more processes, such as letterpress, lithography, gravure, or screen; the performance of services for the printing trade, such as bookbinding, typesetting, engraving, photo-engraving, and electrotyping; and the publication of newspapers, books, and periodicals.	7	11
32.3	Manufacture of other stone and clay products. Includes assets used in the manufacture of products from materials in the form of clay and stone, such as brick, tile, and pipe; pottery and related products, such as vitreous-china, plumbing fixtures, earthenware and ceramic insulating materials; and also includes assets used in manufacture of concrete and concrete products. Does not include assets used in any mining or extraction processes.	7	15

continued on next page

Asset Class	Description of Asset	GDS	ADS
7-Year Property continued			
39.0	Manufacture of athletic, jewelry, and other goods. Includes assets used in the production of jewelry; musical instruments; toys and sporting goods; motion picture and television films and tapes; and pens, pencils, office and art supplies, brooms, brushes, caskets, etc.	7	12

[1] The 7-year recovery period has been extended for qualified motorsports entertainment complexes placed in service before January 1, 2026.
[2] Any new farm machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business and placed in service after December 31, 2017, has a 5-year recovery period.

10-Year Property

Asset Class	Description of Asset	GDS	ADS
00.28	Vessels, barges, tugs, and similar water transportation equipment, except those used in marine construction.	10	18
01.4	Single purpose agricultural or horticultural structures [within the meaning of IRC section 168(i)(13) of the code].	10 [1]	15
20.1	Manufacture of grain and grain mill products. Includes assets used in the production of flours, cereals, livestock feeds, and other grain and grain mill products.	10	17

[1] 7 years if placed in service before 1989.

15-Year Property

Asset Class	Description of Asset	GDS	ADS
	Qualified improvement property.	15	20
00.3	Land improvements. 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. Excludes public utility initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102.	15	20

20-Year Property

Asset Class	Description of Asset	GDS	ADS
01.3	Farm buildings except structures included in class 01.4.	20	25

27.5-Year Property — Residential Rental Property

Description of Asset	GDS	ADS
Any building or structure, such as a rental home (including a mobile home), if 80% or more of its gross rental income for the tax year is from dwelling units. A dwelling unit is a house or apartment used to provide living accommodations in a building or structure. It does not include a unit in a hotel, motel, or other establishment where more than half the units are used on a transient basis. If the taxpayer occupies any part of the building or structure for personal use, its gross rental income includes the fair market value of the part occupied by the taxpayer.	27.5	30

39-Year Property — Nonresidential Real Property

Description of Asset	GDS	ADS
This is section 1250 property, such as office building, store, or warehouse, which is neither residential rental property nor property with a class life of less than 27.5 years. Includes office in the home.	39	40

MACRS Worksheet

Do not use this worksheet for automobiles. Instead, see *Vehicle Depreciation Limitations (Section 280F)* chart, page 10-1.

Part I
1) MACRS system (GDS or ADS) .... 1) ________
2) Property class .... 2) ________
3) Date placed in service .... 3) ________
4) Recovery period .... 4) ________
5) Method and convention .... 5) ________
6) Depreciation rate (from tables) .... 6) ________

Part II
7) Cost or other basis (do not include land) .... 7) $________
8) Business/investment use .... 8) %________
9) Multiply line 7 by line 8 .... 9) $________
10) Total claimed for Section 179 deduction and other items ... 10) $________
11) Subtract line 10 from line 9 .... 11) $________
12) Multiply line 11 by the allowable special depreciation percentage. Enter -0- if this is not the year the property was placed in service, is not qualified property, or if the election was made not to claim a special allowance* .... 12) $________
13) Subtract line 12 from line 11 .... 13) ________
14) Depreciation rate (from line 6) .... 14) ________
15) Multiply line 13 by line 14. This is the MACRS depreciation deduction .... 15) $________

* See *Special Depreciation Allowance,* page 9-10.

MACRS Percentage Charts

MACRS Half-Year Convention Depreciation Rates 3-, 5-, 7-, 10-, 15-, and 20-Year Property

Year	200DB 3-year	200DB 5-year	200DB 7-year	200DB 10-year	150DB 15-year	150DB 20-year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

MACRS Declining-Balance Method Mid-Quarter Convention

For Half-Year Convention, see page 9-20.

3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in First Quarter

Year	200DB 3-year	200DB 5-year	200DB 7-year	200DB 10-year	150DB 15-year	150DB 20-year
1	58.33%	35.00%	25.00%	17.50%	8.75%	6.563%
2	27.78	26.00	21.43	16.50	9.13	7.008
3	12.35	15.60	15.31	13.20	8.21	6.482
4	1.54	11.01	10.93	10.56	7.39	5.996
5		11.01	8.75	8.45	6.65	5.546
6		1.38	8.74	6.76	5.99	5.130
7			8.75	6.55	5.90	4.746
8			1.09	6.55	5.91	4.459
9				6.56	5.90	4.459
10				6.55	5.91	4.459
11				0.82	5.90	4.459
12					5.91	4.460
13					5.90	4.459
14					5.91	4.460
15					5.90	4.459
16					0.74	4.460
17						4.459
18						4.460
19						4.459
20						4.460
21						0.557

3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Second Quarter

Year	200DB 3-year	200DB 5-year	200DB 7-year	200DB 10-year	150DB 15-year	150DB 20-year
1	41.67%	25.00%	17.85%	12.50%	6.25%	4.688%
2	38.89	30.00	23.47	17.50	9.38	7.148
3	14.14	18.00	16.76	14.00	8.44	6.612
4	5.30	11.37	11.97	11.20	7.59	6.116
5		11.37	8.87	8.96	6.83	5.658
6		4.26	8.87	7.17	6.15	5.233
7			8.87	6.55	5.91	4.841
8			3.34	6.55	5.90	4.478
9				6.56	5.91	4.463
10				6.55	5.90	4.463
11				2.46	5.91	4.463
12					5.90	4.463
13					5.91	4.463
14					5.90	4.463
15					5.91	4.462
16					2.21	4.463
17						4.462
18						4.463
19						4.462
20						4.463
21						1.673

3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Third Quarter

Year	200DB 3-year	200DB 5-year	200DB 7-year	200DB 10-year	150DB 15-year	150DB 20-year
1	25.00%	15.00%	10.71%	7.50%	3.75%	2.813%
2	50.00	34.00	25.51	18.50	9.63	7.289
3	16.67	20.40	18.22	14.80	8.66	6.742
4	8.33	12.24	13.02	11.84	7.80	6.237
5		11.30	9.30	9.47	7.02	5.769
6		7.06	8.85	7.58	6.31	5.336
7			8.86	6.55	5.90	4.936
8			5.53	6.55	5.90	4.566
9				6.56	5.91	4.460
10				6.55	5.90	4.460
11				4.10	5.91	4.460
12					5.90	4.460
13					5.91	4.461
14					5.90	4.460
15					5.91	4.461
16					3.69	4.460
17						4.461
18						4.460
19						4.461
20						4.460
21						2.788

3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Fourth Quarter

Year	200DB 3-year	200DB 5-year	200DB 7-year	200DB 10-year	150DB 15-year	150DB 20-year
1	8.33%	5.00%	3.57%	2.50%	1.25%	0.938%
2	61.11	38.00	27.55	19.50	9.88	7.430
3	20.37	22.80	19.68	15.60	8.89	6.872
4	10.19	13.68	14.06	12.48	8.00	6.357
5		10.94	10.04	9.98	7.20	5.880
6		9.58	8.73	7.99	6.48	5.439
7			8.73	6.55	5.90	5.031
8			7.64	6.55	5.90	4.654
9				6.56	5.90	4.458
10				6.55	5.91	4.458
11				5.74	5.90	4.458
12					5.91	4.458
13					5.90	4.458
14					5.91	4.458
15					5.90	4.458
16					5.17	4.458
17						4.458
18						4.459
19						4.458
20						4.459
21						3.901

Residential Rental Property Mid-Month Convention Straight-Line—27.5 Years

Year	*Month property placed in service*											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2–9	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636
Even yrs 10–26	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Odd yrs 11–27	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
28	1.97	2.273	2.576	2.879	3.182	3.485	3.636	3.636	3.636	3.636	3.636	3.636
29							0.152	0.455	0.758	1.061	1.364	1.667

Residential Rental Property (Placed in Service After 2017) Mid-Month Convention Straight-Line—30 Years

Year	*Month property placed in service*											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.204%	2.926%	2.649%	2.371%	2.093%	1.815%	1.528%	1.250%	0.972%	0.694%	0.417%	0.139%
2–30	3.333	3.333	3.333	3.333	3.333	3.333	3.333	3.333	3.333	3.333	3.333	3.333
31	0.139	0.417	0.694	0.972	1.250	1.528	1.815	2.093	2.371	2.649	2.926	3.204

Nonresidential Real Property Mid-Month Convention Straight-Line—31.5 Years*

Year	*Month property placed in service*											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.042%	2.778%	2.513%	2.249%	1.984%	1.720%	1.455%	1.190%	0.926%	0.661%	0.397%	0.132%
2–7	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175
8	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.175	3.175	3.175	3.175	3.175
Odd yrs 9–31	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
Even yrs 10–30	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
32	1.720	1.984	2.249	2.513	2.778	3.042	3.175	3.174	3.175	3.174	3.175	3.174
33							0.132	0.397	0.661	0.926	1.190	1.455

* For property placed in service between December 31, 1986 and May 13, 1993.

Nonresidential Real Property Mid-Month Convention Straight-Line—39 Years

Year	*Month property placed in service*											
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
2–39	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564
40	0.107	0.321	0.535	0.749	0.963	1.177	1.391	1.605	1.819	2.033	2.247	2.461

Mid-Month Convention Straight-Line—40 Years

Year	*Month property placed in service*											
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.396%	2.188%	1.979%	1.771%	1.563%	1.354%	1.146%	0.938%	0.729%	0.521%	0.313%	0.104%
2–40	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500
41	0.104	0.312	0.521	0.729	0.937	1.146	1.354	1.562	1.771	1.979	2.187	2.396

150% Declining-Balance Method Half-Year Convention

Year	*Recovery periods in years*											
	3	4	5	6	7	8	9	10	11	12	15	20
1	25.0%	18.75%	15.00%	12.50%	10.71%	9.38%	8.33%	7.50%	6.82%	6.25%	5.00%	3.750%
2	37.5	30.47	25.50	21.88	19.13	16.99	15.28	13.88	12.71	11.72	9.50	7.219
3	25.0	20.31	17.85	16.41	15.03	13.81	12.73	11.79	10.97	10.25	8.55	6.677
4	12.5	20.31	16.66	14.06	12.25	11.22	10.61	10.02	9.48	8.97	7.70	6.177
5		10.16	16.66	14.06	12.25	10.80	9.65	8.74	8.18	7.85	6.93	5.713
6			8.33	14.06	12.25	10.80	9.64	8.74	7.98	7.33	6.23	5.285
7				7.03	12.25	10.80	9.65	8.74	7.97	7.33	5.90	4.888
8					6.13	10.80	9.64	8.74	7.98	7.33	5.90	4.522
9						5.40	9.65	8.74	7.97	7.33	5.91	4.462
10							4.82	8.74	7.98	7.33	5.90	4.461
11								4.37	7.97	7.32	5.91	4.462
12									3.99	7.33	5.90	4.461
13										3.66	5.91	4.462
14											5.90	4.461
15											5.91	4.462
16											2.95	4.461
17												4.462
18												4.461
19												4.462
20												4.461
21												2.231

150% Declining-Balance Method Mid-Quarter Convention Property Placed in Service in First Quarter

Year	*Recovery periods in years*											
	3	4	5	6	7	8	9	10	11	12	15	20
1	43.75%	32.81%	26.25%	21.88%	18.75%	16.41%	14.58%	13.13%	11.93%	10.94%	8.75%	6.563%
2	28.13	25.20	22.13	19.53	17.41	15.67	14.24	13.03	12.01	11.13	9.13	7.008
3	25.00	19.76	16.52	14.65	13.68	12.74	11.86	11.08	10.37	9.74	8.21	6.482
4	3.12	19.76	16.52	14.06	12.16	10.77	9.89	9.41	8.96	8.52	7.39	5.996
5		2.47	16.52	14.06	12.16	10.77	9.64	8.71	7.96	7.46	6.65	5.546
6			2.06	14.06	12.16	10.76	9.65	8.71	7.96	7.33	5.99	5.130
7				1.76	12.16	10.77	9.64	8.71	7.96	7.33	5.90	4.746
8					1.52	10.76	9.65	8.71	7.96	7.33	5.91	4.459
9						1.35	9.64	8.71	7.96	7.33	5.90	4.459
10							1.21	8.71	7.97	7.32	5.91	4.459
11								1.09	7.96	7.33	5.90	4.459
12									1.00	7.32	5.91	4.460
13										0.92	5.90	4.459
14											5.91	4.460
15											5.90	4.459
16											0.74	4.460
17												4.459
18												4.460
19												4.459
20												4.460
21												0.557

150% Declining-Balance Method Mid-Quarter Convention Property Placed in Service in Second Quarter

Year	*Recovery periods in years*											
	3	4	5	6	7	8	9	10	11	12	15	20
1	31.25%	23.44%	18.75%	15.63%	13.39%	11.72%	10.42%	9.38%	8.52%	7.81%	6.25%	4.688%
2	34.38	28.71	24.38	21.09	18.56	16.55	14.93	13.59	12.47	11.52	9.38	7.148
3	25.00	20.15	17.06	15.82	14.58	13.45	12.44	11.55	10.77	10.08	8.44	6.612
4	9.37	20.15	16.76	14.06	12.22	10.93	10.37	9.82	9.31	8.82	7.59	6.116
5		7.55	16.76	14.06	12.22	10.82	9.64	8.73	8.04	7.72	6.83	5.658
6			6.29	14.07	12.22	10.82	9.65	8.73	7.98	7.33	6.15	5.233
7				5.27	12.23	10.83	9.64	8.73	7.98	7.33	5.91	4.841
8					4.58	10.82	9.65	8.73	7.98	7.33	5.90	4.478
9						4.06	9.64	8.73	7.99	7.33	5.91	4.463
10							3.62	8.73	7.98	7.33	5.90	4.463
11								3.28	7.99	7.33	5.91	4.463
12									2.99	7.32	5.90	4.463
13										2.75	5.91	4.463
14											5.90	4.463
15											5.91	4.462
16											2.21	4.463
17												4.462
18												4.463
19												4.462
20												4.463
21												1.673

150% Declining-Balance Method Mid-Quarter Convention Property Placed in Service in Third Quarter

Year	*Recovery periods in years*											
	3	4	5	6	7	8	9	10	11	12	15	20
1	18.75%	14.06%	11.25%	9.38%	8.04%	7.03%	6.25%	5.63%	5.11%	4.69%	3.75%	2.813%
2	40.63	32.23	26.63	22.66	19.71	17.43	15.63	14.16	12.94	11.91	9.63	7.289
3	25.00	20.46	18.64	16.99	15.48	14.16	13.02	12.03	11.18	10.43	8.66	6.742
4	15.62	20.46	16.56	14.06	12.27	11.51	10.85	10.23	9.65	9.12	7.80	6.237
5		12.79	16.57	14.06	12.28	10.78	9.64	8.75	8.33	7.98	7.02	5.769
6			10.35	14.06	12.27	10.78	9.65	8.75	7.97	7.33	6.31	5.336
7				8.79	12.28	10.78	9.64	8.75	7.97	7.33	5.90	4.936
8					7.67	10.79	9.65	8.74	7.97	7.33	5.90	4.566
9						6.74	9.64	8.75	7.97	7.33	5.91	4.460
10							6.03	8.74	7.97	7.32	5.90	4.460
11								5.47	7.96	7.33	5.91	4.460
12									4.98	7.32	5.90	4.460
13										4.58	5.91	4.461
14											5.90	4.460
15											5.91	4.461

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150% Declining-Balance Method Mid-Quarter Convention Property Placed in Service in Third Quarter continued												
Year	***Recovery periods in years***											
	3	4	5	6	7	8	9	10	11	12	15	20
16											3.69	4.460
17												4.461
18												4.460
19												4.461
20												4.460
21												2.788

150% Declining-Balance Method Mid-Quarter Convention Property Placed in Service in Fourth Quarter												
Year	***Recovery periods in years***											
	3	4	5	6	7	8	9	10	11	12	15	20
1	6.25%	4.69%	3.75%	3.13%	2.68%	2.34%	2.08%	1.88%	1.70%	1.56%	1.25%	0.938%
2	46.88	35.74	28.88	24.22	20.85	18.31	16.32	14.72	13.40	12.31	9.88	7.430
3	25.00	22.34	20.21	18.16	16.39	14.88	13.60	12.51	11.58	10.77	8.89	6.872
4	21.87	19.86	16.40	14.06	12.87	12.09	11.33	10.63	10.00	9.42	8.00	6.357
5		17.37	16.41	14.06	12.18	10.74	9.65	9.04	8.63	8.24	7.20	5.880
6			14.35	14.06	12.18	10.75	9.65	8.72	7.95	7.33	6.48	5.439
7				12.31	12.19	10.74	9.64	8.72	7.96	7.33	5.90	5.031
8					10.66	10.75	9.65	8.72	7.95	7.33	5.90	4.654
9						9.40	9.64	8.72	7.96	7.33	5.90	4.458
10							8.44	8.71	7.95	7.32	5.91	4.458
11								7.63	7.96	7.33	5.90	4.458
12									6.96	7.32	5.91	4.458
13										6.41	5.90	4.458
14											5.91	4.458
15											5.90	4.458
16											5.17	4.458
17												4.458
18												4.459
19												4.458
20												4.459
21												3.901

MACRS Short-Year Depreciation—Short Cut Percentage Method

Note: These tables produce the same results as the calculations described in IRS Pub. 946, *How To Depreciate Property.*
Use only when short tax year depreciation rules apply. See *Short Tax Year Depreciation,* page 9-6.

	5-Year Property – Half-Year Convention 200DB (MACRS)								**5-Year Property – Half-Year Convention 150DB (AMT)**							
Short Year Begins In:	*Feb*	*Mar*	*Apr*	*May*	*June*	*July*	*Aug*	*Sep*	*Feb*	*Mar*	*Apr*	*May*	*June*	*July*	*Aug*	*Sep*
Recovery %																
Year 1	18.33%	16.67%	15.00%	13.33%	11.67%	10.00%	8.33%	6.67%	13.75%	12.50%	11.25%	10.00%	8.75%	7.50%	6.25%	5.00%
Year 2	32.68%	33.32%	34.00%	34.68%	35.32%	36.00%	36.68%	37.32%	25.86%	26.25%	26.61%	27.00%	27.36%	27.75%	28.11%	28.50%
Year 3	19.60%	20.00%	20.40%	20.80%	21.20%	21.60%	22.00%	22.40%	18.09%	18.36%	18.63%	18.90%	19.14%	19.41%	19.68%	19.95%
Year 4	11.76%	12.00%	12.24%	12.48%	12.72%	12.96%	13.20%	13.44%	16.60%	16.57%	16.57%	16.54%	16.50%	16.47%	16.44%	16.41%
Year 5	11.42%	11.39%	11.32%	11.22%	11.18%	11.09%	11.05%	11.02%	16.61%	16.55%	16.55%	16.56%	16.51%	16.46%	16.47%	16.42%
Year 6	6.21%	6.62%	7.04%	7.49%	7.91%	8.35%	8.74%	9.15%	9.09%	9.77%	10.39%	11.00%	11.74%	12.41%	13.05%	13.72%

	7-Year Property – Half-Year Convention 200DB (MACRS)								**7-Year Property – Half-Year Convention 150DB (AMT)**							
Short Year Begins In:	*Feb*	*Mar*	*Apr*	*May*	*June*	*July*	*Aug*	*Sep*	*Feb*	*Mar*	*Apr*	*May*	*June*	*July*	*Aug*	*Sep*
Recovery %																
Year 1	13.10%	11.90%	10.71%	9.52%	8.33%	7.14%	5.95%	4.76%	9.82%	8.93%	8.04%	7.14%	6.25%	5.36%	4.46%	3.57%
Year 2	24.83%	25.17%	25.51%	25.86%	26.20%	26.54%	26.86%	27.20%	19.33%	19.52%	19.71%	19.91%	20.08%	20.27%	20.46%	20.66%
Year 3	17.74%	17.97%	18.23%	18.46%	18.71%	18.97%	19.17%	19.43%	15.19%	15.34%	15.49%	15.64%	15.77%	15.92%	16.07%	16.22%
Year 4	12.69%	12.83%	13.03%	13.17%	13.37%	13.54%	13.69%	13.89%	12.26%	12.28%	12.28%	12.30%	12.39%	12.51%	12.62%	12.75%
Year 5	9.06%	9.17%	9.31%	9.40%	9.54%	9.69%	9.77%	9.91%	12.25%	12.28%	12.28%	12.30%	12.24%	12.24%	12.21%	12.18%
Year 6	8.89%	8.86%	8.88%	8.81%	8.82%	8.80%	8.74%	8.75%	12.24%	12.27%	12.27%	12.30%	12.26%	12.25%	12.21%	12.18%
Year 7	8.89%	8.84%	8.86%	8.82%	8.84%	8.80%	8.76%	8.73%	12.26%	12.25%	12.25%	12.30%	12.23%	12.23%	12.22%	12.16%
Year 8	4.80%	5.26%	5.47%	5.96%	6.19%	6.52%	7.06%	7.73%	6.65%	7.13%	7.68%	8.11%	8.78%	9.22%	9.75%	10.28%

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