Department of the Treasury
Internal Revenue Service

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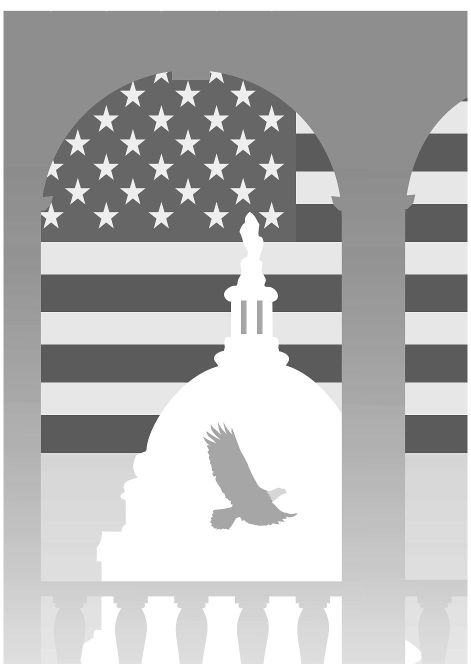
How To Depreciate Property

- Section 179 Deduction
- MACRS
- Listed Property

For use in preparing
2000 Returns



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Contents

Important Changes

Depreciation limits on business cars and clean-fuel vehicles. The total section 179 deduction and depreciation you can take on a car (that is not a clean-fuel vehicle) you use in your business and first place in service in 2000 is $3,060. The maximum depreciation deduction for a clean-fuel vehicle that you first place in service in 2000 is $9,280. For the maximum depreciation you can deduct in later years, see *Special Rule for Passenger Automobiles* in chapter 4.

Increase to the section 179 deduction. The total cost you can elect to deduct for section 179 property you place in service during 2000 increases to $20,000. This amount will continue to increase through 2003. See *Maximum Dollar Limit* in chapter 2.

Increased section 179 deduction for enterprise zone businesses. You may be able to claim an increased section 179 deduction if your business qualifies as an enterprise zone business. The increase can be as much as $20,000, but it cannot be more than the cost of qualified zone property which is section 179 property placed in service in an empowerment zone during the year.

For information on empowerment zones and enterprise communities, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities.*

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1–800–THE–LOST (1–800–843–5678)** if you recognize a child.

Important Reminder

150% DB election under GDS. Effective for property placed in service after 1998, if you choose to use the 150% declining balance rate under the General Depreciation System (GDS), you use the same recovery periods you would have used if you had chosen the 200% declining balance rate. For more information on recovery periods, see *Property Classes and Recovery Periods* in chapter 3.

Introduction

This publication explains how you can recover the cost of business or income-producing property through depreciation. It shows you how to figure your depreciation deduction and how to fill out Form 4562, *Depreciation and Amortization.* There are examples throughout the publication to help you understand the tax law.

This publication is for those who want information on depreciating property placed in service after 1986. If you want information about depreciating property placed in service before 1987, see Publication 534, *Depreciating Property Placed in Service Before 1987.*

Definitions. Many of the terms used in this publication are defined in the *Glossary* near the end of this publication.

Additional information. The following table shows where you can get more detailed information when depreciating certain types of property.

For information on depreciating:	**See:**
A car	Publication 463, *Travel, Entertainment, Gift, and Car Expenses*
Residential rental property	Publication 527, *Residential Rental Property*
Office space in your home	Publication 587, *Business Use of Your Home*

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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1.

General Information

Introduction

This chapter discusses the general rules for depreciating property. It is divided into seven major sections.

- ***Depreciation Defined.*** This section defines depreciation. It also defines the two types of property — tangible and intangible — and discusses real property and personal property.
- ***Who Can Claim Depreciation.*** This section identifies those who can claim depreciation and provides examples.

- ***What Can Be Depreciated.*** This section discusses what types of tangible and intangible property you can depreciate. It also discusses how you can depreciate partial business-use property. Finally, it discusses depreciation of land preparation costs, repairs and replacements, durable containers, cooperative apartments, and other special situations.
- ***What Cannot Be Depreciated.*** This section discusses the different kinds of property that cannot be depreciated. It specifically addresses the treatment of property placed in service and disposed of in the same year, inventory, leased property, term interests in property, and more.
- ***When Depreciation Begins and Ends.*** This section discusses when property is considered placed in service, when the basis of property is fully recovered, and when property is retired from service.
- ***How To Claim Depreciation.*** This section discusses when to use Form 4562, *Depreciation and Amortization.* It also contains a table that outlines the purpose of each part of Form 4562.
- ***Incorrect Amount of Depreciation Deducted.*** This section discusses what to do when you deducted the incorrect amount of depreciation. It covers amending your return and changing your method of accounting.

Useful Items

You may want to see:

Publication

☐ **535** Business Expenses

☐ **538** Accounting Periods and Methods

☐ **551** Basis of Assets

Form (and Instructions)

☐ **2106** Employee Business Expenses

☐ **2106-EZ** Unreimbursed Employee Business Expenses

☐ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

Depreciation Defined

Depreciation is a decrease in the value of property over the time the property is being used. Events that can cause property to depreciate include wear and tear, age, deterioration, and obsolescence. You can get back your cost of certain property by taking deductions for depreciation. For example, you can take a depreciation deduction for equipment you use in your business or for the production of income.

Types of Property

To determine if you can take a depreciation deduction for your property, you must be familiar with the types of property. Property is either of the following.

- Tangible
- Intangible

Tangible Property

Tangible property is property that you can see or touch. There are two main types of tangible property.

- Real property
- Personal property

Real property. Real property is land, buildings, and generally anything built or constructed on land, growing on land, or attached to the land.

Personal property. Tangible personal property includes cars, trucks, machinery, furniture, equipment, and anything that you can see or touch, except real property.

Intangible Property

Intangible property is generally any property that has value but that you cannot see or touch. It includes items such as computer software, copyrights, franchises, patents, trademarks, and trade names.

Who Can Claim Depreciation

To claim depreciation, you usually must be the owner of the property and you must use the property in your trade or business or for producing income.

Example 1. You made a down payment on rental property and assumed the previous owner's mortgage. You own the property and you can depreciate it.

Example 2. This year you bought a new van that you will use only for your courier business. You will be making payments on the van over the next 5 years. You own the van and you can depreciate it.

Rented property. Generally, if you pay rent on property, you cannot depreciate that property. Usually, only the owner can depreciate it. For more information on rented property, see *Leased property* under *What Cannot Be Depreciated,* later. If you make permanent improvements to business property you rent, you can depreciate those improvements.

If you rent property to another person, you can depreciate that property.

What Can Be Depreciated

You can depreciate many different kinds of property, for example, machinery, buildings, vehicles, patents, copyrights, furniture, and equipment.

You can depreciate property only if it meets all the following requirements.

- It must be used in business or held to produce income.
- It must be expected to last more than one year. In other words, it must have a useful life that extends substantially beyond the year it is placed in service.
- It must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

Tangible Property

Terms you may need to know (see Glossary):

Basis
Business/investment use
Capitalized
Commuting
Useful life

Tangible property is property you can see or touch and includes both real and personal property. You can take a depreciation deduction only for the part of tangible property that wears out, decays, gets used up, becomes obsolete, or loses its value due to natural causes. Because nearly all tangible property loses value due to these causes, this discussion will focus on rules for depreciating property under certain circumstances.

Partial Business Use

If you use tangible property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the business/investment use. Personal use of a car, for example, would include commuting, personal shopping trips, family vacations, and driving children to and from school and other activities.

You must keep records showing the business, investment, and personal use of your property. For more information on the records you must keep for listed property, such as a car, see *What Records Must Be Kept* in chapter 4.

Special Situations

You can depreciate some property only under certain circumstances. The following discussions will help you determine whether you can depreciate property in these cases.

Land preparation costs. You cannot depreciate land. However, you can depreciate certain costs (such as landscaping) incurred in preparing land for business use. These costs must be so closely associated with other depreciable property that you can determine a life for them along with the life of the associated property.

Example. You constructed a new building for use in your business and paid for grading, clearing, seeding, and planting bushes and trees. Some of the bushes and trees were planted right next to the building, while others were planted around the outer border of the lot. If you replace the building, you would have to destroy the bushes and trees right next to it. Because these bushes and trees are closely associated with the building, they have a determinable useful life. Therefore, you can depreciate them as land preparation costs. Add your other land preparation costs to the basis of your land because they have no determinable life and you cannot depreciate them.

Repair or improvement. If a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, it is an improvement. You must capitalize and depreciate the cost of the improvement. If the repair or replacement does not increase the value of your property, make it more useful, or lengthen its life, it is a repair. You deduct the cost of the repair in the same way as any other business expense.

Example. If you completely replace the roof of a rental house, it is an improvement because the new roof increases the value and lengthens the life of the property. You must capitalize and depreciate it. However, if you repair a small section on one corner of the roof, deduct the repair expense.

Improvements to rented property. You can depreciate permanent improvements you make to rented business property. For more information, see *Additions or improvements to property* under *Property Classes and Recovery Periods* in chapter 3.

Durable containers. You can depreciate containers used to ship your products if the containers meet the following requirements.

- They have a life longer than one year.
- They qualify as property used in your business.
- Title to the containers does not pass to the buyer.

To determine if these requirements apply and whether you can depreciate your containers, consider the following questions.

- Does your sales contract, sales invoice, or other type of order acknowledgment indicate whether you have retained title?
- Does your invoice treat the containers as separate items?
- Do any of your records state your basis in the containers?

Professional libraries. If you maintain a library for use in your profession, you can depreciate it. However, you can deduct as a business expense the cost of any technical books, journals, or information services you use in your business that have a useful life of one year or less.

Videocassettes. If you are in the business of renting videocassettes, you can depreciate only those videocassettes bought for rental. You depreciate them using one of the following methods.

- Straight line method. (The straight line method is explained later under *Intangible Property.)*
- Income forecast method.

The income forecast method requires income projections for each videocassette or group of videocassettes. You figure the depreciation by applying a fraction to the cost less the salvage value of the cassette. The numerator is the income from the videocassette for the tax year and the denominator is the total projected income for the cassette. For more information on the income forecast method, see Revenue Ruling 60–358 in Cumulative Bulletin 1960–2.

If the videocassette has a useful life of one year or less, you can deduct the cost as a business expense.

Idle property. You must claim a deduction for depreciation on property used in your business even if it is temporarily idle. For example, if you stop using a machine because there is a temporary lack of market for a product made with that machine, you must continue to deduct depreciation on the machine.

Cooperative apartments. If you use your cooperative apartment in your business or for the production of income, you can deduct your share of the cooperative housing corporation's depreciation.

If you bought your stock as part of its first offering, figure your depreciation deduction as a tenant-stockholder as follows.

1) Figure the depreciation for all the depreciable real property owned by the corporation.
2) Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but cannot be lived in by tenant-stockholders. The result is the reduced yearly depreciation.
3) Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.
4) Multiply the reduced yearly depreciation (2) by the percentage you figured in (3). This is your share of the depreciation.

If you bought your cooperative stock after its first offering, figure the basis of the depreciable real property to use in (1) above as follows.

1) Multiply your cost per share by the total number of outstanding shares.
2) Add to the amount figured in (1) any mortgage debt on the property on the date you bought the stock.
3) Subtract from the amount figured in (2) any mortgage debt that is not for the depreciable real property, such as the part for the land.

Your depreciation deduction for the year cannot be more than the part of your adjusted basis in the stock of the corporation that is allocable to your business or income-producing property.

Example. You figure your share of the cooperative housing corporation's depreciation to be $30,000. Your adjusted basis in the stock of the corporation is $50,000. You use one half of your apartment solely for business purposes. Your depreciation deduction for the year cannot be more than $25,000, which is ½ of $50,000.

Change to business use. If you change your cooperative apartment to business use, figure your allowable depreciation as explained earlier. If you bought the stock as part of its first offering, your depreciable basis in all the depreciable real property owned by the cooperative housing corporation is the smaller of the following.

- The fair market value on the date you change your apartment to business use.
- The corporation's adjusted basis on that date.

Do not subtract depreciation when figuring the adjusted basis. The fair market value is normally the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic. See *Straight Line Method,* later.

For a discussion of fair market value and adjusted basis, see Publication 551.

Intangible Property

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Capitalized
Goodwill
Patent
Salvage value
Straight line method
Useful life

Intangible property is property that has value but cannot be seen or touched. Generally, you can either amortize or depreciate intangible property.

You must amortize certain intangible property over 15 years if you meet the following conditions.

- You acquired the property after August 10,1993, (after July 25, 1991, if elected).
- You use the property in connection with a business or for the production of income.

If you meet these conditions, amortize the following intangibles.

1) Patents and copyrights.
2) Customer or subscription lists, location contracts, and insurance expirations.
3) Designs and patterns.
4) Franchises.
5) Agreements not to compete.

If you created any of the intangibles listed in items (1) through (3), you can amortize them only if you created them in connection with the acquisition of assets constituting a trade or business or a substantial part of a trade or business.

For more information on amortizing these and other intangibles, see chapter 9 in Publication 535.

Generally, you can depreciate any of these intangibles acquired before August 11, 1993, or that do not qualify for amortization. However, they must have a determinable useful life.

Agreements not to compete, lists, contracts, and expirations are sometimes confused with goodwill, which is not depreciable. Therefore, you must be able to determine their value separately from the value of any goodwill that goes with the business.

If you can depreciate the cost of a patent or copyright, you can use the straight line method over the useful life. The useful life of a patent or copyright is the lesser of the life granted to it by the government or the remaining life. If it becomes valueless before the end of its useful life, you can deduct in that year any of its remaining cost or other basis.

Computer software. Computer software includes all programs designed to cause a computer to perform a desired function. Computer software also includes any data base or similar item in the public domain and incidental to the operation of qualifying software.

Generally, you can depreciate software over 36 months. However, if you acquired the software in connection with the acquisition of a substantial portion of a business, you can depreciate it over 36 months only if it meets all the following requirements.

- It is readily available for purchase by the general public.
- It is not subject to an exclusive license.
- It has not been substantially modified.

If you acquired it in connection with the acquisition of a substantial portion of a business and it does ***not*** meet all the requirements listed above, you must amortize it over 15 years (rather than depreciate it).

Software leased. If you lease software, you can treat the rental payments in the same manner you treat any other rental payments.

Year 2000 costs. Year 2000 costs are costs of converting or replacing computer software to recognize dates beginning in the year 2000. They include costs of the following.

- Manually converting existing software.
- Developing new software.
- Purchasing or leasing new software to replace existing software.
- Developing or purchasing software tools to assist you in converting your existing software.

Treat year 2000 costs as computer software for depreciation purposes.

Any change in the treatment of year 2000 costs to allow them to be treated as computer software for depreciation purposes is a change in accounting method. If you want to make this type of change, follow the automatic change in accounting method provisions of Revenue Procedure 99–49 in Internal Revenue Bulletin No. 1999–52.

Straight Line Method

Generally, if you can depreciate intangible property, you use the straight line method of depreciation. It lets you deduct the same amount of depreciation each year.

To figure your deduction, first determine the adjusted basis, salvage value, and estimated useful life of your property. Subtract the salvage value, if any, from the adjusted basis. The balance is the total depreciation you can take over the useful life of the property.

Divide the balance by the number of years in the useful life. This gives you your yearly depreciation deduction. Unless there is a big change in adjusted basis or useful life, this amount will stay the same throughout the time you depreciate the property. If, in the first year, you use the property for less than a full year, you must prorate your depreciation deduction for the number of months in use.

Example. In April, Frank bought a patent for $5,100. It was not acquired in connection with the acquisition of any part of a trade or business. He depreciates the patent under the straight line method, using a 17-year useful life and no salvage value. He divides the $5,100 basis by 17 years ($5,100 ÷ 17 = $300) to get his yearly depreciation deduction. Because he only used the patent for 9 months during the year, he multiplies $300 by $\frac{9}{12}$ to get his deduction of $225. Next year, Frank can deduct $300 for the full year.

What Cannot Be Depreciated

To determine if you are entitled to depreciation, you must know not only what you can depreciate, but what you cannot depreciate.

Property placed in service and disposed of in the same year. You cannot depreciate property you place in service and dispose of in the same year. When you place property in service is explained later.

Tangible Property

Terms you may need to know (see Glossary):

Basis
Remainder interest
Term interest
Useful life

The following are types of tangible property that you generally cannot depreciate, even though you use them in your business or hold them to produce income.

Land. You can never depreciate the cost of land because land does not wear out, become obsolete, or get used up. The cost of land generally includes the cost of clearing, grading, planting, and landscaping because these expenses are all part of the cost of the land itself. For information on land preparation costs you may be able to depreciate, see *Land preparation costs* under *What Can Be Depreciated,* earlier.

Inventory. You can never depreciate inventory. Inventory is any property you hold primarily for sale to customers in the ordinary course of your business.

In some cases, it is not clear whether property is inventory or depreciable business property. If it is unclear, examine carefully all the facts in the operation of the particular business. The following example shows two similar situations where a careful examination of the facts in each situation results in different conclusions.

Example. Maple Corporation is in the business of leasing cars. At the end of their useful lives, when the cars are no longer profitable to lease, Maple sells them. Maple does not have a showroom, used car lot, or individuals to sell the cars. Instead, it sells them through wholesalers or by similar arrangements in which a dealer's profit is not intended or considered. Maple can depreciate the leased cars because the cars are not held primarily for sale to customers in the ordinary course of business, but are leased.

If Maple buys cars at wholesale prices, leases them for a short time, and then sells them at retail prices or in sales in which a dealer's profit is intended, the cars are treated as inventory and are not depreciable property. In this situation, the cars are held primarily for sale to customers in the ordinary course of business.

If you are a rent-to-own dealer, see *Rent-to-own dealer* under *Property Classes and Recovery Periods* in chapter 3.

Containers. Generally, containers are part of inventory and you cannot depreciate them. For information on containers you can depreciate, see *Durable containers* under *What Can Be Depreciated,* earlier.

More information. For more information on inventory, see *Inventories* in Publication 538.

Equipment used to build capital improvements. You cannot deduct depreciation on equipment you are using to build your own capital improvements. You must add depreciation on equipment used during the period of construction to the basis of your improvements. See *Uniform Capitalization Rules* in Publication 551.

Leased property. You can depreciate leased property only if you retain the incidents of ownership for the property (explained later). This means you bear the burden of exhaustion of the capital investment in the property. Therefore, if you lease property from someone to use in your trade or business or for the production of income, you generally cannot depreciate its cost because you do not retain the incidents of ownership. You can, however, depreciate any capital improvements you make to the property. See *Additions or improvements to property* in chapter 3.

If you lease property to someone, you generally can depreciate its cost even if the lessee (the person leasing from you) has agreed to preserve, replace, renew, and maintain the property. However, if the lease provides that the lessee is to maintain the property and return to you the same property or its equivalent in value at the expiration of the lease in as good condition and value as when leased, you cannot depreciate the cost of the property.

Incidents of ownership. Incidents of ownership include the following.

- The legal title.
- The legal obligation to pay for it.
- The responsibility to pay its maintenance and operating expenses.
- The duty to pay any taxes.
- The risk of loss if the property is destroyed, condemned, or diminished in value through obsolescence or exhaustion.

Term interests in property. Generally, you cannot take a deduction for depreciation on 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 you. A person related to you includes the following.

- Your spouse, child, parent, brother, sister, half-brother, half-sister, ancestor, or lineal descendant.
- A corporation in which you or a family member own (directly or indirectly) more than 50% of the outstanding stock.
- Certain educational and charitable organizations controlled (directly or indirectly) by you or a family member.
- A partnership in which you or a family member own (directly or indirectly) any capital or profits interests.
- An S corporation in which you or a family member own (directly or indirectly) any stock.

You cannot take a deduction for depreciation or amortization for a life or term interest acquired by gift, bequest, or inheritance.

Basis adjustments. If, except for this provision, you would be allowed a depreciation deduction for any term interest in property, reduce your basis in the property by any depreciation or amortization not allowed.

The holder of the remainder interest generally increases his or her basis in a remainder interest in property by the depreciation not allowed. However, do not increase the basis of a remainder interest for depreciation not allowed for periods during which either of the following apply.

- It is held by an organization exempt from tax.
- It is held by a nonresident alien individual or foreign corporation and the income from the term interest is not effectively connected with the conduct of a trade or business in the United States.

The basis adjustment rules do not apply to any term or life interest acquired by gift, bequest, or inheritance.

Exceptions. The above rules do not apply to the holder of dividend rights which were separated from any stripped preferred stock purchased after April 30, 1993, or to a person whose basis in the stock is determined by reference to the basis in the hands of that purchaser.

Intangible Property

Terms you may need to know (see Glossary):

Goodwill
Useful life

The following are two types of intangible property that you can never depreciate.

Goodwill. You can never depreciate goodwill because its useful life cannot be determined.

However, if you acquired a business after August 10, 1993 (after July 25, 1991, if elected), and part of the price included goodwill, you may be able to amortize the cost of the goodwill over 15 years. For more information, see chapter 9 in Publication 535.

Trademark or trade name. In general, you cannot depreciate the cost of a trademark or trade name. However, you may be able to amortize over 15 years the cost of a trademark or trade name you acquired after August 10, 1993 (after July 25, 1991, if elected). For more information, see chapter 9 in Publication 535.

When Depreciation Begins and Ends

Terms you may need to know (see Glossary):

Basis
Exchange
Placed in service

You begin to depreciate your property when you place it in service for use in your trade or business or for the production of income. You stop depreciating property either when you have fully recovered your cost or other basis or when you retire it from service, whichever happens first.

Placed in Service

For depreciation purposes, you place property in service when it is ready and available for a specific use, whether in a trade or business, the production of income, a tax-exempt activity, or a personal activity. Even if you are not using the property, it is in service when it is ready and available for its specific use.

Example 1. You bought a home and used it as your personal home several years before you converted it to rental property. Although its specific use was personal and no depreciation was allowable, you placed the home in service when you began using it as your home. You can claim a depreciation deduction in the year you converted it to rental property because its use changed to an income-producing use at that time.

Example 2. You bought a planter for your farm business late in the year after harvest was over. You take a depreciation deduction for the planter for that year because it was ready and available for its specific use.

Cost or Other Basis Fully Recovered

You have fully recovered your cost or other basis when you have taken section 179 and depreciation deductions equal to your cost or investment in the property.

Retired From Service

You stop depreciating property when you retire it from service. You retire property from service when you permanently withdraw it from use in a trade or business or from use in the production of income.

You can retire property from service in the following ways.

- Sale or exchange.
- Abandonment.
- Destruction.

How To Claim Depreciation

Terms you may need to know (see Glossary):

Amortization
Listed property
Placed in service
Standard mileage rate

You must complete and attach Form 4562 to your tax return if you are claiming any of the following.

- A section 179 deduction for the current year or a section 179 carryover from a prior year. (See chapter 2 for information on the section 179 deduction.)
- Depreciation for property placed in service during the current year.
- Depreciation on any vehicle or other listed property, regardless of when it was placed in service.
- A deduction for any vehicle if the deduction is reported on a form other than Schedule C (Form 1040), *Profit or Loss From Business,* or Schedule C-EZ (Form 1040), *Net Profit From Business.*
- Amortization of costs that began in the current year.
- Any depreciation on a corporate income tax return (other than Form 1120S, *U.S. Income Tax Return for an S Corporation.*)

Purpose of Form 4562

Part	Purpose
I	• Electing the section 179 deduction • Figuring the maximum section 179 deduction for the current year • Figuring any section 179 deduction carryover to the next year
II	Reporting Modified Accelerated Cost Recovery System (MACRS) depreciation deductions for property (other than listed property) placed in service during the current year
III	• Reporting MACRS depreciation deductions for property placed in service before this year • Reporting depreciation deductions on property being depreciated under any method other than MACRS
IV	Summarizing other parts
V	• Reporting depreciation on automobiles and other listed property • Reporting information on the use of automobiles and other transportation vehicles
VI	Reporting amortization deductions

Employee. If you are an employee and you deduct job-related vehicle expenses using either actual expenses (including depreciation) or the standard mileage rate, do not use Form 4562. Instead use either Form 2106 or Form 2106-EZ. Use Form 2106-EZ if you are claiming the standard mileage rate and you are not reimbursed by your employer.

Incorrect Amount of Depreciation Deducted

If you deducted an incorrect amount of depreciation in any year, you may be able to make a correction by filing an amended return. See *Amended Return,* later. If you are not allowed to make the correction on an amended return, you can change your accounting method to claim the correct amount of depreciation. See *Changing Your Accounting Method,* later.

Basis adjustment. Even if you do not claim depreciation you are entitled to deduct, you must reduce the basis of the property by the full amount of depreciation you were entitled to deduct. If you deduct more depreciation than you should, you must decrease your basis by any amount deducted from which you received a tax benefit.

Amended Return

If you deducted an incorrect amount of depreciation, you can file an amended return to correct the following.

- A mathematical error made in any year.
- A posting error made in any year.
- The amount of depreciation for property for which you have not adopted a method of accounting.

If an amended return is allowed, you must file it by the later of the following.

- 3 years from the date you filed your original return for the year in which you did not deduct the correct amount.
- 2 years from the time you paid your tax for that year.

A return filed early is considered filed on the due date.

If you deducted an incorrect amount of depreciation for the property on two or more consecutively filed tax returns, you have adopted a method of accounting for that property. If you have adopted a method of accounting, you cannot change the method by filing amended returns. See *Changing Your Accounting Method,* next.

Changing Your Accounting Method

If you deducted an incorrect amount of depreciation for property on two or more consecutively filed tax returns, you have adopted a method of accounting for that property. You can claim the correct amount of depreciation only by changing your method of accounting for depreciation for that property. You will then be able to take into account any unclaimed or excess depreciation from years before the year of change.

Approval required. You must get IRS approval to change your method of accounting. File Form 3115, *Application for Change in Accounting Method,* to request a change to a permissible method of accounting for the depreciation. Revenue Procedure 97–27 in Cumulative Bulletin 1997–1 gives general instructions for getting approval. Cumulative Bulletins are available at many libraries and IRS offices.

Automatic approval. You may be able to get automatic approval from the IRS to change your method of accounting if you used an unallowable method of accounting for depreciation in at least the 2 years immediately before the year of change and the property for which you are changing the method meets all the following conditions.

1) It is property for which, under your unallowable method of accounting, you claimed either no depreciation or an incorrect amount.

2) It is property for which you figured depreciation using one of the following.

   a) Pre-1981 rules.

   b) Accelerated Cost Recovery (ACRS).

   c) Modified Accelerated Cost Recovery System (MACRS).

3) It is property you owned at the beginning of the year of change.

File Form 3115 to request a change to a permissible method of accounting for depreciation. Revenue Procedure 99–49 and section 2.01 of its Appendix in Internal Revenue Bulletin No. 1999–52 has instructions for getting automatic approval and lists exceptions to the automatic approval procedures.

Exceptions. You generally cannot use the automatic approval procedure in any of the following situations.

- You are under examination.
- You are before a federal court or an appeals office for any income tax issue and the method of accounting for depreciation to be changed is an issue under consideration by the federal court or appeals office.
- During the last five years (including the year of change), you changed the same method of accounting for depreciation (with or without obtaining IRS approval).
- During the last five years (including the year of change) you filed a Form 3115 to change the same method of accounting for depreciation but did not make the change because the Form 3115 was withdrawn, not perfected, denied, or not granted.

See other exceptions listed in section 4.02 and section 2.01(2)(b) of the Appendix of Revenue Procedure 99–49.

2.

Section 179 Deduction

Introduction

This chapter discusses the section 179 deduction. The section 179 deduction is a means of recovering the cost of property through a current deduction rather than through depreciation.

The chapter contains the following parts.

- ***Section 179 Deduction Defined.*** This part defines the section 179 deduction.
- ***What Costs Can and Cannot Be Deducted.*** This part discusses which portion of the cost of property acquired by purchase or trade can be deducted. It also identifies property that qualifies for the deduction, and property that does not qualify for the deduction.
- ***Electing the Deduction.*** This part discusses the section 179 placed-in-service rule, how to make and revoke the election to take the section 179 deduction, and recordkeeping requirements.
- ***How To Figure the Deduction.*** This part discusses how to figure the section 179 deduction. It discusses the three limits affecting the deduction: the maximum dollar limit, the investment limit, and the taxable income limit.
- ***When To Recapture the Deduction.*** This part discusses when and how to recapture the section 179 deduction. It also provides examples to help you figure the recapture.

Useful Items

You may want to see:

Publication

☐ **537** Installment Sales

☐ **544** Sales and Other Dispositions of Assets

☐ **551** Basis of Assets

Form (and Instructions)

☐ **4562** Depreciation and Amortization

☐ **4797** Sales of Business Property

See chapter 6 for information about getting publications and forms.

Section 179 Deduction Defined

Section 179 of the Internal Revenue Code allows you to elect to deduct all or part of the cost of certain qualifying property in the year you place it in service. You can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. However, there are limits on the amount you can deduct in a year. These limits are discussed later under *Deduction Limits.*

CAUTION *Estates and trusts cannot elect the section 179 deduction.*

What Costs Can and Cannot Be Deducted

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Placed in service

You can claim the section 179 deduction for the cost of qualifying property acquired for use in your trade or business. You cannot claim the deduction for the cost of property you hold only for the production of income.

Acquired by Purchase

Only the cost of property you acquired by purchase for use in your business qualifies for the section 179 deduction. The cost of property acquired from a related person or group may not qualify. See *Nonqualifying Property,* later.

Acquired by Trade

If you buy an asset with cash and a trade-in, you can claim a section 179 deduction based only on the cash you paid. For example, if you buy (for cash and a trade-in) a new truck to use in your business, your cost for the section 179 deduction does not include the adjusted basis of the vehicle you trade for the new truck. For information on figuring your adjusted basis, see *Adjusted Basis* in Publication 551.

Example. Silver Leaf, a retail bakery, traded two ovens having a total adjusted basis of $680 for a new oven costing $1,320. They received an $800 trade-in for the old ovens and paid $520 in cash for the new oven. The bakery also traded a used van with an adjusted basis of $4,500 for a new van costing $9,000. They received a $4,800 trade-in on the used van and paid $4,200 in cash for the new van.

Silver Leaf's basis in the new property includes both the adjusted basis of the property traded and the cash paid. However, only the portion of the new property's basis paid by cash qualifies for the section 179 deduction. Therefore, Silver Leaf has business costs that qualify for a section 179 deduction of $4,720 ($520 + $4,200), the part of the cost of the new property not determined by the property traded.

Qualifying Property

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Fungible commodities
Placed in service
Structural components

Qualifying section 179 property is depreciable property and includes the following.

1) Tangible personal property.
2) Other tangible property (except buildings and their structural components) used as:
   a) An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services,
   b) A research facility used in connection with any of the activities in (a) above, or
   c) A facility used in connection with any of the activities in (a) for the bulk storage of fungible commodities.
3) Single purpose agricultural (livestock) or horticultural structures.
4) Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.

Leased property. Generally, you cannot claim a section 179 deduction based on the cost of property you lease to someone else. (This rule does not apply to corporations.) However, you can claim a section 179 deduction for the cost of the following.

1) Property you manufacture or produce and lease to others.
2) Property you purchase and lease to others if both the following apply.
   a) The term of the lease (including options to renew) is less than half of the property's class life.
   b) For the first 12 months after the property is transferred to the lessee, the total business deductions you are allowed on the property (other than rent and reimbursed amounts) are more than 15% of the rental income from the property.

Tangible Personal Property

Tangible personal property is any tangible property that is not real property. Machinery and equipment are examples of tangible personal property.

Land and land improvements, such as buildings and other permanent structures and their components, are real property. Swimming pools, paved parking areas, wharves, docks, bridges, and fences are examples of land improvements. They are not tangible personal property.

Business property. All business property, other than structural components, that is contained in or attached to a building is tangible personal property. Under certain local laws, some tangible personal property cannot be tangible personal property for purposes of section 179. Under certain local laws, some real property, such as fixtures, can be tangible personal property for purposes of section 179. Property such as refrigerators, grocery store counters, transportation and office equipment, printing presses, testing equipment, and signs are tangible personal property.

Gasoline storage tanks and pumps. Gasoline storage tanks and pumps at retail service stations are tangible personal property.

Livestock. Livestock is qualifying property. For this purpose, livestock includes horses, cattle, hogs, sheep, goats, and mink and other furbearing animals.

Single Purpose Agricultural (Livestock) or Horticultural Structures

A single purpose agricultural (livestock) or horticultural structure is qualifying property for purposes of the section 179 deduction.

For purposes of determining whether a structure is a single purpose agricultural structure, poultry is livestock.

Agricultural structure. A single purpose agricultural (livestock) structure is any building or enclosure specifically designed, constructed, and used for both the following reasons.

- House, raise, and feed a particular type of livestock and its produce.
- House the equipment, including any replacements, needed to house, raise, or feed the livestock.

Single purpose structures are qualifying property if used, for example, to breed chickens or hogs, produce milk from dairy cattle, or produce feeder cattle or pigs, broiler chickens, or eggs. The facility must include, as an integral part of the structure or enclosure, equipment necessary to house, raise, and feed the livestock.

Horticultural structure. A single purpose horticultural structure is either of the following.

- A greenhouse specifically designed, constructed, and used for the commercial production of plants.

- A structure specifically designed, constructed, and used for the commercial production of mushrooms.

Use of structure. A structure must be used only for the purpose which qualified it. For example, a hog pen will not be qualifying property if you use it to house poultry. Similarly, using part of your greenhouse to sell plants will make the greenhouse nonqualifying property.

If a structure includes work space, that structure is a single purpose agricultural or horticultural structure if the work space is used only for any of the following.

- Stocking, caring for, or collecting livestock or plants or their produce.
- Maintaining the enclosure or structure.
- Maintaining or replacing the equipment or stock enclosed or housed in the structure.

Partial Business Use

When you use property for both business and nonbusiness purposes, you can elect the section 179 deduction only if you use the property more than 50% for business in the year you place it in service. You figure the part of the cost of the property that is for business use by multiplying the cost of the property by the percentage of business use. The result is the business cost you use to figure your section 179 deduction.

Example 1. May Oak bought and placed in service an item of section 179 property costing $11,000. She used the property 80% for her business and 20% for personal purposes. The business part of the cost of the property is $8,800 (80% × $11,000).

Example 2. June Pine bought and placed in service computer equipment. She paid $9,000 and received a $1,000 trade-in allowance for her old computer equipment. She had an adjusted basis of $3,000 in the old computer equipment. June used both the old and new equipment 90% for business and 10% for personal purposes. Her basis in the new computer equipment is $12,000 ($9,000 paid plus the adjusted basis of $3,000 in the old computer equipment). However, her business cost for purposes of section 179 is limited to 90% (business use percentage) of $9,000 (cash paid), or $8,100.

Nonqualifying Property

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Fiduciary
Grantor
Placed in service
Structural components

Generally, the section 179 deduction cannot be claimed on the cost of any of the following.

- Property you hold only for the production of income.
- Real property, including buildings and their structural components.
- Property you acquired from certain groups or persons.
- Air conditioning or heating units.
- Certain property used predominantly outside the U.S.
- Property used predominantly to furnish lodging or in connection with the furnishing of lodging.
- Property used by certain tax-exempt organizations.
- Property used by governmental units.
- Property used by foreign persons or entities.
- Certain property you leased to others (if you are a noncorporate lessor).

For the kind of property you lease on which you can claim the section 179 deduction, see *Qualifying Property,* earlier.

Production of Income

Property you hold for the production of income includes investment property, rental property (if renting property is not your trade or business), and property that produces royalties. If you use property in the active conduct of a trade or business, you do not hold it ***only*** for the production of income.

Acquired From Certain Groups or Persons

Property does not qualify for the section 179 deduction if any of the following apply.

1) The property is acquired by one member of a controlled group from another member of the same group.
2) The property's basis is determined in either of the following ways.
   a) In whole or in part by its adjusted basis in the hands of the person from whom it was acquired.
   b) Under stepped-up basis rules for property acquired from a decedent.
3) The property is acquired from a related person.

Related persons. For the purpose of determining what property does not qualify for the section 179 deduction, related persons are any of the following.

- An individual and his or her spouse, child, parent, or other ancestor or lineal descendant.
- A corporation and any individual who owns directly or indirectly more than 50% of the value of the corporation's outstanding stock.
- Two corporations that are members of the same controlled group.
- A fiduciary of a trust and a corporation if more than 50% of the value of the outstanding stock of the corporation is owned directly or indirectly by or for the trust or the grantor of the trust.

- The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
- The fiduciaries or the fiduciaries and beneficiaries of two different trusts if the same person is the grantor of both trusts.
- Certain educational and charitable organizations and any person (including members of the person's family) who directly or indirectly controls the organization.
- A partnership and a person who owns directly or indirectly an interest of more than 50% of the partnership's capital or profits.
- Two partnerships if the same persons directly or indirectly own more than 50% of the capital or profits of each.
- Two S corporations if the same persons own more than 50% in value of the outstanding stock of each corporation.
- Two corporations, one of which is an S corporation, if the same persons own more than 50% in value of the outstanding stock of each corporation.
- A corporation and a partnership if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital interest, or profits interest, in the partnership.

Example. Ken Larch is a tailor. He bought two industrial sewing machines from his father. He placed both machines in service in the same year he bought them. They do not qualify as section 179 property because Ken and his father are related persons. He cannot claim a section 179 deduction for the cost of these machines.

Property Used for Lodging

The following types of property used predominantly in connection with the furnishing of lodging can qualify as section 179 property.

- Nonlodging commercial facilities which are available to those who are not using the lodging facilities on the same basis as they are available to those using the lodging facilities.
- Property used by a hotel or motel in connection with the trade or business of furnishing lodging where the predominant portion of the accommodations is used by transients.
- The part of the basis of a certified historic structure that is for qualified rehabilitation expenditures.
- Any energy property.

Energy property. Energy property is property that is either of the following.

- Equipment that uses solar energy to generate electricity, to heat or cool a structure, to provide hot water for use in a structure, or to provide solar process heat.
- Equipment used to produce, distribute, or use energy derived from a geothermal deposit, up to (but not including) the electrical transmission stage.

If you did not construct, reconstruct, or erect the equipment, the original use of the property must begin with you. The property must meet the performance and quality standards, if any, prescribed by Income Tax Regulations in effect at the time you get the property.

Energy property ***does not include*** any property that is public utility property as defined by section 46(f)(5) of the Internal Revenue Code (as in effect on November 4, 1990).

Electing the Deduction

The section 179 deduction is not automatic. If you want to take the deduction, you must elect to do so. See *How To Make the Election,* later.

Placed-in-Service Rule

For purposes of the section 179 deduction, you place property in service in the year it is first made ready and available for a specific use. This use can be in a trade or business, the production of income, a tax-exempt activity, or a personal activity. If you place property in service in a use that does not qualify it for the section 179 deduction, it cannot later qualify in another year, even if you change it to business use.

Example. Last year, you bought a new car and used it for personal purposes. This year, you began using it for business. Changing the car's use to business use does not qualify its cost for a section 179 deduction. However, you can claim a depreciation deduction for the business use of the car this year. To figure the depreciation deduction, see chapter 3.

How To Make the Election

You make the election by taking your deduction on Form 4562. You attach and file Form 4562 with either of the following.

- Your original tax return filed for the year the property was placed in service (whether or not you file it timely).
- An amended return filed by the due date (including extensions) for your return for the year the property was placed in service. In other words, you cannot make an election for the section 179 deduction on an amended return filed after the due date (including extensions).

If you timely filed your return for the year without making the election, you can still make the election by filing an amended return within six months of the due date of the return (excluding extensions). For more information, see the instructions for Part I of Form 4562.

Revoking an Election

Once you elect a section 179 deduction, you cannot change your selection of 179 property or revoke your election without IRS approval. The IRS will grant approval only in extraordinary circumstances. A request to change or revoke the election is subject to a user fee.

You must file your request with the:

Commissioner of Internal Revenue
Washington, DC 20224

When you file your request you must include the following information.

- Your name.
- Your address.
- Your taxpayer identification number (TIN).
- A statement showing the year and property involved and your reasons, in detail, for the request.

The request must be signed by you or your representative.

Recordkeeping Requirements

RECORDS You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how you acquired the property, the person you acquired it from, and when you placed it in service.

How To Figure the Deduction

Terms you may need to know (see Glossary):

Active conduct of a trade/business
Adjusted basis
Basis
Placed in service

The total business cost you can elect to deduct under section 179 for 2000 cannot be more than $20,000. This maximum dollar limit applies to each taxpayer, not to each business. You do not have to claim the full $20,000. You can decide how much of the business cost of your qualifying property you want to deduct under section 179. You may be able to depreciate any cost you do not deduct under section 179. For information on how to figure depreciation, see chapter 3.

If you acquire and place in service more than one item of qualifying property during the year, you can divide the deduction among the items in any way, as long as the total deduction is not more than $20,000. If you have only one item of qualifying property and it costs less than $20,000, your deduction is limited to the lesser of the following.

- Your taxable income from your trade or business. (This limit is discussed later.)
- The cost of the item.

You must figure your section 179 deduction before figuring your depreciation deduction.

You must subtract the amount you elect to deduct under section 179 from the business/investment cost of the qualifying property. The result is called your unadjusted basis and is the amount you use to figure any depreciation deduction.

Example. In 2000, you bought and placed in service a $21,000 forklift and a $1,500 circular saw for your business. You elect to deduct $18,500 for the forklift and the entire $1,500 for the saw, a total of $20,000. This is the maximum dollar limit you can deduct. Your $1,500 deduction for the saw completely recovered its cost. Your unadjusted basis is zero. The unadjusted basis of your forklift is $2,500. You figure this by subtracting your section 179 deduction for the forklift, $18,500, from the cost of the forklift, $21,000.

Deduction Limits

Your section 179 deduction cannot be more than the business cost of the qualifying property. In addition, in figuring your section 179 deduction, you must apply the following limits.

- Maximum dollar limit.
- Investment limit.
- Taxable income limit.

Maximum Dollar Limit

The total cost of section 179 property you can elect to deduct for 2000 cannot be more than $20,000. This maximum dollar limit is reduced if you go over the investment limit (discussed later) in any year.

TIP *The total cost of section 179 property you can deduct increases in later years as shown below.*

Year	Maximum Deduction
2001 – 2002	$24,000
After 2002	25,000

Passenger automobiles. For passenger automobiles placed in service in 2000, the total of the section 179 and depreciation deductions cannot be more than $3,060 for 2000. For more information, see *Special Rule for Passenger Automobiles,* later.

Increased section 179 deduction for enterprise zone businesses. You may be able to claim an increased section 179 deduction if your business qualifies as an enterprise zone business. The increase can be as much as $20,000, but it cannot be more than the cost of qualified zone property which is section 179 property placed in service during the year.

For information, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities.*

Investment Limit

If the cost of your qualifying section 179 property placed in service in a year is over $200,000, reduce the maximum dollar limit for each dollar over $200,000 (but not below zero). If the cost of your section 179 property placed in service during 2000 is $220,000 or more, you cannot take a section 179 deduction and you cannot carry over the cost that is more than $220,000.

Example. This year, Jane Ash placed in service machinery costing $207,000. Because this cost is $7,000 more than $200,000, she must reduce her maximum dollar limit of $20,000 by $7,000. If her taxable income is $13,000 or more, she can claim a $13,000 section 179 deduction for this year.

Taxable Income Limit

The total cost you can deduct each year is limited to the taxable income from the active conduct of any trade or business during the year. Generally, you are considered to actively conduct a trade or business if you meaningfully participate in the management or operations of the trade or business.

Figure taxable income for this purpose by totaling the net income (or loss) from all trades and businesses you actively conducted during the year. Items of income derived from a trade or business actively conducted by you include the following.

- Section 1231 gains (or losses).
- Interest from working capital of your trade or business.
- Wages, salaries, tips, or other pay earned as an employee.

When figuring taxable income, do not take into account any unreimbursed employee business expenses you may have as an employee.

In addition, figure taxable income without regard to any of the following.

- The section 179 deduction.
- The self-employment tax deduction.
- Any net operating loss carryback or carryforward.

TIP *Any cost not deductible in one year under section 179 because of this limit can be carried to the next year.*

Section 1231 gains and losses. Any recognized gains or losses from the following types of transactions are section 1231 gains or losses.

1) The sale or exchange of real property or depreciable personal property used in a trade or business if you held it for more than 1 year.

2) The sale or exchange of cattle or horses held for draft, breeding, dairy, or sporting purposes if you held them for 2 years or more.

3) The sale or exchange of livestock (other than cattle, horses, and poultry) held for draft, breeding, dairy, or sporting purposes if you held it for 1 year or more.

4) The sale, exchange, or involuntary conversion of unharvested crops on land used in farming if you meet both the following requirements.

   a) You sold, exchanged, or involuntarily converted the crop and land at the same time and to the same person.

   b) You held the land for more than 1 year.

5) The cutting of timber for sale or for use in your trade or business if you meet both the following requirements.

   a) You elect to treat the cutting as a sale or exchange.

   b) You either owned the timber for more than 1 year or held a contract right to cut the timber for more than 1 year.

6) The disposal of timber held for more than 1 year under a cutting contract if you treat the disposal as a sale or exchange and you retain an economic interest in the timber.

7) The disposal of coal (including lignite) or iron ore (mined in the United States) owned for more than 1 year under a contract in which you retain an economic interest in the coal or iron ore.

CAUTION *As this publication was being prepared for print, Congress was considering legislation that would change number (6), above. For more information about this and other important tax changes, see Publication 553,* Highlights of 2000 Tax Changes.

For more information about section 1231 gains and losses, see chapter 3 in Publication 544.

Two different taxable income limits. The section 179 deduction is subject to a taxable income limit. You also may have to figure some other deduction that has a limit based on taxable income. You may have to figure the limit for this other deduction taking into account the section 179 deduction. If so, complete the following steps.

Step	Action
1	Figure taxable income without the section 179 deduction or the other deduction.
2	Figure a hypothetical section 179 deduction using the taxable income figured in Step 1.
3	Subtract the hypothetical section 179 deduction figured in Step 2 from the taxable income figured in Step 1.
4	Figure a hypothetical amount for the other deduction using the amount figured in Step 3 as taxable income.
5	Subtract the hypothetical other deduction figured in Step 4 from the taxable income figured in Step 1.
6	Now figure your actual section 179 deduction using the taxable income figured in Step 5.
7	Subtract your actual section 179 deduction figured in Step 6 from the taxable income figured in Step 1.
8	Figure your actual other deduction using the taxable income figured in Step 7.

Example. During the year, the XYZ corporation purchased and placed in service qualifying section 179 property that cost $10,000. It elects to expense as much as possible under section 179. The XYZ corporation also gave a charitable contribution of $1,000 during the year. A corporation's deduction for charitable contributions cannot be more than 10% of its taxable income, figured after subtracting any section 179 deduction. The taxable income limit for the section 179 deduction is figured after subtracting any allowable charitable contributions. XYZ's taxable income figured without the section 179 deduction or the deduction for charitable contributions is $12,000. XYZ figures its section 179 deduction and its deduction for charitable contributions as follows.

Step 1– Taxable income figured without either deduction is $12,000.

Step 2– Using $12,000 as taxable income, XYZ's hypothetical section 179 deduction is $10,000.

Step 3– $2,000 ($12,000 − $10,000).

Step 4– Using $2,000 (from Step 3) as taxable income, XYZ's hypothetical charitable contribution (limited to 10% of taxable income) is $200.

Step 5– $11,800 ($12,000 − $200).

Step 6– Using $11,800 (from Step 5) as taxable income, XYZ figures the actual section 179 deduction. Because the taxable income is at least $10,000, XYZ can take a $10,000 section 179 deduction.

Step 7– $2,000 ($12,000 − $10,000).

Step 8– Using $2,000 (from Step 7) as taxable income, XYZ's actual charitable contribution (limited to 10% of taxable income) is $200.

Carryover of disallowed deduction. You can carry over the cost of any section 179 property you elected to expense but were unable to because of the taxable income limit. You use the amount you carry over to determine your section 179 deduction in the next year.

In the year you place more than one property in service, you can select the properties for which all or a part of the costs will be carried forward. For this purpose, treat section 179 costs allocated from a partnership or an S corporation as one item of section 179 property. You can do this provided your decisions are shown in your books and records.

If you do not make a selection, the total carryover will be allocated equally among the properties you elected to expense for the year. If you can deduct all or a part of your total carryover in a subsequent year, you must deduct the costs being carried from the earliest year first.

Basis adjustment. Generally, you must increase the basis of any section 179 property by any unused carryover of disallowed section 179 deduction before you do either of the following.

- Sell or otherwise dispose of the section 179 property.
- Transfer section 179 property in a transaction in which gain or loss is not recognized in whole or in part (including transfers at death).

Neither the old nor the new owner can deduct any of the disallowed amount that is added to the basis of the property.

Married Filing Joint or Separate Returns

If you are married, how you figure your section 179 deduction depends on whether you file jointly or separately.

Joint returns. If you file a joint return, you and your spouse are treated as one taxpayer in determining any reduction to the maximum dollar limit, regardless of which of you purchased the property or placed it in service.

Separate returns. If you and your spouse file separate returns, you are treated as one taxpayer for the maximum dollar limit and the $200,000 investment limit. Unless you elect otherwise, 50% of the maximum dollar limit (after applying the investment limit) will be allocated to each of you. If the percentages elected by each of you do not total 100%, 50% will be allocated to each of you.

Example 1. Jack Elm is married. He and his wife file separate returns. Jack bought and placed in service $200,000 of qualified farm machinery in 2000. His wife has her own business and she bought and placed in service $5,000 of qualified business equipment. Their combined maximum dollar limit is $15,000. This is because they must figure the limit based on filing a joint return. If they filed a joint return for 2000, they would reduce the maximum dollar limit ($20,000) by the excess over the investment limit ($5,000).

They elect to allocate $15,000 as follows.

- $11,250 (75%) to Mr. Elm's machinery.
- $3,750 (25%) to Mrs. Elm's equipment.

If they did not make an election to allocate their costs, they would each be limited to $7,500 ($15,000 × 50%).

Joint return after filing separate returns. If you and your spouse elect to file a joint return after the due date for filing the return, the maximum dollar limit on the joint return is the lesser of the following.

- The maximum dollar limit (after applying the investment limit).
- The total cost of section 179 property you and your spouse elected to expense on your separate returns.

Example 2. Assume Jack from Example 1 elected to expense $4,000 on his separate return and his wife elected to expense $2,000. If they subsequently file a joint return after the due date for that return, their maximum dollar limit for the section 179 deduction is $6,000. This is the lesser of the following.

- $15,000 — The maximum dollar limit less the excess over the investment limit.
- $6,000 — The total they elected to expense on their separate returns.

Partnerships and Partners

The section 179 deduction limits apply both to the partnership and to each partner. The partnership determines its section 179 deduction subject to the limits. It then allocates the deduction among its partners.

Each partner adds the amount allocated from the partnership (shown on Schedule K-1) to his or her other nonpartnership section 179 costs and then applies the maximum dollar limit to this total. To determine if a partner has exceeded the $200,000 investment limit, the partner does not include any of the cost of section 179 property placed in service by the partnership. After the maximum dollar limit and investment limit are applied, the remaining cost of the partnership and nonpartnership section 179 property is subject to the taxable income limit.

Figuring taxable income for a partnership. For purposes of the taxable income limit, figure the partnership's taxable income by adding together the net income (or loss) from all trades or businesses actively conducted by the partnership during the year. See Publication 541, *Partnerhips,* for information on how to figure partnership net income (or loss).

Partner's share of partnership taxable income. For purposes of the taxable income limit, the taxable income of a partner engaged in the active conduct of one or more of a partnership's trades or businesses includes his or her allocable share of taxable income derived from the partnership's active conduct of any trade or business.

For purposes of section 179, if your tax year and that of the partnership differ, the amount of the partnership's taxable income attributable to you for a tax year is determined based on the partnership tax year that ends with or within your tax year.

Example. John and James Oak are equal partners in Oak Company. Oak Company uses a tax year ending January 31. John and James both use a tax year ending December 31. For Oak Company's tax year ending January 31, 2000, it has taxable income from the active conduct of its business of $80,000, of which $70,000 was earned during 1999. John and James each include $40,000 of partnership taxable income in computing their taxable income limit for the 2000 tax year.

Basis adjustment. You must reduce the basis of your partnership interest by the total amount of section 179 expenses allocated from the partnership regardless of whether you can currently deduct the full amount of allocated section 179 expenses. If you dispose of your interest in a partnership, your basis for determining gain or loss is increased by any outstanding carryover of disallowed section 179 expenses allocated from the partnership.

The basis of a partnership's section 179 property must be reduced by the section 179 deduction elected by the partnership. This reduction of basis must be made even if a partner cannot deduct all or part of the section 179 deduction allocated to that partner by the partnership because of the limits.

Example. In 2000, Beech Partnership placed in service section 179 property with a total cost of $204,000. The partnership's taxable income for the year was $30,000. The partnership must reduce its maximum dollar limit ($20,000) by $4,000 ($204,000 − $200,000). The maximum section 179 deduction for the partnership is $16,000. The partnership allocates this $16,000 equally to its two partners, Ann and Dean.

Ann had no other section 179 property placed in service this year. In addition to being a partner in the Beech Partnership, she also operates a business as a sole proprietorship. If her taxable income is $8,000 or more she can claim the $8,000 allocated to her by Beech as a section 179 deduction.

In addition to being a partner in Beech Partnership, Dean also operates a business as a sole proprietorship. This year he placed $15,500 of qualifying section 179 property in service in his sole proprietorship business. This business had taxable income of $20,000. He is also a partner in the Cedar Partnership, which allocated him a section 179 amount of $7,000. Because he has a total section 179 deduction allocated from the partnerships of $15,000 ($8,000 from Beech and $7,000 from Cedar), he can elect a section 179 deduction of only $5,000 ($20,000 − $15,000) for the property from his sole proprietorship because his maximum section 179 deduction is $20,000.

S Corporations

Generally, the rules that apply to a partnership and its partners also apply to an S corporation and its shareholders. The deduction limits apply to an S corporation and to each shareholder. The S corporation allocates the deduction to the shareholders who then take their section 179 deduction subject to the limits.

Figuring taxable income for an S corporation. To figure taxable income (or loss) from the active conduct by an S corporation of any trade or business, you total the net income (or loss) from all trades or businesses actively conducted by the S corporation during the year.

To figure the net income (or loss) from a trade or business actively conducted by an S corporation, you take into account the items from that trade or business that are passed through to the shareholders and used in determining each shareholder's tax liability. However, you do not take into account any credits, tax-exempt income, and deductions for compensation paid to shareholder-employees. For purposes of determining the total amount of S corporation items, treat deductions and losses as negative income. When figuring the amount of each item, disregard any limits that must be taken into account when figuring a shareholder's taxable income.

Other Corporations

A corporation's taxable income from its active conduct of any trade or business is its taxable income figured with the following changes.

• It is figured before deducting any net operating loss deduction or special deductions (as reported on the corporation's income tax return).

• It is adjusted for items of income or deduction not derived from a trade or business actively conducted by the corporation during the tax year.

Part I of Form 4562

Use Part I of Form 4562 to figure your section 179 deduction and any carryover. If you elect the section 179 deduction, you must attach Form 4562 to your return.

CAUTION *If you have listed property (explained in chapter 4) you are electing to deduct under section 179, complete Part V of Form 4562 before completing Part I.*

Section 179 Recapture

Section 179 recapture occurs when you are required to add back to income the section 179 deduction you took in an earlier year.

When To Recapture the Deduction

You may have to recapture the section 179 deduction if, in any year during the property's recovery period, the percentage of business use drops to 50% or less. In the year the business use drops to 50% or less, you include the recapture amount as ordinary income in Part IV of Form 4797. Recovery periods for property are discussed under *Property Classes and Recovery Periods* in chapter 3.

Dispositions. If you sell, exchange, or otherwise dispose of section 179 property, you may have to treat all or part of the gain as ordinary income. For more information, see *Section 1245 Property* in chapter 3 of Publication 544.

Installment sales. If you sell property under the installment method for which you claimed a section 179 deduction, report any recapture income in the year of sale, even if you did not receive an installment payment that year. For information on installment sales, see Publication 537.

How To Figure the Recapture

You treat the section 179 deduction as depreciation for purposes of the recapture rules. To figure the amount to recapture, take the following steps.

1) Figure the depreciation that would have been allowable on the section 179 deduction you claimed. Begin with the year you placed the property in service and include the year of recapture.

2) Subtract the depreciation figured in (1) from the section 179 deduction you claimed.

3) The result in (2) is the amount you must recapture.

The section 179 deduction claimed is the part of the cost you deducted in the year you placed the property in service.

Example 1. Shirley Butler, a calendar year taxpayer, bought and placed in service on February 12, 1998, an item of 3-year property costing $5,000. She elected to expense the property under section 179. Since she deducted the full cost of the property, she did not claim any depreciation for it. She used the property only for business in 1998 and 1999.

In 2000, Shirley used the property only for personal use. Because of the change from business to personal use, she must recapture the benefit she got from the section 179 deduction claimed in 1998. Shirley figures her recapture amount as follows.

Section 179 deduction claimed (1998)		$5,000.00
Allowable depreciation (instead of section 179):		
1998 — $5,000 × 33.33%*	$1,666.50	
1999 — $5,000 × 44.45%*	2,222.50	3,889.00
2000 — Recapture amount		**$1,111.00**

*Rates from Table A-1 (3-Year Property)

She must include $1,111 in income in 2000. She did not take into account depreciation for 2000 because she did not use the property for business or investment purposes in that year.

Example 2. Paul Lamb, a calendar year taxpayer, bought and placed in service on August 1, 1998, an item of 3-year property costing $10,000. The property is not listed property. He elected a $5,000 section 179 deduction for the property. He used the property only for business in 1998 and 1999. In 2000, he used the property 40% for business and 60% for personal use. He figures his recapture amount as follows.

Section 179 deduction claimed (1998)		$5,000.00
Allowable depreciation (instead of section 179):		
1998 — $5,000 × 33.33%	$1,666.50	
1999 — $5,000 × 44.45%	2,222.50	
2000 — $5,000 × 14.81% × 40% (business)	296.20	4,185.20
2000 — Recapture amount		**$ 814.80**

*Rates from Table A-1 (3-Year Property)

Paul must include $814.80 in income for 2000.

3.

Modified Accelerated Cost Recovery System (MACRS)

Introduction

This chapter discusses the Modified Accelerated Cost Recovery System (MACRS). It contains the following sections.

- ***MACRS Defined.*** This section defines MACRS. It discusses both MACRS systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS).
- ***What Can Be Depreciated Under MACRS.*** This section identifies what you can depreciate under MACRS, when to use GDS, and when to use ADS.
- ***What Cannot Be Depreciated Under MACRS.*** This section identifies property you cannot depreciate under MACRS.
- ***Election To Exclude Property From MACRS.*** This section explains how you make an election to exclude certain property from MACRS.
- ***How To Figure the Deduction Using Percentage Tables.*** This section discusses how to figure your MACRS deduction using the MACRS percentage tables. It explains basis, property classes and recovery periods, placed-in-service date, conventions, depreciation methods, and the MACRS percentage tables. It provides examples and contains a *MACRS Worksheet* to help you prepare Form 4562.
- ***How To Figure the Deduction Without Using the Tables.*** This section explains how you can figure your MACRS deduction without using the rates in the percentage tables. It discusses the various depreciation methods you can use. Further, it discusses conventions and how to apply them. This section contains numerous examples employing different depreciation methods. Lastly, it discusses how you can take a MACRS deduction in a short tax year.
- ***Dispositions.*** This section discusses how you depreciate property in the year of disposition if you dispose of it before the end of the recovery period. It discusses the different ways of figuring depreciation depending on the convention you used. This section also briefly discusses depreciation recapture.
- ***General Asset Account.*** This section discusses how you depreciate property in a general asset account. It also tells you how to group assets that you place in a general asset account. Also included in this section is a discussion on how you treat property in a general asset account when you transfer ownership or permanently withdraw it from use in your trade or business or from the production of income. Finally, this section discusses how you make the election to use a general asset account.

Useful Items

You may want to see:

Publication

- ☐ **225** Farmer's Tax Guide
- ☐ **463** Travel, Entertainment, Gift, and Car Expenses
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **551** Basis of Assets
- ☐ **587** Business Use of Your Home (Including Use by Day-Care Providers)

Form (and Instructions)

- ☐ **2106** Employee Business Expenses
- ☐ **2106-EZ** Unreimbursed Employee Business Expenses
- ☐ **3115** Application for Change in Accounting Method
- ☐ **4255** Recapture of Investment Credit
- ☐ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

MACRS Defined

Terms you may need to know (see Glossary):

Basis
Class lives
Convention
Declining balance method
Disposed
Nonresidential real property
Placed in service
Property class
Recovery period
Residential rental property
Straight line method

MACRS consists of two systems that determine how you depreciate your property. The main system is called the ***General Depreciation System (GDS)*** and the second system is called the ***Alternative Depreciation System (ADS).*** You generally must use GDS to figure your depreciation deduction unless you are specifically required by law to use ADS or you elect to use it. Property for which you are required by law to use ADS and how to elect ADS are discussed later under *What Can Be Depreciated Under MACRS.*

Major differences between the systems. The major differences between the systems are the recovery period and the method of depreciation used to figure the deduction. Generally, GDS uses the declining balance method over a shorter recovery period. ADS uses only the straight line method over a generally longer recovery period.

Recovery period. The recovery period is the number of years over which you recover the cost of the property. Under GDS, most property is assigned to one of eight property classes. These property classes are based on pre-established class lives and they provide the recovery period. Under ADS, the recovery period generally is the same as the class life of the property. Property classes and recovery periods are discussed in detail later under *Property Classes and Recovery Periods.* Recovery periods for GDS and ADS for most property can be found in Appendix B, *Table of Class Lives and Recovery Periods.*

Conventions. Both systems simplify the way you figure your deduction by providing three preset conventions. These conventions determine the number of months for which you claim depreciation in the year you place property in service and in the year you dispose of the property. The conventions are as follows.

- Mid-month convention — Use this convention for all nonresidential real property and residential rental property.
- Mid-quarter convention — Use this convention if the basis of property placed in service during the last three months of the tax year (excluding nonresidential real property, residential rental property, and property placed in service and disposed of in the same year) is more than 40% of the total bases of all property placed in service for the entire year.
- Half-year convention — Use this convention for all other property.

For more information on these conventions, see *Conventions* later under *How To Figure the Deduction Using Percentage Tables.*

Methods. MACRS provides three methods under GDS and one method under ADS of figuring depreciation on property.

- The 200% declining balance method over a GDS recovery period.
- The 150% declining balance method over a GDS recovery period.
- The straight line method over a GDS recovery period.
- The straight line method over an ADS recovery period.

You can elect to use ADS for property that qualifies for GDS.

These depreciation methods are discussed later under *Depreciation Methods.*

CAUTION *For property placed in service before 1999, you could have elected the 150% declining balance method using the ADS recovery periods for certain property classes. If you made this election, continue to use the same method and recovery period for that property.*

What Can Be Depreciated Under MACRS

To use GDS or ADS to figure your depreciation deduction, you must first know what property can be depreciated under each system.

MACRS applies to most tangible depreciable property placed in service after 1986. Property for which you cannot use MACRS is discussed later under *What Cannot Be Depreciated Under MACRS.*

Use of real property changed. You must use MACRS to depreciate all real property you acquired before 1987 that you changed from personal use to a business or income-producing use after 1986.

When To Use GDS

Generally, you must use GDS for most tangible depreciable property. However, you are required to use ADS for certain property and you can elect to use ADS on GDS property, as discussed next.

When To Use ADS

Terms you may need to know (see Glossary):

Placed in service
Tax-exempt

You must use ADS for the following property.

- Listed property used 50% or less for business. (See chapter 4 for information on listed property.)
- Any tangible property used predominantly outside the United States during the year.
- Any tax-exempt use property.
- Any tax-exempt bond-financed property.
- All property used predominantly in a farming business and placed in service in any tax year during which an election not to apply the uniform capitalization rules to certain farming costs is in effect.
- Any imported property covered by an executive order of the President of the United States.

Election to use ADS. Although your property may qualify for GDS, you can elect to use ADS. If you make this election, you can never revoke it. You make the election by completing line 16 in Part II of Form 4562.

What Cannot Be Depreciated Under MACRS

Terms you may need to know (see Glossary):

Placed in service
Standard mileage rate
Unit-of-production method

You cannot use MACRS to depreciate the following property.

- Intangible property.
- Any motion picture film or video tape.
- Any sound recording.
- Certain real and personal property placed in service before 1987.

You can choose to exclude from MACRS any property you can properly depreciate under a method of depreciation not based on a term of years, such as the unit-of-production method. For more information, see *Election To Exclude Property From MACRS,* later.

Property Placed in Service Before 1987

There are special rules that may prevent you from using MACRS for property placed in service by anyone (for any purpose) before 1987 (before August 1, 1986, if MACRS was elected). These rules apply to both personal and real property. However, the rules for personal property are more restrictive.

CAUTION *Do not treat real or personal property as owned before you placed it in service. If you owned property in 1986 but did not place it in service until 1987, you do not treat it as owned in 1986.*

Example. Sandra Coffee bought and took delivery of an item of personal property in November 1986. The property was not installed and operational until February 1987. Although she actually owned the property in 1986, it was not placed in service until 1987. For purposes of these rules, she does not consider the property as owned by her until 1987.

Personal property. You cannot use MACRS for most personal property (section 1245 property) you acquired after 1986 (after July 31, 1986, if MACRS was elected) if any of the following apply.

1) You or someone related to you owned or used the property in 1986.
2) You acquired the property from a person who owned it in 1986 and as part of the transaction the user of the property did not change.
3) You leased the property to a person (or someone related to this person) who owned or used the property in 1986.
4) You acquired the property in a transaction in which:
   a) The user of the property did not change, and
   b) The property was not MACRS property in the hands of the person from whom you acquired it because of (2) or (3).

Real property. You cannot use MACRS for certain real property. This includes real property acquired after 1986 (after July 31, 1986, if MACRS was elected) if any of the following apply.

- You or someone related to you owned the property in 1986.
- You lease the property back to the person (or someone related to this person) who owned the property in 1986.
- You acquired the property in a transaction in which some of your gain or loss was not recognized. MACRS applies only to that part of your basis in the acquired property that represents cash paid or unlike property given up. It does not apply to the substituted portion of the basis.

Exceptions. These special rules do not apply to the following.

1) Residential rental property or nonresidential real property.
2) Any property, if in the first tax year it is placed in service, the deduction under the Accelerated Cost Recovery System (ACRS) is more than the deduction under MACRS using the half-year convention.
3) Property placed in service after 1980 and before 1987 if it was transferred to you from a related person or converted from personal to business use after 1986 and the deduction under ACRS is more than the deduction under MACRS.

For information on how to figure ACRS, see Publication 534.

Example. On March 3, 2000, you bought a machine from your father, who had bought and placed it in service on November 1, 1986. You used it only for business in 2000. Because your father owned and used the machinery in 1986 it does not qualify for MACRS unless the deduction under ACRS is greater than the deduction under MACRS. The machine's depreciable basis is $1,000. Under ACRS, the machine is 5-year property with a first year percentage rate of 15%. Your deduction under ACRS would be $150 (15% × $1,000). Under MACRS, assume that the machine is 7-year property. The percentage rate for 7-year property using the half-year convention is 14.29% (rate from Table A-1 in Appendix A). The deduction under MACRS would be $142.90 (14.29% × $1,000). Because the depreciation for the machinery under MACRS is less than that under ACRS, you must use MACRS.

For property placed in service before 1981 that was transferred to you from a related person or converted from personal to business use after 1986, use the straight line or declining balance method as discussed in chapter 2 of Publication 534.

Related Persons

You must determine whether you are related to another person at the time you acquire the property.

A partnership acquiring property from a terminating partnership must determine whether it is related to the terminating partnership immediately before the event causing the termination. For this rule, a terminating partnership is one that sells or exchanges, within 12 months, 50% or more of its total interest in partnership capital or profits.

To determine whether you are related to the person you acquire the property from, the following are related persons.

1) An individual and a member of his or her immediate family, including a spouse, child, parent, brother, sister, half-brother, half-sister, or any ancestor or lineal descendant.

2) A corporation and an individual who owns directly or indirectly more than 10% of the value of the outstanding stock of that corporation.

3) Two corporations that are members of the same controlled group.

4) A fiduciary of a trust and a corporation if more than 10% of the value of the outstanding stock is owned directly or indirectly by or for the trust or grantor of the trust.

5) The grantor and fiduciary of any trust, and the fiduciary and beneficiary of any trust.

6) The fiduciaries of two different trusts, and the fiduciaries and beneficiaries of two different trusts, if the same person is the grantor of both trusts.

7) Certain educational and charitable organizations and any person (if an individual, including the members of the individual's family) who directly or indirectly controls the organization.

8) A partnership and a person who owns directly or indirectly an interest of more than 10% of the capital or profits of the partnership.

9) Two partnerships, if the same persons directly or indirectly own more than 10% of the capital or profits of each.

10) The related person and a person who is engaged in trades or businesses under common control (see section 52(a) and (b) of the Internal Revenue Code).

11) Two S corporations if the same persons own more than 10% in value of the outstanding stock of each corporation.

12) Two corporations, one of which is an S corporation, if the same persons own more than 10% in value of the outstanding stock of each corporation.

13) A corporation and a partnership if the same persons own both of the following.

    a) More than 10% in value of the outstanding stock of the corporation.

    b) More than 10% of the capital interest or profits interest in the partnership.

Ownership of stock or partnership interest. To determine whether an individual constructively owns (is considered to own) any of the outstanding stock of a corporation or an interest in a partnership, apply the following rules.

1) Stock or a partnership interest owned by or for a corporation, partnership, estate, or trust is constructively owned proportionately by or for its shareholders, partners, or beneficiaries. However, for a partnership interest owned by or for a C corporation, this applies only to shareholders who own, directly or indirectly, 5% or more in value of the stock of the corporation.

2) An individual constructively owns the stock or partnership interest owned by or for the individual's family.

3) An individual who owns, except by applying rule (2), any stock in a corporation constructively owns the stock owned by or for the individual's partner.

For purposes of rules (1), (2), or (3), treat stock or a partnership interest constructively owned by a person under rule (1) as actually owned by that person. Do not treat stock or a partnership interest constructively owned by an individual under rule (2) or (3) as owned by that individual for reapplying either rule (2) or (3) to make another person the constructive owner of the same stock or partnership interest.

Certain Nontaxable Transfers of Property

MACRS does not apply to property involved in certain nontaxable transfers. This applies to property used before 1987 and transferred after 1986 to a corporation or partnership if its basis is determined by reference to the basis in the hands of the transferor or distributor. If MACRS was elected, it also applies to property used before August 1, 1986, and transferred after July 31, 1986, to a corporation or partnership if its basis is determined by reference to the basis in the hands of the transferor or distributor.

The nontaxable transfers covered by this rule include the following.

- A distribution in complete liquidation of a subsidiary.
- A transfer to a corporation controlled by the transferor.
- An exchange of property solely for corporate stock or securities in a reorganization.
- A contribution of property to a partnership in exchange for a partnership interest.
- A partnership distribution of property to a partner.

When figuring depreciation, treat the transferee as the transferor to the extent of the amount of the transferor's adjusted basis. The transferee is the person receiving the property and the transferor is the person giving up the property. The transferee cannot use MACRS for the adjusted basis carried over from the transferor. However, MACRS applies to that part of the new basis not represented by the carried-over adjusted basis.

Election To Exclude Property From MACRS

If you properly depreciate any property under a method not based on a term of years, such as the unit-of-production method, you can elect to exclude that property from MACRS. You make the election by reporting your depreciation for the property on line 18 in Part III of Form 4562 and attaching a statement as described in the instructions for Form 4562. You must make this election by the return due date (including extensions) for the tax year you place your property in service. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within six months of the due date of the return (excluding extensions). Attach the election to the amended return and write "FILED PURSUANT TO SECTION 301.9100–2" on the election statement. File the amended return at the same address you filed the original return.

Use of Standard Mileage Rate

If you use the standard mileage rate to figure your tax deduction for your business automobile, you are treated as having made an election to exclude the automobile from MACRS. See Publication 463 for a discussion of the standard mileage rate.

How To Figure the Deduction Using Percentage Tables

Once you determine that your property can be depreciated under MACRS and whether it falls under GDS or ADS, you are ready to figure your deduction. To help you figure your deduction, the IRS has established percentage tables. To use these percentage tables to figure your MACRS deduction each year, you need to know the following information about your property.

- Its basis.
- Its property class and recovery period.
- The date it was placed in service.
- Which convention to use.
- Which depreciation method to use.

Basis

Terms you may need to know (see Glossary):

Abstract fees
Adjusted basis
Basis
Business/investment use
Fair market value (FMV)
Nontaxable exchange
Taxable exchange

To figure your depreciation deduction, you must determine the basis of your property. To determine basis, you need to know the cost or other basis of your property. If you bought the property, your basis is the amount you paid for the property plus amounts you paid for items such as sales tax, freight charges, and installation and testing fees. "Other basis" refers to basis that is determined by the way you received the property. For example, you may have received the property through an exchange, for services you performed, as a gift, or as an inheritance. If you received property in this or some other way, see Publication 551 to determine your basis.

Cost as Basis

The basis for property is generally its cost. The cost includes the amount you pay in cash, in debt obligation, in other property, or in services.

Assumed debt. If you buy property and assume (or buy subject to) an existing mortgage or other debt on the property, your basis includes the amount you assume.

Example. You pay a $20,000 down payment for property and assume the seller's mortgage of $120,000. Your total cost is $140,000, the cash you paid plus the mortgage you assumed.

Settlement fees and other costs. The basis of real property also includes certain fees and charges you pay with the purchase. These fees are generally shown on your settlement statement.

If you buy real property and agree to pay the real estate taxes the seller owed and the seller did not reimburse you, add the taxes you pay to the basis of your property. Other fees or charges you pay that you should add to the basis of your property include the following.

- Legal and recording fees.
- Abstract fees.
- Survey charges.
- Title insurance.
- Amounts the seller owed, such as interest, recording or mortgage fees, and sales commissions.

Property you construct or build. If you construct, build, or otherwise produce property for use in your business, you may have to use the uniform capitalization rules to determine the basis of your property. For information about the uniform capitalization rules, see Publication 551.

Adjusted Basis

You may have to make certain adjustments (increases and decreases) to the basis of property for events occurring between the time you acquired the property and the time you placed it in service. These events could include the following.

- Installing utility lines.
- Legal fees for perfecting the title.
- Settling zoning issues.
- Removing barriers.
- Receiving rebates.

For a discussion of adjustments to the basis of your property, see *Adjusted Basis* in Publication 551.

Property Changed From Personal Use

If you held property for personal use and later change it to business use or use in the production of income, your basis is the ***lesser*** of the following.

1) The fair market value (FMV) of the property on the date you change it from personal use.
2) Your original cost or other basis adjusted as follows.
   a) Increased by the cost of any permanent improvements or additions and other costs that must be added to basis.
   b) Decreased by any tax deductions you claimed for casualty and theft losses and other items that reduced your basis.

Example. Several years ago Nia paid $160,000 to have her home built on a lot that cost her $10,000. Before changing the property to rental use last year, she paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house. Because land is not depreciable, she can only include the cost of the house when figuring the basis for depreciation.

Nia's adjusted basis in the house when she changed it to business use was $178,000 ($160,000 + $20,000 – $2,000). On the same date her property had an FMV of $180,000, of which $30,000 was for the land and $150,000 was for the house. The basis for depreciation on the house is the FMV ($150,000), because it is less than her adjusted basis ($178,000).

Use of Property

If you use an item of property for more than one purpose, you must determine how much of your use of the property is for each of the following.

- Business use
- Investment use
- Personal use

Combine investment use with business use to figure your depreciation deductions. Do not consider investment use, however, when determining whether listed property is used predominantly in a qualified business use. Listed property and the predominant use test are discussed in chapter 4.

Property Classes and Recovery Periods

Terms you may need to know (see Glossary):

Basis
Class life
Placed in service
Property class
Recovery period
Section 1250 property
Straight line method

Under MACRS, property is assigned to one of several property classes. These property classes are based on pre-established class lives and establish the recovery periods (number of years) over which you recover the basis of your property. For example, property with a class life of 4 years or less is in the 3-year property class and has a 3-year recovery period. Class lives and recovery periods for most property can be found in the Appendix B, *Table of Class Lives and Recovery Periods.*

GDS

Under GDS, most tangible property is assigned to one of eight main property classes. The following is a list of the property classes and examples of the types of property included in each class.

1) ***3-year property.***
   a) Tractor units for over-the-road use.
   b) Any race horse over 2 years old when placed in service.
   c) Any other horse over 12 years old when placed in service.
   d) Qualified rent-to-own property.
2) ***5-year property.***
   a) Automobiles, taxis, buses, and trucks.
   b) Computers and peripheral equipment.
   c) Office machinery (such as typewriters, calculators, and copiers).
   d) Any property used in research and experimentation.
   e) Breeding cattle and dairy cattle.
3) ***7-year property.***
   a) Office furniture and fixtures (such as desks, files, and safes).

b) Any property that does not have a class life and has not been designated by law as being in any other class.

4) ***10-year property.***

a) Vessels, barges, tugs, and similar water transportation equipment.

b) Any single purpose agricultural or horticultural structure.

c) Any tree or vine bearing fruits or nuts.

5) ***15-year property.***

a) Certain depreciable improvements made directly to land or added to it (such as shrubbery, fences, roads, and bridges).

b) Service station buildings and other land improvements used in the marketing of petroleum and petroleum products (but not facilities related to petroleum and natural gas trunk pipelines).

6) ***20-year property.*** This class includes farm buildings (other than single purpose agricultural or horticultural structures).

7) ***Residential rental property.*** This class includes real property such as a rental home or structure (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, inn, or other establishment where more than half the units are used on a transient basis. If you occupy any part of the building or structure for personal use, its gross rental income includes the fair rental value of the part you occupy. The recovery period for this property is ***27.5 years.***

8) ***Nonresidential real property.*** This class includes section 1250 property that is neither of the following.

a) Residential rental property (defined in (7)).

b) Property with a class life of less than 27.5 years.

The recovery period for nonresidential real property is:

- ***39 years*** for property you placed in service ***after*** May 12, 1993, or
- ***31.5 years*** for property you placed in service ***before*** May 13, 1993.

However, property you placed in service before January 1, 1994, will not be subject to the longer recovery period if you or a “qualified person” entered into a binding written contract to purchase or construct the property before May 13, 1993, or you (or a qualified person) began construction of the property before May 13, 1993. A ***qualified person*** is anyone who transfers a contract or property to you so long as the property was not placed in service by the transferor.

Office in the home. If you begin to use part of your home as an office, depreciate that part of your home as nonresidential real property over 39 years (31.5 years if you began using it for business ***before*** May 13, 1993) under GDS. See Publication 587 for a discussion of the tests you must meet to claim expenses, including depreciation, for the business use of your home.

Rent-to-own property. Qualified rent-to-own property is property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract. You can depreciate qualified rent-to-own property under GDS over 3 years (5 years if you placed it in service ***before*** August 6, 1997).

Rent-to-own dealer. You are a rent-to-own dealer if you meet all the following requirements.

- You regularly enter into rent-to-own contracts in the ordinary course of your business.
- A substantial portion of these contracts end with the customer returning the property before making all the payments required to transfer ownership.
- The property is tangible personal property of a type generally used within the home for personal use.

Rent-to-own contract. This is any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual. The lease contract must meet all the following rules.

- Must be titled “Rent-to-Own Agreement,” “Lease Agreement with Ownership Option,” or other similar language.
- Provide a beginning date and a maximum period of time not to exceed 156 weeks or 36 months from the beginning date, for which the contract can be in effect (including renewals or options to extend).
- Provide for regular periodic weekly or monthly payments that can be either level or decreasing. If the payments are decreasing, no payment can be less than 40 percent of the largest payment.
- Provide for total payments to generally exceed the normal retail price of the property plus interest.
- Provide for total payments that do not exceed $10,000 for each item of property.
- Provide that the customer has no legal obligation to make all payments outlined in the contract and that at the end of each weekly or monthly payment period, the customer can either continue to use the property by making the next payment or return the property in good working order and be free of any further obligations and not entitled to a return of any prior payments.
- Provide that legal title to the property remains with the rent-to-own dealer until the customer makes either all the required payments or the early purchase payments required under the contract to acquire legal title.
- Provide that the customer has no right to sell, sublease, mortgage, pawn, pledge, or otherwise dis-

pose of the property until all contract payments have been made.

Qualified rent-to-own property. This is tangible personal property generally used in the home for personal use. It includes computers and peripheral equipment, televisions, videocassette recorders, stereos, camcorders, appliances, furniture, washing machines and dryers, refrigerators, and other similar consumer durable property. Consumer durable property does not include real property, aircraft, boats, motor vehicles, or trailers.

If some of the property you rent to others under a rent-to-own agreement is of a type that may be used by the renters for either personal or business purposes, you can still treat this property as qualified property as long as it does not represent a significant portion of your leasing property. But, if this dual-use property does represent a significant portion of your leasing property, you must prove that this property is qualified rent-to-own property.

Water utility property. Depreciate water utility property you place in service after June 12, 1996 (unless you placed it in service under a binding contract in effect before June 10, 1996, and at all times until you place the property in service), using the straight line method over a 25-year recovery period.

Water utility property is either of the following.

- Property that is an integral part of the gathering, treatment, or commercial distribution of water, and that, without regard to this provision, would have a 20-year recovery period.
- Any municipal sewer.

Gas station convenience stores (retail motor fuels outlet). Depreciable real property that is a retail motor fuels outlet (whether or not it sells food or other convenience items) placed in service after August 19, 1996, is 15-year property. If you placed the property in service before August 20, 1996, you could have chosen to treat it as 15-year property.

Retail motor fuels outlet. Real property is a retail motor fuels outlet if it is used to a substantial extent in the retail marketing of petroleum or petroleum products and it meets any one of the following three tests.

- It is not larger than 1,400 square feet.
- 50% or more of the gross revenues generated from the property are derived from petroleum sales.
- 50% or more of the floor space in the property is devoted to petroleum marketing sales.

A retail motor fuels outlet does not include any facility related to petroleum and natural gas trunk pipelines.

Personal home changed to rental use. If you begin to rent a home after 1986 that was your personal home before 1987, you depreciate it as residential rental property over 27.5 years under GDS.

Additions or improvements to property. The recovery period for an addition or improvement you make to any property, including leased property, is the one that would apply to the underlying property if you had placed it in service at the same time you placed the addition or improvement in service. The recovery period begins on the later of the following dates.

- The date you place the addition or improvement in service.
- The date you place the property to which you made the addition or improvement in service.

Example. You own a rental home which you have been renting out since 1981. If you put an addition on the home and place the addition in service this year, you would use MACRS to figure your depreciation deduction for the addition. Under GDS, the property class for the addition is residential rental property and its recovery period is 27.5 years because the home to which the addition is made would be residential rental property if you had placed it in service this year.

Property Used on Indian Reservations

You can use shorter recovery periods for qualified property you placed in service on an Indian reservation after 1993 and before 2004. These recovery periods are discussed later under *Recovery periods.*

Qualified property. Property eligible for the shorter recovery periods are 3-, 5-, 7-, 10-, 15-, and 20-year property and nonresidential real property. You must use this property predominantly in the active conduct of a trade or business within an Indian reservation. Real property you rent to others that is located on an Indian reservation is also eligible for the shorter recovery periods.

The following property is ***not*** qualified property.

1) Property used or located outside an Indian reservation on a regular basis.
2) Property acquired directly or indirectly from a related person (discussed later).
3) Property placed in service for purposes of conducting or housing class I, II, or III gaming activities. (These activities are defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703)).
4) Any property you must depreciate under the Alternative Depreciation System (ADS). Determine whether property is qualified without regard to the election to use ADS and after applying the special rules for listed property not used predominantly in a qualified business (discussed in chapter 4).

Qualified infrastructure property. Item (1) above does not apply to qualified infrastructure property located outside the reservation that is used to connect with qualified infrastructure property within the reservation. Qualified infrastructure property is property that meets all the following rules.

- It is qualified property, as defined earlier, except that it is outside the reservation.

- It benefits the tribal infrastructure.
- It is available to the general public.
- It is placed in service in connection with the active conduct of a trade or business within a reservation.

Infrastructure property includes, but is not limited to, roads, power lines, water systems, railroad spurs, and communications facilities.

Related person. A related person is either of the following.

- A person who bears a relationship to you as described in the list of related persons in chapter 2, except that 10% is substituted for 50% each place it appears and related persons also include brothers and sisters.
- A person with whom you are engaged in trades or businesses that are under common control as described in section 52(a) and 52(b) of the Internal Revenue Code.

Indian reservation. The term "Indian reservation" means a reservation as defined in section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)) or section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)). For a definition of the term "former Indian reservations in Oklahoma" as used in section 3(d) of the Indian Financing Act of 1974, see Notice 98–45 in Cumulative Bulletin 1998–2. Cumulative Bulletins are available at many libraries and Internal Revenue Service offices.

Recovery periods. The following table shows the shorter recovery periods you can use for qualified property.

Recovery Periods for Qualified Indian Reservation Property

Property Class	Recovery Period
3-year	2 years
5-year	3 years
7-year	4 years
10-year	6 years
15-year	9 years
20-year	12 years
Nonresidential real property	22 years

ADS

As discussed earlier under *When To Use ADS,* you must use ADS for certain property or you can elect to use ADS for property that qualifies for GDS. This election is discussed later under *Election of ADS.* If you use ADS, you will recover the cost of your property using the straight line method of depreciation. The recovery periods for most property are generally longer under ADS than they are under GDS. The following table shows some of the ADS recovery periods.

ADS Recovery Periods

Property	Recovery Period
Rent-to-own property	4 years
Automobiles and light duty trucks	5 years
Computers and peripheral equipment	5 years
High technology telephone station equipment installed on customer premises	5 years
High technology medical equipment	5 years
Personal property with no class life	12 years
Single purpose agricultural and horticultural structures	15 years
Any tree or vine bearing fruit or nuts	20 years
Nonresidential real and residential rental property	40 years
Section 1245 real property not listed in Appendix B	40 years
Railroad grading and tunnel bore	50 years

The ADS recovery periods for property not listed above can be found in the tables in Appendix B.

Placed-in-Service Date

As discussed in chapter 1, property is placed in service when it is ready and available for a specific use. Depreciation begins when you place your property in service in a trade or business or for the production of income. If you place property in service for personal use, you cannot claim depreciation. If you change the property use to a business or income-producing activity, you begin to depreciate it at the time of the change in use.

Example 1. Donald Steep bought a machine for his business. The machine was delivered last year. However, it was not installed and operational until this year. It is considered placed in service this year. If the machine had been ready and available for use when it was delivered, it would be considered placed in service last year even if it was not actually used until this year.

Example 2. On April 6, Sue Thorn bought a house to use as residential rental property. She made several repairs and had it ready for rent on July 5. At that time, she began to advertise it for rent in the local newspaper. The house is considered placed in service in July when it was ready and available for rent. She can begin to depreciate it in July.

Example 3. James Elm is a building contractor who specializes in constructing office buildings. He bought a truck last year that had to be modified to lift materials to second-story levels. The installation of the lifting equipment was completed and James accepted delivery of the modified truck on January 10 of this year. The truck was placed in service on January 10, the date it was ready and available to perform the function for which it was bought.

MACRS Property Acquired by an Exchange or Involuntary Conversion

If, after January 2, 2000, you placed in service MACRS property that was acquired in a like-kind exchange or an involuntary conversion for other MACRS property, you generally depreciate the acquired property over the remaining recovery period of the exchanged or involuntarily converted MACRS property. You also generally continue to use the same depreciation method and convention of the exchanged or involuntarily converted property. Any excess of the basis in the acquired

MACRS property over the adjusted basis in the exchanged or involuntarily converted MACRS property is depreciated as newly purchased MACRS property. However, if land or other non-depreciable property is acquired in an exchange or an involuntary conversion for depreciable property, you cannot depreciate the land or other non-depreciable property. For more information on like-kind exchanges and involuntary conversions, see chapter 1 in Publication 544.

If you acquired MACRS property in a like-kind exchange or in an involuntary conversion for other MACRS property and you placed the acquired property in service before January 3, 2000, you can continue to use your present method of depreciating that property. However, if you treated the acquired property as newly purchased property, you can change your method of accounting for that property and depreciate it using the rules for property acquired and placed in service after January 2, 2000. See Form 3115 for information on changing your method of accounting.

Conventions

Terms you may need to know (see Glossary):

Basis
Clean-fuel vehicle
Clean-fuel vehicle refueling property
Disposed
Nonresidential real property
Placed in service
Residential rental property

To figure your depreciation deduction for both the year in which you place property in service and the year in which you dispose of the property, you use one of the following conventions.

- The half-year convention.
- The mid-month convention.
- The mid-quarter convention.

The Half-Year Convention

Under the half-year convention, you treat all property placed in service or disposed of during a tax year as placed in service or disposed of at the midpoint of the year. This means that no matter when in the year you begin or end the use of the property, you treat it as if you began or ended its use in the middle of the year. Generally, you use the half-year convention for property other than nonresidential real and residential rental property. In certain circumstances, you may have to use the mid-quarter convention (discussed later).

The Mid-Month Convention

Under this convention, you treat all property placed in service or disposed of during a month as placed in service or disposed of at the midpoint of the month. This means that no matter when during a month you place property in service or dispose of it, you treat it as being placed in service or disposed of in the middle of the month.

You use the mid-month convention for the following types of property.

- Nonresidential real property.
- Residential rental property.

The Mid-Quarter Convention

Under the mid-quarter convention, you treat all property placed in service or disposed of during a tax year as placed in service or disposed of at the midpoint of the quarter. This means that no matter when during a quarter you place property in service or dispose of it, you treat it as being placed in service or disposed of in the middle of the quarter.

You must use the mid-quarter convention when the total depreciable bases of MACRS property you placed in service during the last three months of your tax year are more than 40% of the total depreciable bases of all MACRS property you placed in service during the entire year. When that happens, you must use this convention for all MACRS property you placed in service during the year. To determine the total bases of property, do not include the following.

- Nonresidential real property.
- Residential rental property.
- Property you placed in service and disposed of in the same year.

To determine whether you must use the mid-quarter convention, the depreciable basis of property is your basis multiplied by the percentage of business/investment use and then reduced by the following.

- Any amortization taken on the property.
- Any section 179 deduction claimed on the property.
- Any deduction claimed for clean-fuel vehicles or for clean-fuel vehicle refueling property.

Depreciation Methods

Terms you may need to know (see Glossary):

Declining balance method
Listed property
Nonresidential real property
Placed in service
Property class
Recovery period
Residential rental property
Straight line method

The three methods used to figure depreciation under MACRS are 200% declining balance, 150% declining balance, and straight line. Depending on the property being depreciated, all three methods can be used under GDS. Only the straight line method can be used under ADS. GDS recovery periods are generally shorter than the ADS recovery periods.

The following table lists the types of property you can depreciate under each method. It also gives a brief explanation of the method. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.

Depreciation Methods

Method	Type of Property	Benefit
GDS using 200% DB	• Nonfarm 3-, 5-, 7-, and 10-year property	Provides a greater deduction during the earlier recovery years. Changes to SL when that method provides a greater deduction.***
GDS using 150% DB	• All farm property (except real property) • All 15- and 20-year property • Nonfarm 3-, 5-, 7-, and 10-year property*	Provides a greater deduction during the earlier recovery years. Changes to SL when that method provides a greater deduction.***
GDS using SL	• Nonresidential real property • Residential rental property • Trees or vines bearing fruit or nuts • All 3-, 5-, 7-, 10-, 15-, and 20-year property*	Provides for equal yearly deductions (except for the first and last years).
ADS using SL	• Listed property used 50% or less for business • Property used predominantly outside the U.S. • Tax-exempt property • Tax-exempt bond-financed property • Imported property** • Any property for which you elect to use this method*	Provides for equal yearly deductions.

* Elective method
** See section 168(g)(6) of the Internal Revenue Code.
***The MACRS percentage tables in Appendix A have the switch to the straight line method built into their rates.

Electing a Different Method

As shown in the table *Depreciation Methods,* you can elect a different method for depreciation for certain types of property. You must make the election by the due date of the return (including extensions) for the year you placed the property in service. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within six months of the due date of the return (excluding extensions). Attach the election to the amended return and write "FILED PURSUANT TO SECTION 301.9100–2" on the election statement. File the amended return at the same address you filed the original return. Once you make the election, you cannot change it.

CAUTION *If you elect to use a different method for one item in a property class you must apply the same method to all property in that class placed in service in the year of the election. However, you can make the election on a property-by-property basis for nonresidential real and residential rental property.*

150% election. Instead of using the 200% declining balance method over the GDS recovery period for nonfarm property in the 3-, 5-, 7-, and 10-year property classes, you can elect to use the 150% declining balance method. Make the election by entering "150 DB" under column (f) in Part II of Form 4562.

CAUTION *For property placed in service before 1999, you could have elected to use the 150% declining balance method using the ADS recovery periods. If you made this election, continue to use the same method and recovery period for that property.*

Straight line election. Instead of using either the 200% or 150% declining balance methods over the GDS recovery period, you can elect to use the straight line method over the GDS recovery period. Make the election by entering "SL" under column (f) in Part II of Form 4562.

Election of ADS. Although your property may come under GDS, you can elect to use ADS. ADS uses the straight line method of depreciation over fixed ADS recovery periods. Most ADS recovery periods are listed in Appendix B or see the table *ADS Recovery Periods,* earlier.

Make the election by completing line 16 in Part II of Form 4562.

Farm property. Instead of using the 150% declining balance rate over a GDS recovery period for property you use in a farming business, you can elect to depreciate it using either of the following methods.

- The straight line method over a GDS recovery period.
- The straight line method over the ADS recovery period.

Depreciation Methods for Farm Property

If you place personal property in service in a farming business after 1988, you can depreciate it under GDS using any method other than the 200% declining balance method. You can depreciate real property using the straight line method under either GDS or ADS.

For a quick reference to the MACRS methods, see the table *Depreciation Methods,* earlier.

Farming business. A farming business is any trade or business involving cultivating land or raising or harvesting any agricultural or horticultural commodity. A farming business includes the following.

- Operating a nursery or sod farm.
- Raising or harvesting crops.
- Raising or harvesting trees bearing fruit, nuts, or other crops.
- Raising ornamental trees. An evergreen tree is not an ornamental tree if it is more than 6 years old when it is severed from its roots.
- Raising, shearing, feeding, caring for, training, and managing animals.

Processing activities. In general, a farming business includes processing activities that are normally part of the growing, raising, or harvesting of agricultural products. However, a farming business generally does not include the processing of commodities or products beyond those activities that are normally part of the growing, raising, or harvesting of such products.

Fruit or nut trees and vines. Depreciate trees and vines bearing fruit or nuts under GDS using the straight line method over a recovery period of 10 years.

ADS required for some farmers. If you elect not to apply the uniform capitalization rules to any plant produced in your farming business, you must use ADS. You must use ADS for all property you place in service in any year the election is in effect. See the regulations under section 263A of the Internal Revenue Code for information on the uniform capitalization rules that apply to farm property.

MACRS Percentage Tables

Terms you may need to know (see Glossary):

Adjusted basis
Amortization
Basis
Business/investment use
Convention
Placed in service
Property class
Recovery period

Appendix A near the end of this publication contains percentage tables you can use to figure your depreciation under MACRS.

Rules Covering the Use of the Tables

The following rules cover the use of the percentage tables.

1) You must apply the rates in the percentage tables to your property's ***unadjusted basis.***
2) You cannot use the percentage tables for a short tax year. See *MACRS Deduction in Short Tax Year,* later for information on figuring the deduction.
3) Once you start using the percentage tables, you must continue to use them for the entire recovery period of the property.
4) If you adjust the basis of the property for ***any*** reason other than those listed in (a) and (b), you must stop using the tables.
   a) Depreciation allowed or allowable.
   b) An addition or improvement to that property that is depreciated as a separate item of property.

Figuring unadjusted basis. You must apply the table rates to your property's unadjusted basis each year of the recovery period. ***Unadjusted basis*** is the same amount you would use to figure gain on a sale, but you figure it without taking into account any depreciation taken in earlier years. However, you do reduce your original basis by any of the following that apply.

- Any amortization taken on the property.
- Any section 179 deduction claimed.
- Any deduction claimed for clean-fuel vehicle or clean-fuel vehicle refueling property.
- Any electric vehicle credit. (This is the lesser of $4,000 or 10% of the cost of the vehicle, even if the credit is less than that amount.)

For business property you purchase during the year, the unadjusted basis is its cost minus these adjustments.

If you trade property, your unadjusted basis in the property received is the cash paid plus the adjusted basis of the property traded minus these adjustments.

The deductions for clean-fuel vehicles or clean-fuel vehicle refueling property and any electric vehicle credit are subject to recapture. If the property is depreciable, and you must recapture part or all of the deduction or credit, you can increase the basis of the property by the amount of the deduction or credit recaptured. You can recover the additional basis over the rest of the recovery period beginning with the year of recapture. However, if this occurs, you will no longer be able to use the percentage tables. Instead, for the year of adjustment and the remaining recovery period, you must figure the depreciation using the property's adjusted basis at the end of the year. To determine your depreciation without the tables, see *How To Figure the Deduction Without Using the Tables,* later.

The clean-fuel vehicle and clean-fuel vehicle refueling property deductions and the electric vehicle credit are discussed in chapter 12 of Publication 535.

Adjustment due to casualty loss. If you reduce the basis of your property because of a casualty, you cannot continue to use the tables. For the year of adjustment and the rest of the recovery period, figure the depreciation using the property's adjusted basis at the end of the year of adjustment.

Example. On October 26, 1999, Sandra Elm, a calendar year taxpayer, bought and placed in service in her business an item of 7-year property. It cost $29,000 and she elected a section 179 deduction of $19,000. Her unadjusted basis after the section 179 deduction was $10,000. Because it was the only item placed in service that year and it was placed in service during the last 3 months of the year, she used the mid-quarter convention. Because the property has a 7-year recovery period she figured her deduction using the percentages in Table A-5. For 1999, her depreciation was $357 ($10,000 × 3.57%).

In July 2000, her property was vandalized and Sandra had a deductible casualty loss of $3,000. Because she must adjust her property's basis for the casualty loss, she can no longer use the percentage tables. Her adjusted basis at the end of 2000, before figuring her 2000 depreciation, is $6,643. She figures the adjusted basis by subtracting the 1999 depreciation of $357 and the casualty loss of $3,000 from the unadjusted basis of $10,000. She can now figure her depreciation for 2000 without using the percentage tables.

Which Table To Use

Appendix A contains the *MACRS Percentage Table Guide,* which is designed to help you locate the correct percentage table to use for depreciating your property. The MACRS percentage tables immediately follow the guide.

MACRS Worksheet

This worksheet is intended only to help you and does not replace Form 4562. Use the information from this worksheet to prepare Form 4562. Also, use a separate worksheet for each item of property. Part I is used to record information you will need to figure your deduction in Part II.

CAUTION *Do not use this worksheet for automobiles. Use the* Worksheet for Passenger Automobiles *in chapter 4.*

MACRS Worksheet

Part I

1. Description of property	________	
2. Date placed in service	________	
3. MACRS method (GDS or ADS)	________	
4. Recovery period	________	
5. Convention	________	
6. Depreciation rate (from tables)	________	

Part II

7. Cost or other basis*	$	
8. Business/investment use	%	
9. Multiply line 7 by line 8		$
10. Total claimed for section 179 deduction and clean-fuel vehicle refueling property		$
11. Subtract line 10 from line 9. This is your depreciable (unadjusted) basis		$
12. Depreciation rate (from line 6)		________
13. Multiply line 11 by line 12. This is your depreciation deduction		$

*If real estate, do not include cost (basis) of land.

The following example shows how to figure your MACRS depreciation deduction using the percentage tables and the MACRS worksheet.

Example. You bought office furniture (7-year property) for $10,000 and placed it in service on August 11, 2000. You use the furniture only for business. You did not elect a section 179 deduction. You use GDS under MACRS and the half-year convention to figure your depreciation. This is the only property you placed in service this year. You refer to the *MACRS Percentage Table Guide* in Appendix A and find that you should use Table A-1. Because you did not elect a section 179 deduction, your property's unadjusted basis is its cost, $10,000. Multiply your property's unadjusted basis each year by the percentage for 7-year property given in Table A-1. You figure your depreciation deduction using the MACRS worksheet as follows.

MACRS Worksheet

Part I

1. Description of property	Office furniture	
2. Date placed in service	8/11/00	
3. MACRS method (GDS or ADS)	GDS	
4. Recovery period	7-Year	
5. Convention	Half-Year	
6. Depreciation rate (from tables)	.1429	

Part II

7. Cost or other basis*	$10,000	
8. Business/investment use	100%	
9. Multiply line 7 by line 8		$10,000
10. Total claimed for section 179 deduction and clean-fuel vehicle refueling property		-0-
11. Subtract line 10 from line 9. This is your depreciable (unadjusted) basis		$10,000
12. Depreciation rate (from line 6)		.1429
13. Multiply line 11 by line 12. This is your depreciation deduction		$1,429

*If real estate, do not include cost (basis) of land.

If there are no adjustments to the basis of the property other than depreciation, your depreciation deduction for each subsequent year of the recovery period will be as follows.

Year	Basis	Percentage	Deduction
2001	$10,000	24.49%	$2,449
2002	10,000	17.49	1,749
2003	10,000	12.49	1,249
2004	10,000	8.93	893
2005	10,000	8.92	892
2006	10,000	8.93	893
2007	10,000	4.46	446

Examples

The following examples are provided to show you how to use the percentage tables. In both examples, assume the following.

- You use the property only for business.
- You use the calendar year as your tax year.
- You use GDS for all the properties.

Example 1. You bought a building and land for $120,000 and placed it in service on March 8. The sales contract showed the building cost $100,000 and the land cost $20,000. It is nonresidential real property. You refer to the *MACRS Percentage Table Guide* in Appendix A and find that you should use Table A-7a. The building's unadjusted basis is its original cost, $100,000. As discussed earlier, you can never depreciate land.

Because March is the third month of your tax year, multiply the building's unadjusted basis, $100,000, by the percentages for the third month in Table A-7a. Your depreciation deduction for each of the first 3 years is as follows:

Year	Basis	Percentage	Deduction
1st	$100,000	2.033%	$2,033
2nd	100,000	2.564	2,564
3rd	100,000	2.564	2,564

Example 2. During 2000, you bought a machine (7-year property) for $4,000, office furniture (7-year property) for $1,000, and a computer (5-year property)

for $5,000. You placed the machine in service in January, the furniture in September, and the computer in October. You do not elect a section 179 deduction for any of these items.

Because you placed property in service during the last three months of the year, you must first determine if you have to use the mid-quarter convention. The total bases of all property you placed in service in 2000 is $10,000. Because the basis of the computer ($5,000), which you placed in service during the last 3 months (the fourth quarter) of your tax year, is more than 40% of the total bases of all property ($10,000) you placed in service during 2000, you must use the mid-quarter convention for all three items.

You refer to the *MACRS Percentage Table Guide* in Appendix A to determine which table you should use under the mid-quarter convention. Because the machine is 7-year property placed in service in the first quarter, you use Table A-2. Because the furniture is 7-year property placed in service in the third quarter, you use Table A-4. Finally, because the computer is 5-year property placed in service in the fourth quarter, you use Table A-5. Knowing what table to use for each property, you figure the depreciation for the first 2 years as follows.

Year	Property Item	Unadjusted Basis	Percentage	Depreciation Deduction
2000	Machine	$4,000	25.00	$1,000
2001	Machine	4,000	21.43	857
2000	Furniture	1,000	10.71	107
2001	Furniture	1,000	25.51	255
2000	Computer	5,000	5.00	250
2001	Computer	5,000	38.00	1,900

How To Figure the Deduction Without Using the Tables

Instead of using the rates in the percentage tables to figure depreciation, you can compute the depreciation deduction each year yourself.

CAUTION *Figuring MACRS deductions without using the tables will generally result in a slightly different amount than using the tables.*

When figuring your deduction without using the tables, you must reduce your adjusted basis each year by the depreciation claimed in the previous year.

Declining Balance Method

When using a declining balance method, you must apply the appropriate convention and you must switch to the straight line method in the first year for which it will give an equal or greater deduction. The conventions are explained later under *Applying the Convention.* The straight line method is explained later under *Straight Line Method.*

You figure depreciation for the year you place property in service as follows.

1) Multiply your adjusted basis in the property by the declining balance rate (explained later).

2) Apply the appropriate convention.

You figure depreciation for all other years (before the year you switch to the straight line method) as follows.

1) Reduce your adjusted basis in the property by the depreciation claimed in earlier years.

2) Multiply this new adjusted basis by the same declining balance rate used in earlier years.

If you dispose of property before the end of its recovery period, see *Early Dispositions,* later, for information on how to figure depreciation for the year you dispose of it.

Figuring depreciation under both the declining balance method and the straight line method is illustrated in the example following *Straight Line Method,* later.

Declining Balance Rates

To figure your MACRS deduction, first determine your declining balance rate. You do this by dividing the specified declining balance percentage (150% or 200% changed to a decimal) by the number of years in the recovery period. For example, for 3-year property depreciated using the 200% declining balance rate, divide 2.00 (200%) by 3 to get 0.6667, or 66.67%. For 15-year property that is depreciated at the 150% declining balance rate, divide 1.50 (150%) by 15 to get 0.10, or 10%.

The following table shows the declining balance rate for each property class and the first year for which the straight line method gives a greater deduction.

Property Class	Method	Declining Balance Rate	Year
3-year	200% DB	66.67%	3rd
5-year	200% DB	40.0	4th
7-year	200% DB	28.57	5th
10-year	200% DB	20.0	7th
15-year	150% DB	10.0	7th
20-year	150% DB	7.5	9th

Straight Line Method

When using the straight line method, you must determine a new depreciation rate for each tax year. Also, you must apply the appropriate convention in the year you place the property in service and the year you dispose of the property. The conventions are explained later under *Applying the Convention.*

You determine the straight line depreciation rate for any tax year by dividing the number 1 by the years remaining in the recovery period at the beginning of your tax year. When figuring the number of years remaining, you must take into account the convention used in the year you placed the property in service. If the number of years remaining is less than 1, the depreciation rate for that tax year is 1.0 (100%).

You figure depreciation for the year you place property in service as follows.

1) Multiply your adjusted basis in the property by the depreciation rate (as explained earlier).

2) Apply the appropriate convention.

You figure depreciation for all other years (including the year you switch from the declining balance method to the straight line method) as follows.

1) Reduce your adjusted basis in the property by the depreciation claimed in earlier years (under any method).

2) Determine the depreciation rate for the year as explained earlier (taking into account the convention used in the year you placed the property in service).

3) Multiply the adjusted basis figured in (1) by the depreciation rate figured in (2).

If you dispose of property before the end of its recovery period, see *Early Dispositions,* later, for information on how to figure depreciation for the year you dispose of it.

Example. Karen Bell's tax year is the calendar year. In February, Karen placed in service depreciable property with a 5-year recovery period and a basis of $1,000. She does not elect to take the section 179 deduction. There were no adjustments to the basis of the property between the time she bought it and the time she placed it in service. She uses the 200% declining balance (DB) method to figure depreciation. Because she did not place any property in service in the last three months of the year, she must use the half-year convention.

First year. Karen figures the depreciation rate under the 200% DB method by dividing 2 (200%) by 5 (the number of years in the recovery period). The result is 40%. Karen figures the depreciation rate for the first year under the straight line (SL) method by dividing 1 by 5, the number of years in the recovery period. The result is 20%.

Karen multiplies the adjusted basis of the property ($1,000) by the 40% DB rate. She applies the half-year convention by dividing the result ($400) by 2. Depreciation for the first year under the 200% DB method is $200.

Karen multiplies the adjusted basis ($1,000) by the SL rate (20%). She applies the half-year convention by dividing the result ($200) by 2. Depreciation for the first year under the SL method is $100.

Because the DB method provides a larger deduction, Karen deducts the $200 figured under the 200% DB method.

Second year. Karen reduces the adjusted basis ($1,000) by the depreciation claimed in the first year ($200). She multiplies the result ($800) by the DB rate (40%). Depreciation for the second year under the 200% DB method is $320.

Karen figures the SL depreciation rate for the second year by dividing 1 by 4.5, the number of years remaining in the recovery period. (Because of the half-year convention, Karen used only half a year of the recovery period in the first year.) Karen multiplies the reduced adjusted basis ($800) by the result (22.22%). Depreciation under the SL method for the second year is $178.

Because the DB method provides a larger deduction, Karen deducts the $320 figured under the 200% DB method.

Third year. Karen reduces the adjusted basis ($800) by the depreciation claimed in the second year ($320). She multiplies the result ($480) by the DB rate (40%). Depreciation for the third year under the 200% DB method is $192.

Karen figures the SL depreciation rate for the third year by dividing 1 by 3.5. She multiplies the reduced adjusted basis ($480) by the result (28.57%). Depreciation under the SL method for the third year is $137.

Because the DB method provides a larger deduction, Karen deducts the $192 figured under the 200% DB method.

Fourth year. Karen reduces the adjusted basis ($480) by the depreciation claimed in the third year ($192). She multiplies the result ($288) by the DB rate (40%). Depreciation for the fourth year under the 200% DB method is $115.

Karen figures the SL depreciation rate for the fourth year by dividing 1 by 2.5. She multiplies the reduced adjusted basis ($288) by the result (40%). Depreciation under the SL method for the fourth year is $115.

Because both methods provide the same deduction, it does not matter which Karen chooses. Her depreciation deduction for the fourth year is $115.

Fifth year. Karen reduces the adjusted basis ($288) by the depreciation claimed in the fourth year ($115). She multiplies the result ($173) by the DB rate (40%). Depreciation for the fourth year under the 200% DB method is $69.

Karen figures the SL depreciation rate for the fifth year by dividing 1 by 1.5. She multiplies the reduced adjusted basis ($173) by the result (66.67%). Depreciation under the SL method for the fifth year is $115.

Because the SL method provides a larger deduction, Karen switches to the SL method and deducts the $115.

Sixth year. Karen reduces the adjusted basis ($173) by the depreciation claimed in the fifth year ($115). Because there is less than one year remaining in the recovery period, the depreciation rate for the sixth year is 100%. She multiplies the reduced adjusted basis ($58) by 100% to arrive at the depreciation deduction for the sixth year ($58).

Applying the Convention

You must apply the appropriate convention in the following years.

- The year in which you place property in service.
- The year you dispose of property if it is before the end of the recovery period.

Half-Year Convention

Generally, you use the half-year convention for property other than nonresidential real and residential rental property.

Under this convention, you treat property as placed in service (or disposed of) in the middle of the year. A half-year of depreciation is allowable for the year you place the property in service. This applies regardless of when during the year you place the property in service.

Unless you dispose of the property before the end of the recovery period, you take a full year of depreciation in each of your tax years that includes 12 full months of the recovery period. If you hold the property for the entire recovery period, you take a half-year of depreciation (any unrecovered basis) in your tax year that includes the final 6 months of the recovery period.

If you dispose of the property before the end of the recovery period, a half-year of depreciation is allowable for the year of disposition. This applies regardless of when during the year you dispose of the property.

First, figure the depreciation for a full year using the method you select. Then you apply the half-year convention by dividing the full amount of depreciation by 2. The result is your depreciation deduction for the year in which you place the property in service or for the year of disposal.

Mid-Quarter Convention

Under the mid-quarter convention, you treat property placed in service (or disposed of) during any quarter as placed in service (or disposed of) in the middle of the quarter.

You must use the mid-quarter convention when the total depreciable bases of MACRS property you placed in service during the last three months of your tax year are more than 40% of the total depreciable bases of all MACRS property you placed in service during the entire year. For information on how to determine if you must use the mid-quarter convention, see *The Mid-Quarter Convention* under *Conventions,* earlier.

A quarter of a full 12-month tax year is a period of three months. The first quarter in a year begins on the first day of the tax year. The second quarter begins on the first day of the fourth month of the tax year. The third quarter begins on the first day of the seventh month of the tax year. The fourth quarter begins on the first day of the tenth month of the tax year. A calendar year is divided into the following quarters.

Quarter	Months
First	January, February, March
Second	April, May, June
Third	July, August, September
Fourth	October, November, December

To figure your MACRS deduction using the mid-quarter convention, you must first figure your depreciation for the full year. Then multiply that amount by the percentage listed below for the quarter of the year the property is placed in service.

Quarter	Percentage
First	87.5%
Second	62.5
Third	37.5
Fourth	12.5

Mid-Month Convention

You use the mid-month convention for the following types of property.

- Nonresidential real property.
- Residential rental property.

Under this convention, you treat property placed in service (or disposed of) in any month as placed in service (or disposed of) in the middle of the month. To figure your MACRS deduction using the mid-month convention, first figure the depreciation for a full year using the straight line method. Then multiply this amount by a fraction. The numerator of the fraction is the number of full months in the year that the property is in service plus ½ (or 0.5). The denominator is 12.

Example. You use the calendar year and place nonresidential real property in service in August. The property is in service 4 full months (September, October, November, and December). Your numerator is 4.5 (4 full months plus 0.5).

Examples (Figuring MACRS Without Percentage Tables)

The following examples show how to figure depreciation under MACRS without using the percentage tables. Figures are rounded for purposes of the examples. Assume for all the examples that you use a calendar year as your tax year.

Example 1 — half-year convention. You bought for $10,000 and placed in service in March an item of 7-year property. You do not elect a section 179 deduction for this property. The adjusted basis of the property is $10,000. You use GDS to figure your depreciation. Because you did not place any property in service during the last three months of the year, you apply the half-year convention.

The 200% declining balance rate for 7-year property is 28.57%. You determine this by dividing 2.00 (200%) by 7 years. The result is .2857 or 28.57%.

You multiply the adjusted basis of $10,000 by .2857. This gives you a full year's depreciation, $2,857. You then apply the half-year convention by dividing $2,857 by 2. This gives you a depreciation deduction for the first year of $1,429.

For the second year, your depreciation deduction is $2,449. You figure this by subtracting $1,429 from $10,000 to get the adjusted basis of $8,571 for the property. Then you multiply $8,571 by .2857 (the full year rate for 7-year property using 200% DB).

For the third and fourth years, you follow the same procedure. Your deduction for the third year will be $1,749 [$6,122 ($8,571 − $2,449) × .2857]. Your deduction for the fourth year will be $1,249 [$4,373 ($6,122 – $1,749) × .2857].

For the fifth year of the recovery period, you change to the straight line method. You divide 1 by 3.5 (remaining years) to get .2857. That is the same as the 200% declining balance rate. Your deduction will be $893 [$3,124 ($4,373 – $1,249) × .2857].

For the sixth year, you figure a straight line rate of .40 (1 divided by 2.5 remaining years). Your deduction will be $892 [$2,231 ($3,124 – $893) × .40].

For the seventh year, you figure a straight line rate of .6667 (1 divided by 1.5 remaining years). Your deduction will be $893 [$1,339 ($2,231 − $892) × .6667].

For the eighth year, your deduction will be your remaining basis of $446 ($1,339 – $893). At the beginning of this year the remaining recovery period (a half year) will be less than one year. The straight line rate is 100%.

Example 2 — mid-month convention. In January you bought and placed in service a building for $100,000 that is nonresidential real property. The adjusted basis of the building is its cost of $100,000. You figure your MACRS depreciation for the building by dividing 1 by 39 years to get the straight line depreciation rate for a full year of .02564. The depreciation for a full year is $2,564 ($100,000 × .02564). Under the mid-month convention, you treat the property as placed in service in the middle of January. You would get 11.5 months of depreciation for the year. Expressed as a decimal, the fraction of 11.5 months divided by 12 months is .958. Your first year depreciation for the building is $2,456 ($2,564 × .958).

For the second year, you subtract $2,456 from $100,000 to get your unrecovered basis of $97,544 for the building. The straight line rate for the second year will be .02629. This is 1 divided by the remaining recovery period of 38.04 years. The remaining recovery period is the recovery period of 39 years reduced by 11.5 months or .958 and rounded to 38.04 years. Your depreciation for the building for the second year will be $2,564 ($97,544 × .02629).

For the third year, the unrecovered basis will be $94,980 ($97,544 − $2,564). The straight line rate will be .027 (1 divided by 37.04 remaining years). Your depreciation for the third year will be $2,564 ($94,980 × .027).

Example 3 — mid-quarter convention. During the year you bought and placed in service in your business the following items.

Item	Month Placed in Service	Cost
Safe	January	$4,000
Office furniture	September	1,000
Computer (not listed property)	October	5,000

You do not elect a section 179 deduction. You use GDS to figure the depreciation. The total bases of all property you placed in service this year is $10,000. Because the basis of the computer ($5,000) is more than 40% of the total bases of all property ($10,000) placed in service during the year, you must use the mid-quarter convention. This convention will apply for all three items of property. The safe and office furniture are in the 7-year property class and the computer is in the 5-year property class.

The 200% declining balance rate for 7-year property is .2857. You determine this by dividing 2.00 (200%) by 7 years. The result is .2857 or 28.57%. The depreciation for the safe for a full year is $1,143 ($4,000 × .2857). Because you placed the safe in service in the first quarter of your tax year, you multiply $1,143 by 87.5% (mid-quarter percentage for the first quarter). The result is your deduction of $1,000 for depreciation on the safe for the first year.

For the second year, you must first figure your adjusted basis of the safe. You do this by subtracting the first year's depreciation ($1,000) from the basis of the safe ($4,000). Your depreciation deduction for the second year is $857 [$3,000 ($4,000 − $1,000) × .2857].

Because the furniture is also 7-year property, you use the same 200% declining balance rate of .2857. You multiply the basis of the furniture ($1,000) by .2857 to get the depreciation of $286 for the full year. Because you placed the furniture in service in the third quarter of your tax year, you multiply $286 by 37.5% (mid-quarter percentage for the third quarter). The result is your deduction of $107 for depreciation on the furniture for the first year.

For the second year, you must first figure your adjusted basis of the furniture. You do this by subtracting the first year's depreciation ($107) from the basis of the furniture ($1,000). Your depreciation for the second year will be $255 [$893 ($1,000 − $107) × .2857].

The 200% declining balance rate for 5-year property is .40. You determine this by dividing 2.00 (200%) by 5 years. The result is .40 or 40%. The depreciation for the computer for a full year is $2,000 ($5,000 × .40). Because you placed the computer in service in the fourth quarter of your tax year, you multiply the $2,000 by 12.5% (mid-quarter percentage for the fourth quarter). The result is your deduction of $250 for depreciation on the computer for the first year.

For the second year, you must first figure the adjusted basis for the computer. You do this by subtracting the first year's depreciation ($250) from the basis ($5,000). Your depreciation deduction for the second year will be $1,900 [$4,750 ($5,000 − $250) × .40].

Example 4 — mid-quarter convention. Last year, in October, you bought and placed in service in your business an item of 7-year property. This is the only item of property you placed in service last year. The property cost $20,000 and you elected a $10,000 section 179 deduction. Your unadjusted basis for the property is $10,000. Because you placed your property in service in the last 3 months of your tax year, you must use the mid-quarter convention. You figured your deduction using the percentages in Table A-5 for 7-year property. Last year, your depreciation was $357 ($10,000 × 3.57%).

In July of this year, your property was vandalized. You had a deductible casualty loss of $3,000. You spent $3,500 to put the property back in operational order. Your adjusted basis at the end of this year is $10,143. You figured this by subtracting the first year's depreciation ($357) and the casualty loss ($3,000) from the unadjusted basis of $10,000. To this amount, you added the $3,500 repair cost.

You cannot use the table percentages to figure your depreciation for this property for this year because of the adjustments to basis. You must figure the deduction yourself. You determine the declining balance rate by dividing 2.00 (200%) by 7 years. The result is .2857 or 28.57%. You multiply the adjusted basis of your property ($10,143) by the declining balance rate of .2857 to get your depreciation deduction of $2,898 for this year.

MACRS Deduction in Short Tax Year

You cannot use the MACRS percentage tables to determine depreciation for a short tax year. A short tax year is any tax year with less than 12 full months. This section discusses the rules for determining the depreciation deduction for tangible property you place in service in a short tax year. It also discusses the rules for determining depreciation when you have a short tax year during the recovery period other than the year the property is placed in service.

Determining Placed-in-Service Date in Short Tax Year

The half-year, mid-quarter, and mid-month conventions establish the date property is treated as placed in service and the disposition date. Depreciation is allowable only for that part of the tax year the property is treated as in service. The recovery period begins on the placed-in-service date. The recovery period at the beginning of the next tax year is the full recovery period less that part of the first tax year for which depreciation is allowable.

Mid-month convention. Under the mid-month convention, you always treat your property as placed in service on the midpoint of the month you place it in service. You apply this rule without regard to your tax year.

Half-year convention. Under the half-year convention, you treat property as placed in service on the midpoint of the tax year.

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, you generally include the full month in the number of months in the tax year. You determine the midpoint of the tax year by dividing the number of months in the tax year by 2. For the half-year convention, you treat property as placed in service 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 7 months. Because you use only full months for this determination, you treat the tax year as beginning on June 1 instead of June 20. The midpoint of the tax year is the middle of September (3½ months from the beginning of the tax year).

Example. Tara Corporation, a calendar year taxpayer, was incorporated on March 15. For purposes of the half-year convention, it has a short tax year of 10 months, ending on December 31, 2000. During the short tax year, Tara placed property in service for which it uses the half-year convention. Tara treats this property as placed in service on the first day of the sixth month of the short tax year, or August 1, 2000.

Not on first or last day of month. For a short tax year not beginning on the first day of the month and not ending on the last day of a month, the tax year consists of the number of days in the tax year. You determine the midpoint of the tax year by dividing the number of days in the tax year by 2. For the half-year convention, you treat property as placed in service on either the first day or the midpoint of a month. If the result of dividing the number of days in the tax year by 2 is not the first day or the midpoint of a month, you treat the property as placed in service on the nearest preceding first day or midpoint of a month.

Mid-quarter convention. To determine if you must use the mid-quarter convention, compare the basis of property you place in service in the last 3 months of your tax year to that of property you place in service during the full tax year. The length of your tax year does not matter. If you have a short tax year of 3 months or less, use the mid-quarter convention for all applicable property you place in service during that tax year.

You treat property under the mid-quarter convention as placed in service on the midpoint of the quarter of the tax year. Divide a short tax year into 4 quarters and determine the midpoint of each quarter.

For a short tax year of 4 or 8 full calendar months, determine quarters on the basis of whole months. The midpoint of each quarter is either the first or the midpoint of a month.

To determine the midpoint of a quarter for a short tax year of other than 4 or 8 full calendar months, complete the following steps.

1) Determine the number of days in your short tax year.

2) Determine the number of days in each quarter. This means you divide the number of days in your short tax year by 4.

3) Determine the midpoint of each quarter. This means you divide the number of days in each quarter by 2.

If the result of (3) gives you a midpoint of a quarter that is on a day other than the first or midpoint of a month, treat the property as placed in service on the nearest preceding first or midpoint of that month.

Example — mid-quarter convention. Tara Corporation, a calendar year taxpayer, was incorporated and began business on March 15. It has a short tax year of 9½ months, ending on December 31. During December it placed property in service for which it must use the mid-quarter convention. Because this is a short tax year of other than 4 or 8 full calendar months, it must determine the midpoint of each quarter.

1) First, it determines that its short tax year beginning March 15 and ending December 31 consists of 292 days.

2) Next, it divides 292 by 4 to determine the length of each quarter, 73 days.

3) Finally, it divides 73 by 2 to determine the midpoint of each quarter, the 37th day.

The following table shows the quarters of Tara Corporation's short tax year, the midpoint of each quarter, and the date in each quarter that Tara must treat its property as placed in service.

Quarter	Midpoint	Placed in Service
3/15 – 5/26	4/20	4/15
5/27 – 8/7	7/2	7/1
8/8 – 10/19	9/13	9/1
10/20 – 12/31	11/25	11/15

The last quarter of the short tax year begins on October 20, which is 73 days from December 31, the end of the tax year. The 37th day of the last quarter is November 25. Because the midpoint of the quarter is not the first or the midpoint of November, Tara Corporation must treat the property as placed in service in the middle of November.

Figuring Depreciation in a Short Tax Year

If you place property in service in a short tax year, you must first determine the depreciation for a full tax year. You do this by multiplying your basis in the property by the applicable depreciation rate. Then determine the depreciation for the short tax year. Do this by multiplying the depreciation for a full tax year by a fraction. The numerator of the fraction is the number of months (including parts of a month) the property is treated as in service during the tax year (applying the applicable convention). The denominator is 12. See *Depreciation in Recovery Years After Short Tax Year,* later, for how to figure depreciation in later years.

Example 1 — half-year convention. Tara Corporation, with a short tax year beginning March 15 and ending December 31, placed in service on March 16 an item of 5-year property with a basis of $1,000. This is the only property the corporation placed in service during the short tax year. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40% and Tara applies the half-year convention.

Tara treats the property as placed in service on August 1. The law allows Tara 5 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($1,000) by 40% (the declining balance rate) to get the depreciation for a full tax year of $400. The corporation then multiplies $400 by $^{5}/_{12}$ to get the short tax year depreciation of $167.

Example 2 — mid-quarter convention. Tara Corporation, with a short tax year beginning March 15 and ending on December 31, placed in service on October 16 an item of 5-year property with a basis of $1,000. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40%. The corporation must apply the mid-quarter convention because the property was the only item placed in service that year and it was placed in service in the last 3 months of the tax year.

Tara treats the property as placed in service on September 1. Under MACRS, Tara is allowed 4 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($1,000) by 40% to get the depreciation for a full tax year of $400. The corporation then multiplies $400 by $^{4}/_{12}$ to get the short tax year depreciation of $133.

Depreciation in Recovery Years After Short Tax Year

You can use either of the following to figure the depreciation for later years in the recovery period.

- Simplified method
- Allocation method

You must use the method you choose consistently until the year of change to the straight line method.

Simplified method. Under the simplified method, you figure the depreciation for subsequent years in the recovery period by multiplying the unrecovered basis of your property at the beginning of the year by the applicable depreciation rate.

Example — half-year convention. Tara Corporation has a short tax year of 10 months, ending on December 31. It placed in service an item of 5-year property with a basis of $1,000. It claimed depreciation of $167 using a depreciation rate of 40% and the half-year convention. The unrecovered basis on January 1 of the next year is $833 ($1,000 − $167). Tara's depreciation for that next year will be 40% of $833, or $333.

Short tax year after property in service. If a subsequent tax year in the recovery period is a short tax year, you figure depreciation for that year by multiplying the unrecovered basis of the property at the beginning of the tax year by the applicable depreciation rate, and then by a fraction. The fraction's numerator is the number of months (including parts of a month) in the tax year. Its denominator is 12.

Allocation method. Under the allocation method, you figure the depreciation for each subsequent tax year by allocating to the tax year the depreciation attributable to each recovery year, or part of a recovery year, that falls within the tax year. Whether your tax year is a 12-month or short tax year, you figure the depreciation by determining which recovery years are included in the tax year. For each recovery year included, multiply the depreciation attributable to each recovery year by a fraction. The fraction's numerator is the number of months (including parts of a month) in both the tax year and the recovery year. Its denominator is 12. The allowable depreciation for the tax year is the sum of the depreciation figured for each recovery year.

Example — half-year convention. Assume the same facts as in Example 1 under *Figuring Depreciation in a Short Tax Year.* The Tara Corporation's second tax year is a full year of 12 months, beginning January 1 and ending December 31. A recovery year for the 5-year property placed in service during the short tax year extends from August 1 to July 31. Tara deducted 5 months of first recovery year on its short-year tax return. Seven months of the first recovery year and 5 months of the second recovery year fall within the second tax year. The depreciation for the second tax year will be $333, which is the sum of the following.

- $233 — The depreciation for the short year

($400 × 7/12).

- $100 — The depreciation for the second tax year [$600 ($1,000 − $400) × 40%] or ($240 × 5/12).

More information. For more information on figuring depreciation in a short tax year, see Revenue Procedure 89-15 in Cumulative Bulletin 1989-1.

Dispositions

Terms you may need to know (see Glossary):

Exchange

A disposition is the permanent withdrawal of property from use in your trade or business or in the production of income. A withdrawal can be made by sale, exchange, retirement, abandonment, involuntary conversion, or destruction. You generally recognize gain or loss when you sell property. However, nonrecognition rules may allow you to postpone some gain. See Publication 544.

For information on dispositions from a general asset account, see *Dispositions and Conversions* under *General Asset Accounts,* later.

Early Dispositions

Terms you may need to know (see Glossary):

Clean-fuel vehicle
Clean-fuel vehicle refueling property
Convention
Nonresidential real property
Placed in service
Recovery period
Residential rental property

If you dispose of your property before the end of its recovery period, it is called an early disposition. If you dispose of property depreciated under MACRS, you are allowed a depreciation deduction for the year of disposition. Determine your depreciation deduction for the year of disposition by using the convention (discussed earlier) used when the property was placed in service.

Mid-Month Convention Used

If you dispose of residential rental or nonresidential real property, you base your depreciation deduction for the year of disposition on the number of months in the year of disposal that the property was in service. Under the mid-month convention, you treat property disposed of anytime during a month as disposed of in the middle of that month. Count the month of disposition as half a month of service.

You determine the depreciation to claim by determining the depreciation for the year and then multiplying it by a fraction. The numerator of the fraction is the number of months (including partial months) in the year that the property is considered in service. The denominator is 12.

Example. On July 2, 1998, you purchased and placed in service residential rental property. The property cost $100,000, not including the cost of land. You file your tax return based on the calendar year. You used Table A-6 to figure your MACRS depreciation for this property. You sold the property on March 2, 2000.

A full year of depreciation for 2000 is $3,636. This is $100,000 multiplied by .03636 (the percentage for the seventh month of the third recovery year) from Table A-6. You then apply the mid-month convention for the 2½ months of use in 2000. Multiply $3,636 by 2.5 and divide by 12 to get your 2000 depreciation deduction of $757.50.

Property placed in service in short tax year. If you placed property in service in a short tax year, how you figure depreciation in the year of disposal depends on whether you are using the simplified method or the allocation method.

Simplified method. If you are using the simplified method, you figure depreciation in the year of disposal by figuring depreciation for an entire year and then multiplying that amount by a fraction. The numerator of the fraction is the number of months (including parts of months) the property is in service in the year. The denominator is 12.

Allocation method. If you are using the allocation method, you figure depreciation for each recovery year that is included in the tax year. You multiply the depreciation figured for each recovery year by a fraction. The numerator of the fraction is the number of months (including parts of months) the property was in service in the tax year. The denominator is 12. If there is more than one recovery year in the tax year, you add together the depreciation for each recovery year.

Half-Year Convention Used

For property for which you used a half-year convention, the deduction for the year of disposition is half the depreciation determined for the full year.

Property placed in service in full tax year and disposed of in short tax year. If you dispose of property in a short tax year, you must determine the midpoint of the year. See *Half-year convention,* earlier, under *MACRS Deduction in Short Tax Year* for how to determine the midpoint of a short tax year applying the half-year convention.

Property placed in service in a short tax year and disposed of in a later short tax year. If you dispose of property in a short tax year that you had placed in service in an earlier short tax year, how you figure depreciation in the year of disposal depends on whether you are using the simplified method or the allocation method. First you must figure the midpoint of the tax year of disposal. See *Half-year convention,* earlier, under *MACRS Deduction in Short Tax Year* for how to determine the midpoint of a short tax year applying the half-year convention. See *Simplified method* or *Allocation method,* earlier, for how to figure depreciation for the tax year of disposal.

Mid-Quarter Convention Used

For property for which you used the mid-quarter convention, you must first determine the depreciation for the full year. Then you multiply the depreciation by the applicable percentage for the quarter of the tax year you disposed of the property. The percentages to use for each quarter of the tax year are shown in the following table.

Quarter	Percentage
First	12.5%
Second	37.5
Third	62.5
Fourth	87.5

Property placed in service in full tax year and disposed of in short tax year. If you dispose of property in a short tax year, you must determine both the quarter in which you dispose of the property and the midpoint of that quarter. See *Mid-quarter convention,* earlier, under *MACRS Deduction in Short Tax Year* for how to determine the midpoint of a quarter in a short tax year.

Property placed in service in a short tax year and disposed of in a later short tax year. If you dispose of property in a short tax year that you had placed in service in an earlier short tax year, how you figure depreciation in the year of disposal depends on whether you are using the simplified method or the allocation method. First you must figure the quarter in which you disposed of the property and the midpoint of that quarter. See *Mid-quarter convention,* earlier, under *MACRS Deduction in Short Tax Year* for how to determine the midpoint of a quarter in a short tax year. See *Simplified method* or *Allocation method,* earlier, for how to figure depreciation for the tax year of disposal.

Example. On December 2, 1998, you placed an item of 5-year property in service in your business. The property cost $10,000 and you did not claim a section 179 deduction. Your basis for the property is $10,000. You must use the mid-quarter convention because this is the only item of business property you placed in service in 1998 and it was placed in service during the last 3 months of your tax year. Because your property is in the 5-year property class, you used Table A-5 to figure your depreciation deduction. Your deductions for 1998 and 1999 were $500 (5% of $10,000) and $3,800 (38% of $10,000). If you dispose of the property on April 6, 2000, figure your 2000 depreciation using the mid-quarter convention. First figure the deduction for the full year, which is $2,280 (22.8% of $10,000). Since April is in the second quarter of the year, you multiply $2,280 by 37.5% to get your depreciation deduction of $855 for 2000.

Depreciation Recapture

With the exception of gain on the disposition of residential rental and nonresidential real property, all gain on the disposition of property depreciated under MACRS is recaptured (included in income) as ordinary income up to the amount of previously allowed depreciation deducted for the property. Depreciation for this purpose includes any section 179 deduction claimed on the property and any deduction claimed for clean-fuel vehicles and clean-fuel vehicle refueling property. ***There is no recapture*** for residential rental and nonresidential real property. For more information on depreciation recapture, see Publication 544.

General Asset Accounts

Terms you may need to know (see Glossary):

Amount realized
Clean-fuel vehicle
Clean-fuel vehicle refueling property
Unadjusted depreciable basis

To make it easier to figure MACRS depreciation, you can group separate properties into one or more general asset accounts. You can then depreciate all the properties in each account as a single item of property. Each account can include only property with similar characteristics, such as asset class and recovery period. Some property cannot be included in a general asset account. There are additional rules for passenger automobiles, disposing of property, converting property to personal use, and property that generates foreign source income.

After you have set up a general asset account, you generally figure the depreciation for each account by using the depreciation method, recovery period, and convention that applies to the property in the account. For each general asset account, record the depreciation allowance in a separate depreciation reserve account.

Passenger automobiles. To figure depreciation on passenger automobiles in a general asset account, apply the deduction limits discussed later in chapter 4. Multiply the amounts determined using these limits by the number of automobiles originally included in the account reduced by the total number of automobiles disposed of (or changed to personal use) during the year and any previous year in any of the following types of transactions. These are discussed later under *Dispositions and Conversions.*

- Qualifying dispositions.
- Nonrecognition transactions.
- Abusive transactions.
- Dispositions leading to the recapture of certain credits and deductions.

Property you cannot include. You cannot include property in a general asset account if you use it in both a trade or business (or for the production of income) and in a personal activity in the year in which you first place it in service.

Property generating foreign source income. For information on the general asset account treatment of property that generates foreign source income, see section 1.168(i)-1(f) of the regulations. You can read the regulations at many public libraries and IRS offices.

How To Group Property in a General Asset Account

Each general asset account must include only property that you placed in service in the same year and that has the following in common.

- Asset class.
- Recovery period.
- Depreciation method.
- Convention.

The following rules also apply when you establish a general asset account.

- ***No asset class.*** Property without an asset class, but with the same depreciation method, recovery period, and convention, that you place in service in the same year, can be grouped into the same general asset account.
- ***Mid-quarter convention.*** Property subject to the mid-quarter convention can only be grouped into a general asset account with property that is placed in service in the same quarter.
- ***Mid-month convention.*** Property subject to the mid-month convention can only be grouped into a general asset account with property that is placed in service in the same month.
- ***Passenger automobiles.*** Passenger automobiles subject to the limits on passenger automobile depreciation must be grouped into a separate general asset account.

Dispositions and Conversions

Property in a general asset account is considered disposed of when you do any of the following.

- Permanently withdraw it from use in your trade or business or from the production of income.
- Transfer it to a supplies, scrap, or similar account.
- Sell, exchange, retire, physically abandon, or destroy it.

The retirement of a structural component of real property is not a disposal.

The unadjusted depreciable basis and the depreciation reserve of the general asset account are not affected by your disposition of property from the general asset account. See *Delay in basis recovery (loss not realized),* later.

You must remove from the general asset account any property you change to personal use. See *Change to personal use,* later.

Unadjusted depreciable basis. The unadjusted depreciable basis of an item of property in a general asset account is the same amount you would use to figure gain on the sale of the property, but it is figured without taking into account any depreciation taken in earlier years.

The unadjusted depreciable basis of a general asset account is the total of the unadjusted depreciable bases of all the property in the account.

Adjusted depreciable basis. The adjusted depreciable basis of a general asset account is the unadjusted depreciable basis of the account minus any allowed or allowable depreciation based on the account.

Delay in basis recovery (loss not realized). For purposes of determining gain or loss when you dispose of property in a general asset account, treat the property as having an adjusted basis of zero immediately before you dispose of it. No loss can result from its disposition. Also, if you transfer property to a supplies, scrap, or similar account, the basis of the property in the supplies, scrap, or similar account will be zero.

Treatment of amount realized. You must recognize as ordinary income, up to a limit, any amount you realize when you dispose of property in a general asset account. The limit is the result of the following:

- The sum of unadjusted depreciable bases of the general asset account (defined earlier), ***plus***
- Any expensed costs for property in the account that are subject to recapture as depreciation, ***minus***
- Any amount previously recognized as ordinary income upon the disposition of other property from the account.

Expensed costs that are subject to recapture as depreciation include the following.

1) The section 179 deduction.
2) The deduction for clean-fuel vehicles or clean-fuel vehicle refueling property.
3) Amortization of the following.
   a) Pollution control facilities.
   b) Removal of barriers for the elderly and disabled.
   c) Tertiary injectants.
   d) Reforestation expenses.

Example 1. Make and Sell, a calendar-year corporation, maintains one general asset account for ten machines. The machines cost a total of $10,000 and were placed in service in June 2000. One of the ten machines cost $8,200 and the rest cost a total of $1,800. This general asset account is depreciated under the 200% declining balance method with a 5-year recovery period and a half-year convention. Make and Sell does not claim the section 179 deduction on the machines. As of January 1, 2001, the depreciation reserve account is $2,000 [($10,000 – $0) × (40% ÷ 2)].

On February 8, 2001, Make and Sell sells the machine that cost $8,200 to an unrelated person for $9,000. The machine has an adjusted basis of zero.

On its 2001 tax return, Make and Sell recognizes the $9,000 amount realized as ordinary income because it is not more than the unadjusted depreciable basis of the general asset account ($10,000) plus any expensed cost (for example, the section 179 deduction) for property in the account ($0) minus any amounts previously recognized as ordinary income because of dispositions of other property from the account ($0). Also, the unadjusted depreciable basis and depreciation reserve of the account are not affected by the sale of the machine. The depreciation allowance in 2001 is $3,200 [($10,000 − $2,000) × 40%].

Example 2. Assume the same facts as in Example 1 except that on June 4, 2002, Make and Sell sells seven machines to an unrelated person for a total of $1,100. These machines have an adjusted basis of zero.

On its 2002 tax return, Make and Sell recognizes $1,000 as ordinary income (the unadjusted depreciable basis of $10,000 plus the expensed costs ($0), less the $9,000 previously recognized as ordinary income). The recognition and character of the remaining amount realized of $100 ($1,100 − $1,000) is long-term capital gain. Also, the unadjusted depreciable basis and depreciation reserve of the account are not affected by the disposition of the machines. The depreciation allowance for the account in 2002 is $1,920 [($10,000 − $5,200) × 40%].

Nonrecognition transactions. If you transfer general asset account property in a nonrecognition transaction, you must follow the *Rules for nonrecognition transactions* (explained later). The following are nonrecognition transactions.

- The distribution to one corporation of property 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.
- The contribution of property to a partnership in exchange for an interest in the partnership.
- The 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.

Rules for nonrecognition transactions. The following rules apply to the nonrecognition transactions described above.

1) You must remove the property from the general asset account as of the first day of the year in which the transaction takes place.
2) You must reduce the unadjusted depreciable basis of the general asset account by the unadjusted depreciable basis of the property as of the first day of the year in which the transaction takes place.
3) You must reduce the depreciation reserve of the general asset account by the depreciation allowed or allowable for the property as of the end of the year immediately before the year of the transaction. Figure depreciation allowed or allowable by using the depreciation method, recovery period, and convention that applies to that general asset account.
4) For purposes of figuring the gain on any later disposition that is subject to ordinary income treatment because it is a disposition from a general asset account, do not take into account any expensed cost (such as a section 179 deduction) for the property being transferred.

Rules for recipient (transferee). The recipient of the property (the person to whom it is transferred) must include at least part of the basis of the property in a general asset account. The amount that must be included is the adjusted basis of the property in your hands (the transferor). If you transferred either all of the property or the last item of property in a general asset account, the recipient's basis in the property is the result of the following.

- The adjusted depreciable basis of the general asset account (defined earlier) as of the beginning of your tax year in which the transaction takes place, ***minus***
- The depreciation allowable to you for the year of the transfer.

Abusive transactions. If a main purpose for disposing of property from a general asset account is to get a tax benefit or a result that would not be available without the use of a general asset account and the transaction is not one of those listed earlier under *Nonrecognition transactions,* the transaction is an abusive one. Examples of abusive transactions include the following.

- A transaction with a main purpose of shifting income or deductions among taxpayers in a way that would not be possible without choosing to use a general asset account to take advantage of differing effective tax rates.
- A choice to use a general asset account with a main purpose of disposing of property from the general asset account so that you can use an expiring net operating loss or credit.

If you have a net operating loss carryover or a credit carryover, the following transactions may be abusive.

- A transfer to a related person.
- A transfer of property under an agreement where the property continues to be used, or is available for use, by you.

These transactions will be considered abusive transactions unless there is strong evidence to the contrary.

Anti-abuse rule. General asset account treatment for property you dispose of in an abusive transaction ends as of the first day of the year in which you dispose of it. You must determine the gain, loss, or other deduction due to the disposition by taking into account the property's adjusted basis. The adjusted basis of the property at the time of the disposition is the result of the following:

- The unadjusted depreciable basis of the property, ***minus***
- The depreciation allowed or allowable for the property figured by using the depreciation method, recovery period, and convention that applied to the general asset account in which the property was included.

If there is a gain, the amount subject to recapture as ordinary income is the smaller of the following.

1) The depreciation allowed or allowable for the property, including any expensed cost (such as section 179 deductions or the additional depreciation allowed or allowable for the property).
2) The result of the following:
   a) The original unadjusted depreciable basis of the general asset account (plus, for section 1245 property originally included in the general asset account, any expensed cost), ***minus***
   b) The total gain previously recognized as ordinary income on the disposition of property from the general asset account.

If you dispose of property in an abusive transaction, you must also make the adjustments to the general asset account listed earlier under *Rules for nonrecognition transactions.*

Disposition of all property in a general asset account. If you dispose of all the property, or the last item of property, in a general asset account, you can recover the adjusted depreciable basis of the general asset account. Under this rule, the general asset account ends and you figure the gain or loss for the general asset account by comparing the adjusted depreciable basis of the general asset account with the amount realized.

If the amount realized is more than the adjusted depreciable basis, the difference is a gain. If it is less, the difference is a loss.

If there is a gain, the amount subject to recapture as ordinary income is limited in the same way as explained earlier under *Anti-abuse rule.*

Example. Duforcelf, a calendar-year corporation, maintains a general asset account for 1,000 calculators. The calculators cost a total of $60,000 and were placed in service in 2000. Assume this general asset account is depreciated under the 200% declining balance method, has a recovery period of 5 years, and uses a half-year convention. Duforcelf does not claim the section 179 deduction on any of the calculators. In 2001, Duforcelf sells 200 of the calculators to an unrelated person for $10,000. The $10,000 is recognized as ordinary income.

On March 26, 2002, Duforcelf sells the remaining calculators in the general asset account to an unrelated person for $35,000. Duforcelf decides to recover the adjusted depreciable basis of the account.

On the date of disposition, the adjusted depreciable basis of the account is $23,040 (unadjusted depreciable basis of $60,000 minus the depreciation allowed or allowable of $36,960). In 2002, Duforcelf recognizes a gain of $11,960. This is the amount realized of $35,000 minus the adjusted depreciable basis of $23,040. The gain of $11,960 is subject to recapture as ordinary income. The amount subject to recapture is limited to the depreciation allowed or allowable minus the amounts previously recognized as ordinary income ($36,960 – $10,000 = $26,960). Therefore, the entire gain of $11,960 is recaptured as ordinary income.

Qualifying dispositions. If you dispose of property in a qualifying disposition (defined later), you can end general asset account treatment for the property as of the first day of the year in which the qualifying disposition occurs. If you end the general asset account treatment, you must figure the gain, loss, or other deduction for the property by taking into account the property's adjusted basis.

If there is a gain, the amount subject to recapture as ordinary income is limited in the same way as explained earlier under *Anti-abuse rule.*

A ***qualifying disposition*** is one that does not involve all the property, or the last item of property, remaining in a general asset account and that is described below.

1) A direct result of fire, storm, shipwreck, other casualty, or theft.
2) A charitable contribution for which a deduction is allowed.
3) 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).
4) A transaction in which gain, if any, is not recognized, such as a like-kind exchange or an involuntary conversion.

   This ***does not include*** any of the following.

   a) A transaction in which gain is not recognized only because the transaction involves a disposition from a general asset account.
   b) A transaction between members of the same affiliated group during any year for which the group makes a consolidated return.
   c) Any of the following transactions in which gain is not recognized.
      i) The receipt by a corporation of property distributed in complete liquidation of another corporation.
      ii) 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.
      iii) The transfer of property to 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.

iv) The contribution of property to a partnership in exchange for an interest in the partnership.

v) The distribution of property (including money) from a partnership to a partner.

For purposes of figuring the basis of property you acquired in a like-kind exchange or an involuntary conversion, treat the ordinary income recognized on the disposition of the property as the gain recognized on the disposition.

Effect of qualifying disposition. If you choose to figure the gain, loss, or other deduction for property disposed of in a qualifying disposition (discussed earlier) by taking into account the property's adjusted basis, you must make the adjustments to the general asset account listed earlier under *Rules for nonrecognition transactions.*

Example. Sankofa, a calendar-year corporation, maintains one general asset account for 12 machines. Each machine costs $15,000 and was placed in service in 2000. Of the 12 machines, nine cost a total of $135,000 and are used in Sankofa's New York plant and three machines cost $45,000 and are used in Sankofa's New Jersey plant. Assume this general asset account has a depreciation method of 200% declining balance, a recovery period of 5 years, and a half-year convention. Sankofa does not claim the section 179 deduction for any of the machines. As of January 1, 2002, the depreciation account for the general asset account is $93,600.

On May 27, 2002, Sankofa sells its entire manufacturing plant in New Jersey to an unrelated person. The sales proceeds allocated to each of the three machines at the New Jersey plant is $5,000. Because this transaction is a qualifying disposition, Sankofa chooses to figure the gain, loss, or other deduction by taking into account the adjusted basis of the three machines.

For Sankofa's 2002 return, the depreciation allowance for the account is figured as follows. As of December 31, 2001, the depreciation allowed or allowable for the three machines at the New Jersey plant is $23,400. As of January 1, 2002, the unadjusted depreciable basis of the account is reduced from $180,000 to $135,000 ($180,000 minus the unadjusted depreciable basis of $45,000 for the three machines), and the depreciation account is decreased from $93,600 to $70,200 ($93,600 minus depreciation allowed or allowable of $23,400 for the three machines as of December 31, 2001.) The depreciation allowance for the account in 2002 is $25,920 [($135,000 − $70,200) × 40%].

For Sankofa's 2002 return, gain or loss for each of the three machines at the New Jersey plant is determined as follows. The depreciation allowed or allowable in 2002 for each machine is $1,440 [($15,000 − $7,800) × 40% ÷ 2]. The adjusted basis of each machine is $5,760 (the adjusted depreciable basis of $7,200 removed from the account less the depreciation allowed or allowable of $1,440 in 2002). As a result, the loss recognized in 2002 for each machine is $760 ($5,000 − $5,760), which is subject to section 1231 treatment. See Publication 544 for information on section 1231.

Property subject to recapture. If the basis of an item of property in a general asset account is increased as a result of the recapture of the investment credit, the credit for qualified electric vehicles, the section 179 deduction, or the deduction for clean-fuel vehicles and certain refueling property, you must discontinue general asset account treatment for the property as of the first day of the year in which the recapture event occurs. You must remove the property from the general asset account as of the first day of the year in which the recapture occurs and make the adjustments to the general asset account described earlier in items (2) through (4) under *Rules for nonrecognition transactions.*

Change to personal use. An item of property in a general asset account becomes ineligible for general asset account treatment if you use it in a personal activity. Once you have converted the property to personal use, remove it from the general asset account as of the first day of the year in which the change in use occurs and make the adjustments described earlier in items (2) through (4) under *Rules for nonrecognition transactions.*

Identification of property disposed of or converted. You can use any reasonable method that is consistently applied to your general asset account to determine the unadjusted depreciable basis of property that you either convert to personal use or dispose of in one of the following transactions.

- Any qualifying disposition (defined earlier).
- Any transaction listed earlier under *Nonrecognition transactions.*
- Any abusive transaction (defined earlier).
- Any transaction which results in the increase in the basis of an item of property in a general asset account as a result of the recapture of either the investment credit, the credit for qualified electric vehicles, the section 179 deduction, or the deduction for clean-fuel vehicles and certain refueling property.

Effect of adjustments on earlier dispositions. The adjustments made to a general asset account because of a change to personal use or because of any of the transactions listed earlier under *Identification of property disposed of or converted* have no effect on the recognition and character of prior dispositions in which the adjusted basis is considered to be zero. See *Delay in basis recovery (loss not realized),* earlier.

Electing To Use a General Asset Account

An election to include property in a general asset account is made separately by each owner of the property. This means that an election to include property in a general asset account must be made at the partnership or S corporation level and not by each partner or shareholder separately.

When to make the election. You must make the election on a timely filed tax return (including extensions) for the year in which you place in service the property included in the general asset account. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within six months of the due date of the return (excluding extensions). Attach the election to the amended return and write "FILED PURSUANT TO SECTION 301.9100–2" on the election statement. File the amended return at the same address you filed the original return.

How to make the election. Make the election by typing or printing at the top of Form 4562, "GENERAL ASSET ACCOUNT ELECTION MADE UNDER SECTION 168(i)(4)."

You must maintain records that identify the property included in each general asset account, that establish the unadjusted depreciable basis and depreciation reserve of the general asset account, and that reflect the amount realized during the year upon dispositions from each general asset account. However, see the recordkeeping requirements for section 179 property discussed in chapter 2.

When to revoke an election. You can only revoke an election to use the general asset account if one of the following applies.

- There is a substantial distortion of income because you include in a general asset account property that generates foreign source income, both United States and foreign source income, or combined gross income of an FSC, a DISC, or a possessions corporation and its related supplier.
- You dispose of all property remaining in a general asset account.
- You dispose of property in a qualifying disposition (defined earlier).
- You dispose of property in a transaction listed earlier under *Nonrecognition transactions.*
- There is a transaction with a principal purpose of shifting income or deductions among taxpayers in a way that would not be possible without using general asset accounts and the transaction is not listed earlier under *Nonrecognition transactions.*
- The basis of an item of property is increased as a result of a recapture of an amount mentioned under *Property subject to recapture,* earlier.
- You convert property to personal use.

4. Listed Property

Introduction

This chapter discusses listed property. Listed property includes property used for transportation or entertainment and certain computers and cellular phones. There are additional rules and recordkeeping requirements you must follow when depreciating listed property.

This chapter contains the following sections.

- ***Listed Property Defined.*** This section defines listed property.
- ***Predominant Use Test.*** This section explains the predominant use test and explains how to apply it.
- ***Leased Property.*** This section discusses the rules that apply to the rental of listed property. This section covers both the owner (lessor) and the person who rents the property from the owner (lessee). It includes a worksheet to help the lessee figure an inclusion amount to add back to gross income.
- ***Special Rule for Passenger Automobiles.*** This section discusses the maximum depreciation deduction you can claim on automobiles. It defines automobiles and includes a worksheet to help you compute your maximum depreciation deduction.
- ***Deductions After Recovery Period.*** This section discusses how you depreciate a passenger automobile in the years after the recovery period.
- ***What Records Must Be Kept.*** This section discusses the importance of records in helping you to prove that your listed property was used for business/investment reasons.

Useful Items

You may want to see:

Publication

☐ **463** Travel, Entertainment, Gift, and Car Expenses

☐ **587** Business Use of Your Home (Including Use by Day-Care Providers)

Form (and Instructions)

☐ **2106** Employee Business Expenses

☐ **2106-EZ** Unreimbursed Employee Business Expenses

☐ **4255** Recapture of Investment Credit

☐ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

For information on listed property placed in service before 1987, see Publication 534.

Listed Property Defined

Terms you may need to know (see Glossary):

Capitalized
Recovery period
Straight line method

Listed property is any of the following.

- Any passenger automobile (defined later under *Special Rule for Passenger Automobiles).*
- Any other property used for transportation.
- Any property of a type generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment).
- Any computer and related peripheral equipment (defined later) ***unless*** it is used only at a regular business establishment and owned or leased by the person operating the establishment. A regular business establishment includes a portion of a dwelling unit if that portion is used both regularly and exclusively for business as discussed in Publication 587. Dwelling units are defined in chapter 3 in *Residential rental property* under *Property Classes and Recovery Periods.*
- Any cellular telephone (or similar telecommunication equipment).

Other Property Used for Transportation

Other property used for transportation includes trucks, buses, boats, airplanes, motorcycles, and any other vehicles for transporting persons or goods.

Vehicles that are not listed property. The following vehicles, because of their design, are unlikely to be used very often for personal purposes. They are ***not*** listed property.

- Clearly marked police and fire vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Ambulances used as such and hearses used as such.
- Any vehicle with a loaded gross vehicle weight of over 14,000 pounds that is designed to carry cargo.
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks), flatbed trucks, and refrigerated trucks.
- Combines, cranes and derricks, and forklifts.
- Passenger buses with a capacity of at least 20 passengers that are used as passenger buses.
- Qualified moving vans (as defined later).
- Qualified specialized utility repair trucks (as defined later).
- School buses if substantially all the use of the buses is in transporting students and employees of schools.
- Tractors and other special purpose farm vehicles.

Clearly marked police and fire vehicle. A clearly marked police or fire vehicle is a vehicle that meets ***all*** the following requirements.

- It is owned or leased by a governmental unit or an agency or instrumentality of a governmental unit.
- It is required to be used for commuting by a police officer or fire fighter who, when not on a regular shift, is on call at all times.
- Personal use (other than commuting) of the vehicle outside the limit of the police officer's arrest powers or the fire fighter's obligation to respond to an emergency is prohibited.
- It is clearly marked with painted insignia or words that make it readily apparent that it is a police or fire vehicle. A marking on a license plate is not a clear marking for these purposes.

Qualified moving van. A qualified moving van is any truck or van used by a professional moving company for moving household or business goods if the following requirements are met.

- No personal use of the van is allowed other than for travel to and from a move site or for minor personal use, such as a stop for lunch on the way from one move site to another.
- Personal use for travel to and from a move site happens no more than five times a month on average.
- Personal use is limited to situations in which it is more convenient to the employer, because of the location of the employee's residence in relation to the location of the move site, for the van not to be returned to the employer's business location.

Qualified specialized utility repair truck. A truck is a qualified specialized utility truck if it is not a van or pickup truck and all the following apply.

- The truck was specifically designed for and is used to carry heavy tools, testing equipment, or parts.
- Shelves, racks, or other permanent interior construction has been installed to carry and store the tools, equipment, or parts and would make it unlikely that the truck would be used, other than minimally, for personal purposes.
- The employer requires the employee to drive the truck home in order to be able to respond in emergency situations for purposes of restoring or main-

taining electricity, gas, telephone, water, sewer, or steam utility services.

Computers and Related Peripheral Equipment

A computer is a programmable, electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of those processes with or without human intervention. It consists of a central processing unit with extensive storage, logic, arithmetic, and control capabilities.

Related peripheral equipment is any auxiliary machine which is designed to be controlled by the central processing unit of a computer.

The following are neither computers nor related peripheral equipment.

- Any equipment which is an integral part of property which is not a computer.
- Typewriters, calculators, adding and accounting machines, copiers, duplicating equipment, and similar equipment.
- Equipment of a kind used primarily for the user's amusement or entertainment, such as video games.

Improvements to Listed Property

An improvement made to listed property that must be capitalized is treated as a new item of depreciable property. The recovery period and method of depreciation that apply to the listed property as a whole also apply to the improvement. For example, if you must depreciate the listed property using the straight line method, you must also depreciate the improvement using the straight line method.

Predominant Use Test

Terms you may need to know (see Glossary):

Business/investment use
Commuting
Fair market value (FMV)
Placed in service
Recovery period
Straight line method

If you do not use listed property predominantly (more than 50%) in a qualified business use, you cannot take a section 179 deduction for the property and you must depreciate the property using ADS (straight line method) over the ADS recovery period.

Listed property meets the predominant use test for any year if its qualified business use is more than 50% of its total use. You must allocate the use of any item of listed property used for more than one purpose during the year among its various uses. You cannot use the percentage of investment use of listed property as part of the percentage of qualified business use to meet the predominant use test. However, you do use the combined total of business and investment use to figure your depreciation deduction for the property.

CAUTION *Property does not stop being predominantly used in a qualified business use because of a transfer at death.*

Example 1. Sarah Bradley uses a home computer 50% of the time to manage her investments. She also uses the computer 40% of the time in her part-time consumer research business. Sarah's home computer is listed property because it is not used at a regular business establishment. Because she does not use the computer more than 50% for business, it does not meet the predominant use test. Because it does not meet the predominant use test, she cannot elect a section 179 deduction for this property. Her combined rate of business/investment use for determining her depreciation deduction using ADS is 90%.

Example 2. If Sarah in Example 1 uses her computer 30% of the time to manage her investments and 60% of the time in her consumer research business, her property meets the predominant use test. She can elect a section 179 deduction. Her combined business/investment use for determining her depreciation deduction using GDS is 90%.

Qualified Business Use

A qualified business use is any use in your trade or business. However, it does ***not*** include the following.

- The use of property held merely to produce income (investment use).
- The leasing of property to any ***5% owner or related person*** (to the extent that the property is used by a 5% owner or person related to the owner or lessee of the property).
- The use of property as pay for services of a ***5% owner or related person.***
- The use of property as pay for services of any person (other than a ***5% owner or related person***) unless the value of the use is included in that person's gross income and income tax is withheld on that amount where required. See *Employees,* later.

5% owner. Generally, a 5% owner is any person who owns more than 5% of the capital or profits interest in the business.

A 5% owner of a corporation is any person who owns, or is considered to own either of the following.

- More than 5% of the outstanding stock of the corporation.
- Stock possessing more than 5% of the total combined voting power of all stock in the corporation.

Related person. A related person is anyone related to a taxpayer as discussed in chapter 2 in *Related persons* under *Nonqualifying Property.*

Entertainment Use

Treat the use of listed property for entertainment, recreation, or amusement purposes as a qualified business use only to the extent you can deduct expenses (other than interest and property tax expenses) due to its use as an ordinary and necessary business expense.

Leasing or Compensatory Use of Aircraft

If at least 25% of the total use of any aircraft during the year is for a qualified business use, treat the leasing or compensatory use of the aircraft by a 5% owner or related person as a qualified business use.

Commuting

The use of an automobile for commuting is not business use, regardless of whether work is performed during the trip. For example, a business telephone call made on a car telephone while commuting to work does not change the character of the trip from commuting to business. This is also true for a business meeting held in a car while commuting to work. Similarly, a business call made on an otherwise personal trip does not change the character of a trip from personal to business. The fact that an automobile is used to display material that advertises the owner or user's trade or business does not convert an otherwise personal use into business use.

Use of Your Passenger Automobile by Another Person

If someone else uses your automobile, do not treat that use as business use unless one of the following applies.

1) That use is directly connected with your business.
2) You properly report the value of the use as income to the other person and withhold tax on the income where required.
3) You are paid a fair market rent.

Treat any payment to you for the use of the automobile as a rent payment for purposes of item (3).

Examples

The following examples illustrate whether the use of business property is qualified business use.

Example 1. John Maple is the sole proprietor of a plumbing contracting business. John employs his brother, Richard, in the business. As part of Richard's pay, he is allowed to use one of the company automobiles for personal use. The company includes the value of the personal use of the automobile in Richard's gross income and properly withholds tax on it. Because the use of the automobile is pay for the performance of services by a “related person,” the use of the company automobile is not a qualified business use. See *Qualified Business Use,* earlier.

Example 2. John, in Example 1, allows unrelated employees to use company automobiles for personal purposes. He does not include the value of the personal use of the company automobiles as part of their compensation and he does not withhold tax on the value of the use of the automobiles. This use of company automobiles by employees is not a qualified business use.

Example 3. James Company Inc., owns several automobiles which its employees use for business purposes. The employees are also allowed to take the automobiles home at night. The fair market value of the use of an automobile for any personal purpose, such as commuting to and from work, is reported as income to the employees and James Company withholds tax on it. This use of company automobiles by employees, even for personal purposes, is a qualified business use for the company.

Employees

Any use by an employee of his or her own listed property (or listed property rented by an employee) in performing services as an employee is not business use unless both the following apply.

- The use is for the employer's convenience.
- The use is required as a condition of employment.

Employer's convenience. Whether the use of listed property is for the employer's convenience must be determined from all the facts. The use is for the employer's convenience if it is for a substantial business reason of the employer. The use of listed property during the employee's regular working hours to carry on the employer's business is generally for the employer's convenience.

Condition of employment. Whether the use of listed property is a condition of employment depends on all the facts and circumstances. The use of property must be required for the employee to perform duties properly. The employer does not have to explicitly require the employee to use the property. However, a mere statement by the employer that the use of the property is a condition of employment is not sufficient.

Example 1. Virginia Sycamore is employed as a courier with We Deliver, which provides local courier services. She owns and uses a motorcycle to deliver packages to downtown offices. We Deliver explicitly requires all delivery persons to own a car or motorcycle for use in their employment. Virginia's use of the motorcycle is for the convenience of We Deliver and is required as a condition of employment.

Example 2. Bill Nelson is an inspector for Uplift, a construction company with many sites in the local area. He must travel to these sites on a regular basis. Uplift does not furnish an automobile or explicitly require him to use his own automobile. However, it pays him for any costs he incurs in traveling to the various sites. The use of his own automobile or a rental automobile is for the convenience of Uplift and is required as a condition of employment.

Example 3. Assume the same facts as in Example 2 except that Uplift furnishes a car to Bill, who chooses to use his own car and receive payment for using it.

The use of his own car is neither for the convenience of Uplift nor required as a condition of employment.

Example 4. Marilyn Lee is a pilot for Y Company, a small charter airline. Y requires pilots to obtain 80 hours of flight time annually in addition to flight time spent with the airline. Pilots can usually obtain these hours by flying with the Air Force Reserve or by flying part-time with another airline. Marilyn owns her own airplane. The use of her airplane to obtain the required flight hours is neither for the convenience of the employer nor required as a condition of employment.

Example 5. David Rule is employed as an engineer with Zip, an engineering contracting firm. He occasionally takes work home at night rather than work late in the office. He owns and uses a home computer which is virtually identical to the office model. His use of the computer is neither for the convenience of his employer nor a required condition of employment.

Employee deductions. Employees who meet the requirements for the use of listed property for both the employer's convenience and as a condition of employment can deduct depreciation, or rental expenses, for the business use of that property. Employees should report their expenses on Form 2106 or Form 2106-EZ and attach it to their individual income tax returns.

Method of Allocating Use

For passenger automobiles and other means of transportation, allocate the property's use on the basis of mileage. You determine the percentage of qualified business use by dividing the number of miles you drove the vehicle for business purposes during the year by the total number of miles you drove the vehicle for all purposes (including business miles) during the year.

For other items of listed property, allocate the property's use on the basis of the most appropriate unit of time. For example, you can determine the percentage of business use of a computer by dividing the number of hours you used the computer for business purposes during the year by the total number of hours you used the computer for all purposes (including business use) during the year.

Applying the Predominant Use Test

You must apply the predominant use test for an item of listed property each year of the recovery period. For example, if you place an item of listed property in service this year, you must apply the predominant use test for that property each year of the recovery period.

First Recovery Year

If you do not use an item of listed property predominantly in a qualified business use in the year you place it in service, the following rules apply.

- You cannot claim a section 179 deduction for the property.
- You must use ADS to figure depreciation on the property.

As discussed earlier in chapter 3 under *When To Use ADS,* using ADS means that you must figure your depreciation deduction using the straight line method over the ADS recovery period.

CAUTION *The required use of the straight line method for an item of listed property that does not meet the predominant use test is not the same as electing the straight line method. It does not mean that you have to use the straight line method for other property in the same class as the item of listed property.*

Example. On July 1, James Wand bought and placed in service a computer, which is 5-year property, costing $4,000. During the year, he uses the computer 40% for qualified business use, 30% for investment purposes (to produce income), and 30% for personal use. James's computer is listed property because it is not used at a regular business establishment. Because the qualified business use is only 40%, he cannot elect any section 179 deduction and must use ADS to figure depreciation. Under ADS, he figures his depreciation deduction for the year using the straight line method over the ADS 5-year recovery period. To determine his deduction, he must first determine the business/investment portion of his property cost. He does this by multiplying the total cost by the combined business/investment use percentage ($4,000 × 70%). He then figures his depreciation deduction for the year. He refers to Table A-8 and obtains the first-year rate of 10% using the half-year convention. He then multiplies the combined business/investment portion of the cost by the first-year straight line rate ($2,800 × 10%). The result is his depreciation deduction for the year, $280.

Years After the First Recovery Year

If, in a year after you place an item of listed property in service, you fail to meet the predominant use test for that item of property, you may be required to recapture part of the section 179 and depreciation deductions claimed. You will also be required to figure your depreciation using the straight line method over the ADS recovery period.

Recapture of excess depreciation. For the first tax year you no longer use the property predominantly in a qualified business use, you must include any excess depreciation in both of the following.

- Your gross income.
- The adjusted basis of your property.

Excess depreciation is the result of the following.

- The depreciation allowable for the property (including any section 179 deduction claimed) for years before the first year you did not use the property predominantly in a qualified business use, ***minus***
- The depreciation that would have been allowable for those years if you had not used the property predominantly in a qualified business use for the year you placed it in service. This means you figure your

depreciation using the straight line method over the ADS recovery period.

For information on investment credit recapture, see the instructions for Form 4255.

Example. On June 25, 1996, Ellen Rye purchased and placed in service a pickup truck that cost $18,000. The pickup truck had a gross vehicle weight of 7,000 pounds. She used it only in a qualified business use for 1996 through 1999. Because the pickup truck weighed over 6,000 pounds, it was not subject to the limits that apply to passenger automobiles as discussed later under *Special Rule for Passenger Automobiles.* Ellen claimed a section 179 deduction of $10,000 based on the purchase of the truck. She began depreciating it using 200% DB over a 5-year GDS recovery period. If, during 2000, she had used the truck 50% for business and 50% for personal purposes, she would include $4,018 excess depreciation in her gross income. The excess depreciation would be determined as follows.

Total section 179 deduction ($10,000) and depreciation claimed ($6,618). Depreciation is from Table A-1.		$16,618
Depreciation allowable (Table A-8):		
1996 – 10% of $18,000	$1,800	
1997 – 20% of $18,000	3,600	
1998 – 20% of $18,000	3,600	
1999 – 20% of $18,000	3,600	12,600
Excess depreciation		**$4,018**

If her use of the truck did not change to 50% for business and 50% for personal purposes until 2002, she would not have to include any excess depreciation in income. This is because there would be no excess depreciation. The total depreciation allowable using Table A-8 through 2002 would be $18,000 which equals the total depreciation plus the section 179 deduction she claimed.

Leased Property

The following discussion covers the rules that apply to the lessor (the owner of the property) and the lessee (the person who rents the property from the owner).

This section does not cover the rules for leasing a passenger automobile. For those rules, see Leasing a Car *in Publication 463.*

Lessor

The predominant use test (discussed earlier under *Applying the Predominant Use Test)* and the limits on depreciation for passenger automobiles (discussed later under *Special Rule for Passenger Automobiles)* generally do not apply to any listed property leased or held for leasing by anyone regularly engaged in the business of leasing listed property.

You are considered ***regularly engaged in the business of leasing listed property*** only if you enter into contracts for the leasing of listed property with some frequency over a continuous period of time. This determination is made on the basis of the facts and circumstances in each case and takes into account the nature of your business in its entirety. Occasional or incidental leasing activity is insufficient. For example, if you lease only one passenger automobile during a tax year, you are not regularly engaged in the business of leasing automobiles. An employer who allows an employee to use the employer's property for personal purposes and charges the employee for the use is not regularly engaged in the business of leasing the property used by the employee.

Lessee

A lessee of listed property (other than passenger automobiles) leased after 1986 must include an inclusion amount in gross income for the first tax year the property is not used predominantly in a qualified business use. For information on listed property leased before 1987, see Publication 534.

The inclusion amount for leased listed property is the sum of amount A and amount B.

Amount A. Amount A is the product of the following:

- The fair market value of the property, ***multiplied by***
- The business/investment use for the first tax year the business use percentage is 50% or less, ***multiplied by***
- The applicable percentage from Table A-19 in Appendix A.

Amount B. Amount B is the product of the following:

- The fair market value of the property, ***multiplied by***
- The average of the business/investment use for all tax years the property is leased that precede the first tax year the business use percentage is 50% or less, ***multiplied by***
- The applicable percentage from Table A-20 in Appendix A.

The ***fair market value*** is the value on the first day of the lease term. If the capitalized cost of an item of listed property is specified in the lease agreement, the lessee must treat that amount as the fair market value.

The average business/investment use of any listed property is the average business/investment use for the first tax year the business use percentage is 50% or less and all prior tax years the property is leased.

Inclusion Amount Worksheet

The following worksheet is provided to help you figure the inclusion amount for leased listed property.

Inclusion Amount Worksheet for Listed Property (Leased)

1. Fair market value	
2. Business/investment use for first year business use is 50% or less	
3. Multiply line 1 by line 2.	
4. Rate (%) from Table A-19	
5. Multiply line 3 by line 4. This is Amount A.	
6. Fair market value	
7. Average business/investment use for years property leased before the first year business use is 50% or less	
8. Multiply line 6 by line 7	
9. Rate (%) from Table A-20	
10. Multiply line 8 by line 9. This is Amount B.	
11. Add line 5 and line 10. This is your inclusion amount. Enter here and as “Other income” on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Form 1040, Form 1120, etc.)	

Example. On February 1, 1998, Larry House, a calendar year taxpayer, leased and placed in service a computer with a fair market value of $3,000. The lease is for a period of five years. Because Larry does not use the computer at a regular business establishment, it is listed property. His qualified business use of the property is 80% in 1998, 60% in 1999, and 40% in 2000. He must add an inclusion amount to gross income for 2000, the first tax year he does not use the computer more than 50% for business. The computer has a 5-year recovery period under both GDS and ADS. Because 2000 is the third tax year of the lease, the applicable percentage from Table A-19 is –19.8%. The applicable percentage from Table A-20 is 22.0%. Larry uses the *Inclusion Amount Worksheet for Listed Property (Leased)* to figure the amount he must include in income for 2000. His inclusion amount is $224, which is the sum of –$238 (Amount A) and $462 (Amount B).

Inclusion Amount Worksheet for Listed Property (Leased)

1. Fair market value	$3,000
2. Business/investment use for first year business use is 50% or less	40%
3. Multiply line 1 by line 2.	1,200
4. Rate (%) from Table A-19	–19.8%
5. Multiply line 3 by line 4. This is Amount A.	–238
6. Fair market value	3,000
7. Average business/investment use for years property leased before the first year business use is 50% or less	70%
8. Multiply line 6 by line 7	2,100
9. Rate (%) from Table A-20	22.0%
10. Multiply line 8 by line 9. This is Amount B.	462
11. Add line 5 and line 10. This is your inclusion amount. Enter here and as “Other income” on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Form 1040, Form 1120, etc.)	$224

Special rules. The lessee adds the inclusion amount to gross income in the next tax year if all the following apply.

- The lease term begins within 9 months before the close of the lessee's tax year.
- The lessee does not use the property predominantly in a qualified business use during that portion of the tax year.
- The lease term continues into the lessee's next tax year.

The lessee determines the inclusion amount by taking into account the average of the business/investment use for both tax years and the applicable percentage for the tax year the lease term begins.

If the lease term is less than one year, the amount included in gross income is the amount that bears the same ratio to the additional inclusion amount as the number of days in the lease term bears to 365.

The ***lease term*** for listed property other than residential rental or nonresidential real property includes options to renew. You treat two or more successive leases that are part of the same transaction (or a series of related transactions) for the same or substantially similar property as one lease.

Maximum inclusion amount. The inclusion amount cannot be more than the sum of the deductible amounts of rent for the tax year in which the lessee must include the amount in gross income.

Example 1. On August 1, 1999, Julie Rule, a calendar year taxpayer, leased and placed in service an item of listed property. The property is 5-year property with a fair market value of $10,000. Her property has a recovery period of 5 years under the ADS method. The lease is for 5 years. Her qualified business use of the property is 50% in 1999 and 90% in 2000. She pays rent of $3,600 for 2000 of which $3,240 is deductible. She must include $147 in gross income in 2000. The $147 is the sum of Amount A and Amount B. Amount A is $147 ($10,000 × 70% × 2.1%), the product of the fair market value, the average business use for 1999 and 2000, and the applicable percentage for year one from Table A-19. Because the applicable percentage for year one from Table A-20 is 0%, Amount B is zero.

Example 2. On October 1, 1999, John Joyce, a calendar year taxpayer, leased and placed in service an item of listed property that is 3-year property. This property had a fair market value of $15,000 and a recovery period of 5 years under the ADS method. The lease term is 6 months (ending on March 31, 2000) during which he uses the property 45% in business. He must include $71 in gross income in 2000. The $71 is the sum of Amount A and Amount B. Amount A is $71 ($15,000 × 45% × 2.1% × 183/366), the product of the fair market value, the average business use for both years, and the applicable percentage for year one from Table A–19, prorated for the length of the lease. Because the applicable percentage for year one from Table A–20 is 0%, Amount B is zero.

Special Rule for Passenger Automobiles

Terms you may need to know (see Glossary):

Placed in service
Recovery period

For passenger automobiles, the total depreciation deduction (including the section 179 deduction) you can claim is limited.

Passenger automobile defined. A passenger automobile is any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (6,000 pounds or less of gross vehicle weight for trucks and vans). It includes any part, component, or other item physically attached to the automobile or usually included in the purchase price of an automobile.

The following vehicles are ***not*** considered passenger automobiles for these purposes.

- An ambulance, hearse, or combination ambulance-hearse used directly in a trade or business.
- A vehicle used directly in the trade or business of transporting persons or property for pay or hire.

Maximum deductions for 2000. Determine the maximum depreciation deduction you can claim for a passenger automobile based on the date you place the automobile in service. The maximum deduction for 2000, based on the year the automobile is placed in service, is shown in the following table.

Maximum Depreciation Deduction for Passenger Automobiles

Year Placed in Service	1st Year	2nd Year	3rd Year	4th Year and Later
2000	$3,060	$4,900	$2,950	$1,775
1999		5,000	2,950	1,775
1998			2.950	1,775
1997				1,775
1996				1,775
1995				1,775
1994				1,675

You must reduce these limits further if your business/investment use is less than 100%.

Example. On April 15, 2000, Virginia Hart buys a car for $10,000. She uses the car only in her business. She files her tax return based on the calendar year. She does not elect a section 179 deduction. Under MACRS, a car is 5-year property. Because she placed her car in service on April 15 and used it only for business, she uses the percentages in Table A-1 to figure her depreciation on the car. Virginia multiplies the unadjusted basis of her car ($10,000) by 0.20 to get her depreciation of $2,000 for 2000. This $2,000 is below the maximum deduction of $3,060 for passenger automobiles placed in service in 2000. She can deduct the full $2,000.

Exceptions for clean-fuel vehicles. There are two exceptions to the depreciation limits for passenger automobiles. These exceptions are effective after August 5, 1997, for automobiles that run on clean fuel.

The ***first exception*** is a higher maximum depreciation deduction for clean-fuel vehicles. The maximum deduction for 2000, based on the year the clean fuel vehicle is placed in service, is shown in the following table.

Maximum Depreciation Deduction for Clean-Fuel Vehicles

Year Placed in Service	1st Year	2nd Year	3rd Year	4th Year and Later
2000	$9,280	$14,800	$8,850	$5,325
1999		14,900	8,950	5,325
1998			8,950	5,425
1997				5,425

The ***second exception*** is for any costs you pay to retrofit parts and components to modify an automobile to run on clean fuel. These costs are ***not subject to*** the limits on depreciation for automobiles. Only the cost of the automobile excluding this modification is subject to the limit.

For more information on clean-fuel vehicles, see chapter 12 in Publication 535, *Business Expenses.*

Proof of business/investment use. You cannot take any depreciation or section 179 deduction for the use of listed property (including passenger automobiles), regardless of the date you placed the property in service, unless you can prove business/investment use with adequate records or with sufficient evidence to support your own statements. See *What Records Must Be Kept,* later.

Fully depreciated automobile. If you have fully depreciated a car that you are still using in your business, you can continue to claim your other operating expenses for the business use of your car. Continue to keep records, as explained later.

Listed Property Worksheet for Passenger Automobiles

To assist you in computing your maximum depreciation deduction, the following worksheet is provided.

Worksheet for Passenger Automobiles (Subject to Special Limits)

Part I

1.	Description of property		
2.	Date placed in service		
3.	MACRS method (GDS or ADS)		
4.	Recovery period		
5.	Convention		
6.	Depreciation rate (from tables)		
7.	Deduction limit for this year from the *Maximum Depreciation Deduction for Passenger Automobiles* table		
8.	Business/investment-use percentage		
9.	Multiply line 7 by line 8. This is your adjusted deduction limit		
10.	Section 179 deduction claimed this year (not more than line 9). Enter -0- if this is not the year you placed the car in service.		

Note.
1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction is limited to the amount on line 9.
2) If line 10 is less than line 9, complete Part II.

Part II

11.	Subtract line 10 from line 9. This is the maximum amount you can deduct for depreciation		
12.	Cost or other basis (reduced by any section 179A deduction* or credit for electric vehicles**)		
13.	Multiply line 12 by line 8. This is your business/investment cost		
14.	Section 179 deduction claimed in year you placed the car in service		
15.	Subtract line 14 from line 13. This is your unadjusted basis for depreciation		
16.	Multiply line 15 by line 6. This is your maximum depreciation deduction		
17.	Enter the lesser of line 11 or line 16. This is your depreciation deduction		

***The section 179A deduction is for clean-fuel vehicles or clean-fuel vehicle refueling property. When figuring the amount to enter on line 12, do not reduce your cost or other basis by any section 179 deduction you claimed for your car.
****Reduce the basis by the lesser of $4,000 or 10% of the cost of the vehicle even if the credit is less than that amount.

The following example shows how to figure your maximum deduction using the worksheet.

Example. On September 26, 2000, Donald Banks bought a car for $18,000. He used the car 60% for business during 2000. He files his tax return based on the calendar year. Under GDS, his car is 5-year property. Donald is electing a section 179 deduction of $1,000 on the car. The unadjusted basis of his car is $9,800, [($18,000 × 60%) − $1,000]. He multiplies his unadjusted basis ($9,800) by the rate in Table A-1 (0.20) to get his tentative depreciation deduction of $1,960. Because he used the passenger automobile only 60% for business, his depreciation deduction (including the section 179 deduction) is limited to $1,836 ($3,060 × 60%). Because Donald is claiming a section 179 deduction of $1,000 in 2000, his depreciation deduction is limited to $836.

Worksheet for Passenger Automobiles (Subject to Special Limits)

Part I

1.	Description of property		Automobile
2.	Date placed in service		9/26/00
3.	MACRS method (GDS or ADS)		GDS
4.	Recovery period		5-Year
5.	Convention		Half-Year
6.	Depreciation rate (from tables)		.20
7.	Deduction limit for this year from the *Maximum Depreciation Deduction for Passenger Automobiles* table	$3,060	
8.	Business/investment-use percentage	60%	
9.	Multiply line 7 by line 8. This is your adjusted deduction limit		$1,836
10.	Section 179 deduction claimed this year (not more than line 9). Enter -0- if this is not the year you placed the car in service.		$1,000

Note.
1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction is limited to the amount on line 9.
2) If line 10 is less than line 9, complete Part II.

Part II

11.	Subtract line 10 from line 9. This is the maximum amount you can deduct for depreciation		$836
12.	Cost or other basis (reduced by any section 179A deduction* or credit for electric vehicles**)	$18,000	
13.	Multiply line 12 by line 8. This is your business/investment cost	$10,800	
14.	Section 179 deduction claimed in year you placed the car in service	$1,000	
15.	Subtract line 14 from line 13. This is your unadjusted basis for depreciation	$9,800	
16.	Multiply line 15 by line 6. This is your maximum depreciation deduction		$1,960
17.	Enter the lesser of line 11 or line 16. This is your depreciation deduction		$836

***The section 179A deduction is for clean-fuel vehicles or clean-fuel vehicle refueling property. When figuring the amount to enter on line 12, do not reduce your cost or other basis by any section 179 deduction you claimed for your car.
****Reduce the basis by the lesser of $4,000 or 10% of the cost of the vehicle even if the credit is less than that amount.

For a detailed discussion of passenger automobiles, including leased passenger automobiles, see Publication 463.

Deductions After Recovery Period

You cannot claim a depreciation deduction for listed property (other than passenger automobiles) in years after the recovery period. When determining if there is any depreciable basis (unrecovered basis) at the end of the recovery period, you are considered to have used this property 100% for business and investment purposes during all of the recovery period. Therefore, there is no depreciable basis at the end of the recovery period.

Passenger Automobiles

If you have unrecovered basis in your passenger automobile at the end of the recovery period and you continue to use it for business, you can deduct that unrecovered basis after the recovery period ends.

Unrecovered basis. Unrecovered basis is the cost or other basis of the passenger automobile reduced by any clean-fuel vehicle deduction, electric vehicle credit, depreciation, and section 179 deductions that would have been allowable if you had used the car 100% for business and investment use.

If you continue to use your car for business after the recovery period, you can claim a depreciation deduction for that business use in each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct is determined by the date you placed the car in service and your business-use percentage.

Example. In May 1994, you bought and placed in service a car costing $30,000. The car was 5-year property under GDS (MACRS). You did not elect a section 179 deduction for the car. You used the car exclusively for business during the recovery period (1994 through 1999). You figured your depreciation as shown below.

Year	Percentage	Amount	Limit	Allowed
1994	20.0%	$6,000	$2,960	$2,960
1995	32.0	9,600	4,700	4,700
1996	19.2	5,760	2,850	2,850
1997	11.52	3,456	1,675	1,675
1998	11.52	3,456	1,675	1,675
1999	5.76	1,728	1,675	1,675
Total				$15,535

At the end of 1999, you had an unrecovered basis of $14,465 ($30,000 − $15,535). If in 2000 and later years you continue to use the car 100% for business, you can deduct each year the lesser of $1,675 or your remaining unrecovered basis.

If your business use of the car had been less than 100% during any year, your depreciation deduction would have been less than the maximum amount allowable for that year. However, in figuring your unrecovered basis in the car, you would still reduce your basis by the maximum amount allowable as if the business use had been 100%. For example, if you had used your car 60% for business instead of 100%, your allowable depreciation deductions would have been $9,321 ($15,535 × 60%), but you would still have to reduce your basis by $15,535.

What Records Must Be Kept

Terms you may need to know (see Glossary):

Business/investment use
Circumstantial evidence
Documentary evidence

You cannot take any depreciation or section 179 deduction for the use of listed property (including passenger automobiles) unless you can prove your business/investment use with adequate records or with sufficient evidence to support your own statements. The period of time you must keep these records is discussed later under *How Long To Keep Records.*

Adequate Records

RECORDS To meet the adequate records requirement, you must maintain an account book, diary, log, statement of expense, trip sheet, or similar record or other documentary evidence that, together with the receipt, is sufficient to establish each element of an expenditure or use. You do not have to record information in an account book, diary, or similar record if the information is already shown on the receipt. However, your records should back up your receipts in an orderly manner.

Elements of Expenditure or Use

Your records or other documentary evidence must support all the following.

1) The amount of each separate expenditure, such as the cost of acquiring the item, maintenance and repair costs, capital improvement costs, lease payments, and any other expenses.

2) The amount of each business and investment use (based on an appropriate measure, such as mileage for vehicles and time for other listed property), and the total use of the property for the tax year.

3) The date of the expenditure or use.

4) The business or investment purpose for the expenditure or use.

Written documents of your expenditure or use are generally better evidence than oral statements alone. A written record you prepare at or near the time of the expenditure or use has greater value as proof of the expenditure or use. You do not have to keep a daily log. However, some type of record containing the elements of an expenditure or the business or investment use of listed property made at or near the time and backed up by other documents is preferable to a statement you prepare later.

Timeliness

You must record the elements of an expenditure or use at the time you have full knowledge of the elements. An expense account statement made from an account book, diary, or similar record prepared or maintained at or near the time of the expenditure or use is generally considered a timely record if in the regular course of business:

- The statement is given by an employee to the employer, or
- The statement is given by an independent contractor to the client or customer.

For example, a log maintained on a weekly basis, which accounts for use during the week, will be considered a record made at or near the time of use.

Business Purpose Supported

Generally, an adequate record of business purpose must be in the form of a written statement. However, the amount of backup necessary to establish a business purpose depends on the facts and circumstances of each case. A written explanation of the business purpose will not be required if the purpose can be determined from the surrounding facts and circumstances. For example, a salesperson visiting customers on an established sales route will not normally need a written explanation of the business purpose of his or her travel.

Business Use Supported

An adequate record contains enough information on each element of every business or investment use. The amount of detail required to support the use depends on the facts and circumstances. For example, a taxpayer whose only business use of a truck is to make customer deliveries on an established route can satisfy the requirement by recording the length of the route, including the total number of miles driven during the tax year and the date of each trip at or near the time of the trips.

Although you generally must prepare an adequate written record, you can prepare a record of the business use of listed property using a computer memory device that uses a logging program.

Separate or Combined Expenditures or Uses

Each use by you is normally considered a separate use. However, you can combine repeated uses as a single item.

Record each expenditure as a separate item. Do not combine it with other expenditures. If you choose, however, you can combine amounts you spent for the use of listed property during a tax year, such as for gasoline or automobile repairs. If you combine these expenses, you do not need to support the business purpose of each expense. Instead, you can divide the expenses based on the total business use of the listed property.

You can account for uses which can be considered part of a single use, such as a round trip or uninterrupted business use, by a single record. For example, you can account for the use of a truck to make deliveries at several locations that begin and end at the business premises and can include a stop at the business in between deliveries by a single record of miles driven. You can account for the use of a passenger automobile by a salesperson for a business trip away from home over a period of time by a single record of miles traveled. Minimal personal use (such as a stop for lunch between two business stops) is not an interruption of business use.

Confidential Information

If any of the information on the elements of an expenditure or use is confidential, you do not need to include it in the account book or similar record if you record it at or near the time of the expenditure or use. You must keep it elsewhere and make it available as support to the IRS director for your area on request.

Substantial Compliance

If you have not fully supported a particular element of an expenditure or use, but have complied with the adequate records requirement for the expenditure or use to the satisfaction of the IRS director for your area, you can establish this element by any evidence the IRS director for your area deems adequate.

If you fail to establish to the satisfaction of the IRS director for your area that you have substantially complied with the adequate records requirement for an element of an expenditure or use, you must establish the element as follows.

- By your own oral or written statement containing detailed information as to the element.
- By other evidence sufficient to establish the element.

If the element is the cost or amount, time, place, or date of an expenditure or use, its supporting evidence must be direct, such as oral testimony by witnesses or a written statement setting forth detailed information about the element or the documentary evidence. If the element is the business purpose of an expenditure, its supporting evidence can be circumstantial evidence.

Sampling

You can maintain an adequate record for portions of a tax year and use that record to support your business and investment use for the entire tax year if it can be shown by other evidence that the periods for which you maintain an adequate record are representative of use throughout the year.

Example 1. Denise Williams, a sole proprietor and calendar year taxpayer, operates an interior decorating business out of her home. She uses her automobile for local business visits to the homes or offices of clients, for meetings with suppliers and subcontractors, and to pick up and deliver items to clients. There is no other business use of the automobile, but she and family members also use it for personal purposes. She maintains adequate records for the first three months of the year showing that 75% of the automobile use was for business. Subcontractor invoices and paid bills show that her business continued at approximately the same rate for the rest of the year. If there is no change in circumstances, such as the purchase of a second car for exclusive use in her business, the determination that her combined business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

Example 2. Assume the same facts as in Example 1 except that Denise maintains adequate records during the first week of every month showing that 75% of her use of the automobile is for business. Her business invoices show that her business continued at the same rate during the later weeks of each month so that her weekly records are representative of the automobile's business use throughout the month. The determination that her business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

Example 3. Bill Baker, a sole proprietor and calendar year taxpayer, is a salesman in a large metropolitan area for a company that manufactures household products. For the first three weeks of each month, he occasionally uses his own automobile for business travel within the metropolitan area. During these weeks, his business use of the automobile does not follow a consistent pattern. During the fourth week of each month, he delivers all business orders taken during the previous month. The business use of his automobile, as supported by adequate records, is 70% of its total use during that fourth week. The determination based on the record maintained during the fourth week of the month that his business/investment use of the automobile for the tax year is 70% does not rest on sufficient supporting evidence because his use during that week is not representative of use during other periods.

Loss of Records

When you establish that failure to produce adequate records is due to loss of the records through circumstances beyond your control, such as through fire, flood, earthquake, or other casualty, you have the right to support a deduction by reasonable reconstruction of your expenditures and use.

Reporting Information on Form 4562

If you claim a deduction for any listed property, you must provide the requested information on page 2, Section A of Form 4562. If you claim a deduction for any vehicle, you must provide information about the vehicle use in Section B.

Employees. Employees claiming actual expenses (including depreciation) or the standard mileage rate must use either Form 2106 or Form 2106-EZ instead of Part V of Form 4562.

Employer who provides vehicles to employees. An employer who provides vehicles to employees must obtain enough information from those employees to provide the requested information on page 2, Section C of Form 4562.

An employer who provides more than five vehicles to employees does not need to include any information on his or her tax return. Instead, the employer must obtain the information from his or her employees and indicate on his or her return that the requested information was obtained and is being retained.

You do not need to provide the information requested on page 2 of Form 4562 if, as an employer, you satisfy the following requirements.

- You can satisfy the requirements of a written policy statement for vehicles either not used for personal purposes, or not used for personal purposes other than commuting.
- You treat all vehicle use by employees as personal use.

See the instructions for Form 4562.

How Long To Keep Records

RECORDS

For listed property, you must keep records for as long as any excess depreciation can be recaptured (included in income).

Recapture can occur in any tax year of the recovery period.

5. Comprehensive Example

Introduction

This chapter consists of a comprehensive example that illustrates a filled-in Form 4562 as well as the *Depreciation Worksheet* from the form instructions.

Fields of Flowers, Inc., operates a retail florist shop. It files its corporate tax return based on a calendar year. The corporation began its operation in 1996. The corporation uses all of its property 100% for business purposes.

Depreciation Worksheet

The worksheet shows the information needed to figure depreciation on each item of property and the total depreciation for 2000. The corporation's books and records support the information on the worksheet. There is an account for each item of property. These accounts show the following information.

- The date of acquisition.
- A description of the property.
- The cost or other basis of the property.
- The amount of section 179 deduction claimed.
- The MACRS depreciation method used.
- The property class and recovery period.
- The depreciation deducted each year.

For information on business recordkeeping, see Publication 583, *Starting a Business and Keeping Records.*

On February 2, 1998, the corporation bought and placed in service the building used as its place of business for $250,000. It also bought and placed in service on that date the following property.

- A desk and chair for $1,025.
- Refrigeration equipment for $4,500.
- Work tables for $1,200.
- A cash register for $675.

The building is nonresidential real property. Fields of Flowers depreciates it using the straight line method and mid-month convention over a recovery period of 39 years. It uses Table A-7a.

The desk and chair are 7-year property. The refrigeration equipment, work tables, and cash register are 5-year property. Because no property was placed in service in the last quarter of the tax year, the corporation uses the half-year convention for this property. It uses Table A-1. It claimed a section 179 deduction for the full cost of the desk and chair. It takes no depreciation for this property.

In 1999, Fields of Flowers bought and placed in service the following property.

- On April 16, a delivery truck for $31,000.
- On July 3, a typewriter for $300.

It chose to use the 150% declining balance method over the GDS recovery period for these property items. The recovery period for both the truck and typewriter is 5 years. It applied the half-year convention for both items and used Table A-14. It claimed a $19,000 section 179 deduction for the truck. The basis of the truck for depreciation is $12,000 ($31,000 – 19,000). The basis for depreciation of the typewriter is its cost of $300.

In 2000, Fields of Flowers bought and placed in service the following property.

- On June 21, a computer for $3,000.
- On September 9, file cabinets for $475.
- On November 1, store counters for $1,870.
- On November 16, a USA 280F van for $24,800.

The total bases of all property placed in service in 2000 is $30,145. The total of the bases of the counter and the van, placed in service during the last three months of the corporation's tax year, is $26,670. This amount is more than 40% of the total bases of all property placed in service during 2000. The corporation must apply the mid-quarter convention for all four items.

The computer is 5-year property for which the corporation uses Table A-3. The van is 5-year property for which it uses Table A-5. The corporation elects to claim a section 179 deduction of $20,000 for the van. The basis for depreciation of the van is $4,800 ($24,800 – $20,000).

The file cabinets are 7-year property. The counters are 5-year property. The corporation elects to use the ADS method for these property items. The recovery period is 10 years for the cabinets and 9 years for the counters. The corporation uses Table A-11 for the file cabinets and Table A-12 for the store counters.

Form 4562

Because Fields of Flowers is a corporation, it reports depreciation on Form 4562. The corporation enters the total depreciation deduction ($10,770.50) for the property placed in service before 2000 on line 17 in Part III.

The delivery truck has seating only for the driver. It is not listed property. If it were listed property, its depreciation would have been reported on page 2 of Form 4562.

The corporation reports the depreciation for the computer on line 15(b) in Part II. It uses GDS for this property and applies a mid-quarter convention. It enters “MQ” in column (e) to show the mid-quarter convention is applied and “200DB” in column (f) to show they are using the 200% declining balance method. It enters the depreciation deduction of $750 in column (g).

The corporation reports the depreciation for the file cabinets and the store counters on line 16(a). They have an ADS recovery period and class life assigned to them in the *Table of Class Lives and Recovery Periods* in Appendix B. Because they have two different class lives and neither is 12 years or 40 years, the corporation lists them on a separate schedule (not shown here). It enters the depreciation deduction of $43.80 in column (g).

The van is listed property. The corporation reports the depreciation for it on page 2 of Form 4562. Fields of Flowers has taxable income of $45,389. It elects to take a section 179 deduction of $20,000 on the van. The van weighs over 6,000 pounds. It is not a passenger automobile for the limits discussed under *Special Rule for Passenger Automobiles,* earlier.

The corporation reduces the cost of the van by the amount of the section 179 deduction. It enters “5” in column (f) to show the recovery period in years and “200DB” and “MQ” in column (g) to show they are using the 200% declining balance method and that they are applying the mid-quarter convention. It enters the depreciation deduction of $240 in column (h) and the section 179 deduction of $20,000 in column (i).

The corporation enters the amount from line 26 on line 20 and the amount from line 27 on line 7. It completes Part I to determine its allowable section 179 deduction. It adds the amounts on lines 12, 15(b), 16(a), 17, and 20 and enters the total, $31,804.30, on line 21. It rounds the total to $31,804 and enters it on the depreciation line of its tax return.

Depreciation Worksheet

Description of Property	Date Placed in Service	Cost or Other Basis	Business/ Investment Use %	Section 179 Deduction	Depreciation Prior Years	Basis for Depreciation	Method/ Convention	Recovery Period	Rate or Table %	Depreciation Deduction
Building	2-2-98	$250,000	100%		$12,027.50	$250,000	SL/MM	GDS 39	2.564%	$6,410
Desk and Chair	2-2-98	1,025	100%	$1,025	-0-	-0-				-0-
Refrigeration equipment	2-2-98	4,500	100%		2,340	4,500	200DB/HY	GDS/5	19.20%	864
Work tables	2-2-98	1,200	100%		624	1,200	200DB/HY	GDS/5	19.20%	230.40
Cash register	2-2-98	675	100%		351	675	200DB/HY	GDS/5	19.20%	129.60
Subtotal -- 1998 Property										7,634
Delivery truck	4-16-99	31,000	100%	19,000	1,800	12,000	150DB/HY	GDS/5	25.50%	3,060
Typewriter	7-3-99	300	100%		45	300	150DB/HY	GDS/5	25.50%	76.50
Subtotal -- 1999 Property										3,136.50
Computer	6-21-00	3,000	100%		-0-	3,000	200DB/MQ	GDS/5	25.00%	750.00
File cabinets	9-9-00	475	100%		-0-	475	SL/MQ	ADS/10	3.75%	17.81
Store counters	11-1-00	1,870	100%		-0-	1,870	SL/MQ	ADS/9	1.39%	25.99
Van	11-16-00	24,800	100%	20,000	-0-	4,800	200DB/MQ	GDS/5	5.00%	240
Subtotal -- 2000 Property				20,000						1,033.80
Grand Total -- 2000				20,000						11,804.30
* Schedule of property subject to ADS, line 16a of Form 4562										
File cabinets							SL/MQ	ADS/10		$ 17.81
Store counters							SL/MQ	ADS/9		25.99
Amount to be entered on line 16a										$ 43.80

Form **4562** | **Depreciation and Amortization (Including Information on Listed Property)** | OMB No. 1545-0172 **2000**

Department of the Treasury
Internal Revenue Service

► **See separate instructions.** ► **Attach this form to your return.**

Attachment Sequence No. **67**

Name(s) shown on return	Business or activity to which this form relates	**Identifying number**
Fields of Flowers	Retail Florist	10-1787889

Part I **Election To Expense Certain Tangible Property (Section 179)**
Note: *If you have any "listed property," complete Part V before you complete Part I.*

1	Maximum dollar limitation. If an enterprise zone business, see page 2 of the instructions	1	$20,000
2	Total cost of section 179 property placed in service. See page 2 of the instructions	2	30,145
3	Threshold cost of section 179 property before reduction in limitation	3	$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	-0-
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 2 of the instructions	5	20,000

	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6			
7	Listed property. Enter amount from line 27	7	20,000

8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	20,000
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	20,000
10	Carryover of disallowed deduction from 1999. See page 3 of the instructions	10	-0-
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	20,000
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	20,000
13	Carryover of disallowed deduction to 2001. Add lines 9 and 10, less line 12 ► 13 -0-		

Note: *Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.*

Part II **MACRS Depreciation for Assets Placed in Service Only During Your 2000 Tax Year (Do not** include listed property.**)**

Section A—General Asset Account Election

14 If you are making the election under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check this box. See page 3 of the instructions ► ☐

Section B—General Depreciation System (GDS) (See page 3 of the instructions.)

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
15a 3-year property						
b 5-year property		3,000	5 yrs.	MQ	200 DB	750.00
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	
Section C—Alternative Depreciation System (ADS) (See page 5 of the instructions.)						
16a Class life		2,345	*	*	S/L	43.80
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III **Other Depreciation (Do not** include listed property.**)** (See page 5 of the instructions.)

17	GDS and ADS deductions for assets placed in service in tax years beginning before 2000	17	10,770.50
18	Property subject to section 168(f)(1) election	18	
19	ACRS and other depreciation	19	

Part IV **Summary** (See page 6 of the instructions.)

20	Listed property. Enter amount from line 26	20	240.00
21	**Total.** Add deductions from line 12, lines 15 and 16 in column (g), and lines 17 through 20. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	21	31,804.30
22	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	22	-0-

For Paperwork Reduction Act Notice, see page 9 of the instructions. Cat. No. 12906N Form **4562** (2000)

* See the bottom of the "Depreciation Worksheet."

Part V **Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: *For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 23a, 23b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.*

Section A—Depreciation and Other Information (Caution: *See page 7 of the instructions for limits for passenger automobiles.***)**

23a Do you have evidence to support the business/investment use claimed? ☒ **Yes** ☐ **No** **23b** If "Yes," is the evidence written? ☒ **Yes** ☐ **No**

(a) Type of property (list vehicles first)	**(b)** Date placed in service	**(c)** Business/ investment use percentage	**(d)** Cost or other basis	**(e)** Basis for depreciation (business/investment use only)	**(f)** Recovery period	**(g)** Method/ Convention	**(h)** Depreciation deduction	**(i)** Elected section 179 cost
24 Property used more than 50% in a qualified business use (See page 6 of the instructions.):								
USA 280F Van	11-16-00	100 %	24,800	4,800	5	200DB/MQ	240.00	20,000
		%						
		%						
25 Property used 50% or less in a qualified business use (See page 6 of the instructions.):								
		%				S/L –		
		%				S/L –		
		%				S/L –		

26 Add amounts in column (h). Enter the total here and on line 20, page 1 . . . . . **26** 240.00

27 Add amounts in column (i). Enter the total here and on line 7, page 1 . . . . **27** 20,000

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		**(b)** Vehicle 2		**(c)** Vehicle 3		**(d)** Vehicle 4		**(e)** Vehicle 5		**(f)** Vehicle 6	
28 Total business/investment miles driven during the year (**do not** include commuting miles—see page 1 of the instructions)												
29 Total commuting miles driven during the year												
30 Total other personal (noncommuting) miles driven												
31 Total miles driven during the year. Add lines 28 through 30												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
32 Was the vehicle available for personal use during off-duty hours?												
33 Was the vehicle used primarily by a more than 5% owner or related person?												
34 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons. See page 8 of the instructions.

	Yes	**No**
35 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	√	
36 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See page 8 of the instructions for vehicles used by corporate officers, directors, or 1% or more owners	NA	
37 Do you treat all use of vehicles by employees as personal use?	NA	
38 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?	NA	
39 Do you meet the requirements concerning qualified automobile demonstration use? See page 8 of the instructions . .	NA	

Note: *If your answer to 35, 36, 37, 38, or 39 is "Yes," do not complete Section B for the covered vehicles.*

Part VI **Amortization**

(a) Description of costs	**(b)** Date amortization begins	**(c)** Amortizable amount	**(d)** Code section	**(e)** Amortization period or percentage	**(f)** Amortization for this year
40 Amortization of costs that begins during your 2000 tax year (See page 8 of the instructions.):					

41 Amortization of costs that began before 2000 . . . . **41**

42 **Total.** Add amounts in column (f). See page 9 of the instructions for where to report . . . **42**

Form **4562** (2000)

6.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

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Appendix A
MACRS Percentage Table Guide
General Depreciation System (GDS)
Alternative Depreciation System (ADS)

Chart 1. *Use this chart to find the correct percentage table to use for any property other than residential rental and nonresidential real property. Use Chart 2 for residential rental and nonresidential real property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	200%	GDS/3, 5, 7, 10 (Nonfarm)	Half-Year	3, 5, 7, 10	Any	A-1
GDS	200%	GDS/3, 5, 7, 10 (Nonfarm)	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS	150%	GDS/3, 5, 7, 10	Half-Year	3, 5, 7, 10	Any	A-14
GDS	150%	GDS/3, 5, 7, 10	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18
GDS	150%	GDS/15, 20	Half-Year	15 & 20	Any	A-1
GDS	150%	GDS/15, 20	Mid-Quarter	15 & 20	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS ADS	SL	GDS ADS	Half-Year	All	Any	A-8
GDS ADS	SL	GDS ADS	Mid-Quarter	All	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-9 A-10 A-11 A-12
ADS	150%	ADS	Half-Year	Any	Any	A-14
ADS	150%	ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18

Chart 2. *Use this chart to find the correct percentage table to use for residential rental and nonresidential real property. Use Chart 1 for all other property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	SL	GDS/27.5	Mid-Month	Residential Rental	Any	A-6
GDS	SL SL	GDS/31.5 GDS/39	Mid-Month	Nonresidential Real	Any	A-7 A-7a
ADS	SL	ADS/40	Mid-Month	Residential Rental and Nonresidential Real	Any	A-13

Chart 3. **Income Inclusion Amount Rates for MACRS Leased Listed Property**

	Table
Amount A Percentages	A-19
Amount B Percentages	A-20

Table A-1. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Half-Year Convention**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	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

Table A-2. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in First Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	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	7.000
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

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

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	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			3.33	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

Table A-4. **3-, 5-, 7-, 10-, 15-, and 20-Year Property**
Mid-Quarter Convention
Placed in Service in Third Quarter

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	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

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

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	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

Table A-6. **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
10	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
11	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
12	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
13	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
14	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
15	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
16	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
17	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
18	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
19	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
20	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
21	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
22	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
23	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
24	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
25	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
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
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

Table A-7. **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
9	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
10	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
11	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
12	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
13	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
14	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
15	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
16	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
17	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
18	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
19	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
20	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
21	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
22	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
23	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
24	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
25	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
26	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
27	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
28	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
29	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
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
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
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

Table A-7a. **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

Table A-8. **Straight Line Method Half-Year Convention**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	20.0%	16.67%	14.29%	12.5%	10.0%	8.33%	7.69%	7.14%	6.67%	6.25%	5.88%	5.56%	5.26%
2	40.0	33.33	28.57	25.0	20.0	16.67	15.39	14.29	13.33	12.50	11.77	11.11	10.53
3	40.0	33.33	28.57	25.0	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
4		16.67	28.57	25.0	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
5				12.5	20.0	16.66	15.38	14.29	13.34	12.50	11.76	11.11	10.52
6					10.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
7						8.33	15.38	14.29	13.34	12.50	11.76	11.11	10.52
8								7.14	13.33	12.50	11.77	11.11	10.53
9										6.25	11.76	11.11	10.52
10												5.56	10.53

Table A-8. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%
2	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
10	10.0	9.53	9.09	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
11	5.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
12			4.55	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
13					4.17	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
14							3.85	7.40	7.15	6.66	6.25	6.06	5.88
15									3.57	6.67	6.25	6.06	5.89
16										3.33	6.25	6.06	5.88
17											3.12	6.07	5.89
18													2.94

Table A-8. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	2.78%	2.63%	2.5%	2.273%	2.083%	2.0%	1.887%	1.786%	1.667%	1.429%	1.25%	1.111%	1.0%
2	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
3	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
4	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
5	5.56	5.26	5.0	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
6	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
7	5.56	5.26	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
8	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
9	5.56	5.27	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
10	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
11	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
12	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
13	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.334	2.857	2.50	2.222	2.0
14	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
15	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
16	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
17	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
18	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
19	2.78	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
20		2.63	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
21			2.5	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
22				4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
23				2.273	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
24					4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
25					2.083	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
26						2.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
27							3.774	3.572	3.334	2.857	2.50	2.223	2.0
28								3.571	3.333	2.858	2.50	2.222	2.0
29								1.786	3.334	2.857	2.50	2.223	2.0
30									3.333	2.858	2.50	2.222	2.0
31									1.667	2.857	2.50	2.223	2.0
32										2.858	2.50	2.222	2.0
33										2.857	2.50	2.223	2.0
34										2.858	2.50	2.222	2.0
35										2.857	2.50	2.223	2.0
36										1.429	2.50	2.222	2.0
37											2.50	2.223	2.0
38											2.50	2.222	2.0
39											2.50	2.223	2.0
40											2.50	2.222	2.0
41											1.25	2.223	2.0
42												2.222	2.0
43												2.223	2.0
44												2.222	2.0
45												2.223	2.0
46												1.111	2.0
47–50													2.0
51													1.0

Table A-9. **Straight Line Method Mid-Quarter Convention Placed in Service in First Quarter**

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	35.0%	29.17%	25.00%	21.88%	17.5%	14.58%	13.46%	12.50%	11.67%	10.94%	10.29%	9.72%	9.21%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	25.0	33.33	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.76	11.11	10.53
4		4.17	17.86	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
5				3.12	20.0	16.66	15.39	14.28	13.34	12.50	11.76	11.11	10.52
6					2.5	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
7						2.08	9.62	14.28	13.34	12.50	11.76	11.11	10.52
8								1.79	8.33	12.50	11.77	11.12	10.53
9										1.56	7.35	11.11	10.52
10												1.39	6.58

Table A-9. *(Continued)*

Year	Recovery periods in years												
	10	10.5	11	11.5	12	12.5	13	13.5	14	15	16	16.5	17
1	8.75%	8.33%	7.95%	7.61%	7.29%	7.0%	6.73%	6.48%	6.25%	5.83%	5.47%	5.30%	5.15%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.00	9.52	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
10	10.00	9.53	9.10	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
11	1.25	5.95	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
12			1.14	5.43	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.89
13					1.04	5.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
14							0.96	4.63	7.15	6.66	6.25	6.06	5.89
15									0.89	6.67	6.25	6.06	5.88
16										0.83	6.25	6.07	5.89
17											0.78	3.79	5.88
18													0.74

Table A-9. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	4.86%	4.61%	4.375%	3.977%	3.646%	3.5%	3.302%	3.125%	2.917%	2.500%	2.188%	1.944%	1.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
19	0.69	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
20		0.66	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
21			0.625	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
23				0.568	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
25					0.521	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
26						0.5	3.774	3.572	3.333	2.857	2.500	2.223	2.00
27							2.358	3.571	3.334	2.858	2.500	2.222	2.00
28								3.572	3.333	2.857	2.500	2.223	2.00
29								0.446	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									0.417	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										0.357	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											0.312	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												0.278	2.00
47–50													2.00
51													0.25

Table A-10. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	25.0%	20.83%	17.86%	15.63%	12.5%	10.42%	9.62%	8.93%	8.33%	7.81%	7.35%	6.94%	6.58%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	35.0	33.34	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.53
4		12.50	25.00	25.00	20.0	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
5				9.37	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.52
6					7.5	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
7						6.25	13.46	14.28	13.33	12.50	11.76	11.11	10.52
8								5.36	11.67	12.50	11.77	11.12	10.53
9										4.69	10.29	11.11	10.52
10												4.17	9.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	6.25%	5.95%	5.68%	5.43%	5.21%	5.0%	4.81%	4.63%	4.46%	4.17%	3.91%	3.79%	3.68%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
8	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
9	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
10	10.00	9.53	9.09	8.70	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
11	3.75	8.33	9.10	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
12			3.41	7.61	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.89
13					3.13	7.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
14							2.89	6.48	7.14	6.67	6.25	6.06	5.89
15									2.68	6.66	6.25	6.06	5.88
16										2.50	6.25	6.06	5.89
17											2.34	5.31	5.88
18													2.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	3.47%	3.29%	3.125%	2.841%	2.604%	2.5%	2.358%	2.232%	2.083%	1.786%	1.563%	1.389%	1.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
19	2.08	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
20		1.97	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
21			1.875	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
23				1.705	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
25					1.562	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
26						1.5	3.773	3.572	3.334	2.857	2.500	2.222	2.00
27							3.302	3.571	3.333	2.857	2.500	2.223	2.00
28								3.572	3.334	2.858	2.500	2.222	2.00
29								1.339	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									1.250	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.072	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											0.937	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												0.833	2.00
47–50													2.00
51													0.75

Table A-11. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Third Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	15.0%	12.50%	10.71%	9.38%	7.5%	6.25%	5.77%	5.36%	5.00%	4.69%	4.41%	4.17%	3.95%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.34	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
4	5.0	20.83	28.58	25.00	20.0	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
5			3.57	15.62	20.0	16.67	15.39	14.28	13.34	12.50	11.77	11.11	10.53
6					12.5	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
7						10.42	15.39	14.28	13.34	12.50	11.77	11.11	10.53
8							1.92	8.93	13.33	12.50	11.76	11.11	10.52
9									1.67	7.81	11.77	11.11	10.53
10											1.47	6.95	10.52
11													1.32

Table A-11. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	3.75%	3.57%	3.41%	3.26%	3.13%	3.0%	2.88%	2.78%	2.68%	2.50%	2.34%	2.27%	2.21%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.66	6.25	6.06	5.88
8	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
9	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
10	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
11	6.25	9.53	9.10	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
12		1.19	5.68	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.89
13				1.09	5.21	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
14						1.0	4.81	7.40	7.14	6.67	6.25	6.06	5.89
15								0.93	4.47	6.66	6.25	6.06	5.88
16										4.17	6.25	6.07	5.89
17											3.91	6.06	5.88
18												0.76	3.68

Table A-11. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	2.08%	1.97%	1.875%	1.705%	1.563%	1.5%	1.415%	1.339%	1.250%	1.071%	0.938%	0.833%	0.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
19	3.47	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
20		3.29	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
21			3.125	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
23				2.841	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
25					2.604	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
26						2.5	3.774	3.572	3.334	2.858	2.500	2.222	2.00
27							3.773	3.571	3.333	2.857	2.500	2.223	2.00
28							0.472	3.572	3.334	2.858	2.500	2.222	2.00
29								2.232	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									2.083	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.786	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											1.562	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												1.389	2.00
47–50													2.00
51													1.25

Table A-12. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Fourth Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	5.0%	4.17%	3.57%	3.13%	2.5%	2.08%	1.92%	1.79%	1.67%	1.56%	1.47%	1.39%	1.32%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.77	11.11	10.53
4	15.0	29.17	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.52
5			10.72	21.87	20.0	16.66	15.38	14.28	13.33	12.50	11.77	11.11	10.53
6					17.5	16.67	15.39	14.29	13.34	12.50	11.76	11.11	10.52
7						14.58	15.38	14.28	13.33	12.50	11.77	11.11	10.53
8							5.77	12.50	13.34	12.50	11.76	11.11	10.52
9									5.00	10.94	11.77	11.11	10.53
10											4.41	9.73	10.52
11													3.95

Table A-12. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	1.25%	1.19%	1.14%	1.09%	1.04%	1.0%	0.96%	0.93%	0.89%	0.83%	0.78%	0.76%	0.74%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
9	10.00	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
10	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
11	8.75	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
12		3.57	7.96	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.89
13				3.26	7.29	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
14						3.0	6.73	7.40	7.15	6.66	6.25	6.06	5.89
15								2.78	6.25	6.67	6.25	6.06	5.88
16										5.83	6.25	6.06	5.89
17											5.47	6.07	5.88
18												2.27	5.15

Table A-12. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	0.69%	0.66%	0.625%	0.568%	0.521%	0.5%	0.472%	0.446%	0.417%	0.357%	0.313%	0.278%	0.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
19	4.86	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
20		4.61	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
21			4.375	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
23				3.977	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
25					3.646	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
26						3.5	3.773	3.572	3.333	2.857	2.500	2.222	2.00
27							3.774	3.571	3.334	2.858	2.500	2.222	2.00
28							1.415	3.572	3.333	2.857	2.500	2.223	2.00
29								3.125	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									2.917	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										2.500	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											2.187	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												1.945	2.00
47–50													2.00
51													1.75

Table A-13. **Straight Line Mid-Month Convention**

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

Table A-14. **150% Declining Balance Method Half-Year Convention**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	30.0%	25.0%	21.43%	18.75%	15.00%	12.50%	11.54%	10.71%	10.00%	9.38%	8.82%	8.33%	7.89%
2	42.0	37.5	33.67	30.47	25.50	21.88	20.41	19.13	18.00	16.99	16.09	15.28	14.54
3	28.0	25.0	22.45	20.31	17.85	16.41	15.70	15.03	14.40	13.81	13.25	12.73	12.25
4		12.5	22.45	20.31	16.66	14.06	13.09	12.25	11.52	11.22	10.91	10.61	10.31
5				10.16	16.66	14.06	13.09	12.25	11.52	10.80	10.19	9.65	9.17
6					8.33	14.06	13.09	12.25	11.52	10.80	10.19	9.64	9.17
7						7.03	13.08	12.25	11.52	10.80	10.18	9.65	9.17
8								6.13	11.52	10.80	10.19	9.64	9.17
9										5.40	10.18	9.65	9.17
10												4.82	9.16

Table A-14. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	7.50%	7.14%	6.82%	6.52%	6.25%	6.00%	5.77%	5.56%	5.36%	5.00%	4.69%	4.55%	4.41%
2	13.88	13.27	12.71	12.19	11.72	11.28	10.87	10.49	10.14	9.50	8.94	8.68	8.43
3	11.79	11.37	10.97	10.60	10.25	9.93	9.62	9.33	9.05	8.55	8.10	7.89	7.69
4	10.02	9.75	9.48	9.22	8.97	8.73	8.51	8.29	8.08	7.70	7.34	7.17	7.01
5	8.74	8.35	8.18	8.02	7.85	7.69	7.53	7.37	7.22	6.93	6.65	6.52	6.39
6	8.74	8.35	7.98	7.64	7.33	7.05	6.79	6.55	6.44	6.23	6.03	5.93	5.83
7	8.74	8.35	7.97	7.64	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.32
8	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
9	8.74	8.36	7.97	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
11	4.37	8.36	7.97	7.64	7.32	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12			3.99	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
13					3.66	7.04	6.79	6.56	6.32	5.91	5.54	5.38	5.23
14							3.39	6.55	6.31	5.90	5.55	5.39	5.23
15									3.16	5.91	5.54	5.38	5.23
16										2.95	5.55	5.39	5.23
17											2.77	5.38	5.23
18													2.62

Table A-14. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	4.17%	3.95%	3.750%	3.409%	3.125%	3.000%	2.830%	2.679%	2.500%	2.143%	1.875%	1.667%	1.500%
2	7.99	7.58	7.219	6.586	6.055	5.820	5.500	5.214	4.875	4.194	3.680	3.278	2.955
3	7.32	6.98	6.677	6.137	5.676	5.471	5.189	4.934	4.631	4.014	3.542	3.169	2.866
4	6.71	6.43	6.177	5.718	5.322	5.143	4.895	4.670	4.400	3.842	3.409	3.063	2.780
5	6.15	5.93	5.713	5.328	4.989	4.834	4.618	4.420	4.180	3.677	3.281	2.961	2.697
6	5.64	5.46	5.285	4.965	4.677	4.544	4.357	4.183	3.971	3.520	3.158	2.862	2.616
7	5.17	5.03	4.888	4.627	4.385	4.271	4.110	3.959	3.772	3.369	3.040	2.767	2.538
8	4.94	4.69	4.522	4.311	4.111	4.015	3.877	3.747	3.584	3.225	2.926	2.674	2.461
9	4.94	4.69	4.462	4.063	3.854	3.774	3.658	3.546	3.404	3.086	2.816	2.585	2.388
10	4.94	4.69	4.461	4.063	3.729	3.584	3.451	3.356	3.234	2.954	2.710	2.499	2.316
11	4.94	4.69	4.462	4.063	3.729	3.583	3.383	3.205	3.072	2.828	2.609	2.416	2.246
12	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.706	2.511	2.335	2.179
13	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.590	2.417	2.257	2.114
14	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.326	2.182	2.050
15	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.110	1.989
16	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.039	1.929
17	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.871
18	4.95	4.70	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.815
19	2.47	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.35	4.461	4.063	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
21			2.231	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.063	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
23				2.032	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.004	1.806
25					1.865	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
26						1.792	3.384	3.205	2.993	2.571	2.253	2.004	1.806
27							3.383	3.205	2.994	2.571	2.253	2.005	1.806
28								3.205	2.993	2.572	2.253	2.004	1.806
29								1.602	2.994	2.571	2.253	2.005	1.806
30									2.993	2.572	2.253	2.004	1.806
31									1.497	2.571	2.253	2.005	1.806
32										2.572	2.253	2.004	1.806
33										2.571	2.252	2.005	1.806
34										2.572	2.253	2.004	1.806
35										2.571	2.252	2.005	1.806
36										1.286	2.253	2.004	1.806
37											2.252	2.005	1.806
38											2.253	2.004	1.806
39											2.252	2.005	1.806
40											2.253	2.004	1.806
41											1.126	2.005	1.806
42												2.004	1.805
43												2.005	1.806
44												2.004	1.805
45												2.005	1.806
46												1.002	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.903

Table A-15. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in First Quarter

Year	**Recovery periods in years**												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	52.50%	43.75%	37.50%	32.81%	26.25%	21.88%	20.19%	18.75%	17.50%	16.41%	15.44%	14.58%	13.82%
2	29.23	28.13	26.79	25.20	22.13	19.53	18.42	17.41	16.50	15.67	14.92	14.24	13.61
3	18.27	25.00	21.98	19.76	16.52	14.65	14.17	13.68	13.20	12.74	12.29	11.86	11.46
4		3.12	13.73	19.76	16.52	14.06	13.03	12.16	11.42	10.77	10.20	9.89	9.65
5				2.47	16.52	14.06	13.02	12.16	11.42	10.77	10.19	9.64	9.15
6					2.06	14.06	13.03	12.16	11.41	10.76	10.20	9.65	9.15
7						1.76	8.14	12.16	11.42	10.77	10.19	9.64	9.15
8								1.52	7.13	10.76	10.20	9.65	9.15
9										1.35	6.37	9.64	9.14
10												1.21	5.72

Table A-15. *(Continued)*

Year	**Recovery periods in years**												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	13.13%	12.50%	11.93%	11.41%	10.94%	10.50%	10.10%	9.72%	9.38%	8.75%	8.20%	7.95%	7.72%
2	13.03	12.50	12.01	11.56	11.13	10.74	10.37	10.03	9.71	9.13	8.61	8.37	8.14
3	11.08	10.71	10.37	10.05	9.74	9.45	9.18	8.92	8.67	8.21	7.80	7.61	7.42
4	9.41	9.18	8.96	8.74	8.52	8.32	8.12	7.93	7.74	7.39	7.07	6.92	6.77
5	8.71	8.32	7.96	7.64	7.46	7.32	7.18	7.04	6.91	6.65	6.41	6.29	6.17
6	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.99	5.80	5.71	5.63
7	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
8	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
9	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
10	8.71	8.31	7.97	7.63	7.32	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
11	1.09	5.20	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
12			1.00	4.77	7.32	7.03	6.78	6.53	6.31	5.91	5.54	5.38	5.22
13					0.92	4.40	6.77	6.54	6.32	5.90	5.54	5.38	5.23
14							0.85	4.08	6.31	5.91	5.55	5.38	5.22
15									0.79	5.90	5.54	5.38	5.23
16										0.74	5.55	5.37	5.22
17											0.69	3.36	5.23
18													0.65

Table A-15. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	7.29%	6.91%	6.563%	5.966%	5.469%	5.250%	4.953%	4.688%	4.375%	3.750%	3.281%	2.917%	2.625%
2	7.73	7.35	7.008	6.411	5.908	5.685	5.380	5.106	4.781	4.125	3.627	3.236	2.921
3	7.08	6.77	6.482	5.974	5.539	5.344	5.075	4.832	4.542	3.948	3.491	3.128	2.834
4	6.49	6.23	5.996	5.567	5.193	5.023	4.788	4.574	4.315	3.779	3.360	3.024	2.749
5	5.95	5.74	5.546	5.187	4.868	4.722	4.517	4.329	4.099	3.617	3.234	2.923	2.666
6	5.45	5.29	5.130	4.834	4.564	4.439	4.262	4.097	3.894	3.462	3.113	2.826	2.586
7	5.00	4.87	4.746	4.504	4.279	4.172	4.020	3.877	3.700	3.314	2.996	2.732	2.509
8	4.94	4.69	4.459	4.197	4.011	3.922	3.793	3.669	3.515	3.172	2.884	2.640	2.433
9	4.95	4.69	4.459	4.061	3.761	3.687	3.578	3.473	3.339	3.036	2.776	2.552	2.360
10	4.94	4.69	4.459	4.061	3.729	3.582	3.383	3.287	3.172	2.906	2.671	2.467	2.290
11	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	3.013	2.781	2.571	2.385	2.221
12	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.662	2.475	2.306	2.154
13	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.382	2.229	2.090
14	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.293	2.154	2.027
15	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.252	2.083	1.966
16	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.013	1.907
17	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.253	2.005	1.850
18	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
19	0.62	4.68	4.459	4.061	3.729	3.581	3.384	3.204	2.994	2.571	2.253	2.005	1.806
20		0.59	4.460	4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
21			0.557	4.061	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
22				4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
23				0.508	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
24					3.730	3.582	3.383	3.204	2.994	2.570	2.252	2.005	1.806
25					0.466	3.581	3.384	3.203	2.993	2.571	2.253	2.004	1.806
26						0.448	3.383	3.204	2.994	2.570	2.252	2.005	1.806
27							2.115	3.203	2.993	2.571	2.253	2.004	1.806
28								3.204	2.994	2.570	2.252	2.005	1.805
29								0.400	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									0.374	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										0.321	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											0.282	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												0.251	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.226

Table A-16. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	37.50%	31.25%	26.79%	23.44%	18.75%	15.63%	14.42%	13.39%	12.50%	11.72%	11.03%	10.42%	9.87%
2	37.50	34.38	31.38	28.71	24.38	21.09	19.75	18.56	17.50	16.55	15.70	14.93	14.23
3	25.00	25.00	22.31	20.15	17.06	15.82	15.19	14.58	14.00	13.45	12.93	12.44	11.98
4		9.37	19.52	20.15	16.76	14.06	13.07	12.22	11.49	10.93	10.65	10.37	10.09
5				7.55	16.76	14.06	13.07	12.22	11.49	10.82	10.19	9.64	9.16
6					6.29	14.07	13.07	12.22	11.49	10.82	10.19	9.65	9.16
7						5.27	11.43	12.23	11.48	10.83	10.19	9.64	9.16
8								4.58	10.05	10.82	10.20	9.65	9.17
9										4.06	8.92	9.64	9.16
10												3.62	8.02

Table A-16. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	9.38%	8.93%	8.52%	8.15%	7.81%	7.50%	7.21%	6.94%	6.70%	6.25%	5.86%	5.68%	5.51%
2	13.59	13.01	12.47	11.98	11.52	11.10	10.71	10.34	10.00	9.38	8.83	8.57	8.34
3	11.55	11.15	10.77	10.42	10.08	9.77	9.47	9.19	8.92	8.44	8.00	7.80	7.60
4	9.82	9.56	9.31	9.06	8.82	8.60	8.38	8.17	7.97	7.59	7.25	7.09	6.93
5	8.73	8.34	8.04	7.88	7.72	7.56	7.41	7.26	7.12	6.83	6.57	6.44	6.32
6	8.73	8.34	7.98	7.64	7.33	7.04	6.78	6.55	6.35	6.15	5.95	5.86	5.76
7	8.73	8.34	7.98	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.38	5.25
8	8.73	8.34	7.98	7.64	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
9	8.73	8.34	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
10	8.73	8.35	7.98	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
11	3.28	7.30	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
12			2.99	6.68	7.32	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
13					2.75	6.16	6.79	6.54	6.32	5.91	5.55	5.38	5.24
14							2.54	5.73	6.33	5.90	5.54	5.39	5.23
15									2.37	5.91	5.55	5.38	5.24
16										2.21	5.54	5.39	5.23
17											2.08	4.71	5.24
18													1.96

Table A-16. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	5.21%	4.93%	4.688%	4.261%	3.906%	3.750%	3.538%	3.348%	3.125%	2.679%	2.344%	2.083%	1.875%
2	7.90	7.51	7.148	6.528	6.006	5.775	5.460	5.178	4.844	4.171	3.662	3.264	2.944
3	7.24	6.91	6.612	6.083	5.631	5.429	5.151	4.900	4.602	3.992	3.525	3.155	2.855
4	6.64	6.37	6.116	5.668	5.279	5.103	4.859	4.638	4.371	3.821	3.393	3.050	2.770
5	6.08	5.86	5.658	5.281	4.949	4.797	4.584	4.389	4.153	3.657	3.265	2.948	2.687
6	5.58	5.40	5.233	4.921	4.639	4.509	4.325	4.154	3.945	3.501	3.143	2.850	2.606
7	5.11	4.98	4.841	4.586	4.349	4.238	4.080	3.932	3.748	3.351	3.025	2.755	2.528
8	4.94	4.69	4.478	4.273	4.078	3.984	3.849	3.721	3.561	3.207	2.912	2.663	2.452
9	4.94	4.69	4.463	4.063	3.823	3.745	3.631	3.522	3.383	3.069	2.802	2.574	2.378
10	4.95	4.69	4.463	4.063	3.729	3.583	3.426	3.333	3.213	2.938	2.697	2.489	2.307
11	4.94	4.69	4.463	4.062	3.729	3.583	3.384	3.205	3.053	2.812	2.596	2.406	2.238
12	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.692	2.499	2.325	2.171
13	4.94	4.69	4.463	4.062	3.730	3.583	3.384	3.205	2.994	2.576	2.405	2.248	2.106
14	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.571	2.315	2.173	2.042
15	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.101	1.981
16	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.994	2.571	2.253	2.031	1.922
17	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.864
18	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.808
19	1.85	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.806
20		1.76	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
21			1.673	4.062	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.005	1.806
22				4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
23				1.523	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
24					3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
25					1.399	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
26						1.343	3.383	3.204	2.993	2.571	2.253	2.005	1.806
27							2.961	3.205	2.994	2.572	2.253	2.004	1.806
28								3.204	2.993	2.571	2.253	2.005	1.806
29								1.202	2.994	2.572	2.253	2.004	1.806
30									2.993	2.571	2.252	2.005	1.806
31									1.123	2.572	2.253	2.004	1.806
32										2.571	2.252	2.005	1.806
33										2.572	2.253	2.004	1.806
34										2.571	2.252	2.005	1.806
35										2.572	2.253	2.004	1.806
36										0.964	2.252	2.005	1.806
37											2.253	2.004	1.806
38											2.252	2.005	1.806
39											2.253	2.004	1.806
40											2.252	2.005	1.806
41											0.845	2.004	1.806
42												2.005	1.806
43												2.004	1.806
44												2.005	1.806
45												2.004	1.805
46												0.752	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													0.677

Table A-17. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Third Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	22.50%	18.75%	16.07%	14.06%	11.25%	9.38%	8.65%	8.04%	7.50%	7.03%	6.62%	6.25%	5.92%
2	46.50	40.63	35.97	32.23	26.63	22.66	21.08	19.71	18.50	17.43	16.48	15.63	14.85
3	27.56	25.00	22.57	20.46	18.64	16.99	16.22	15.48	14.80	14.16	13.57	13.02	12.51
4	3.44	15.62	22.57	20.46	16.56	14.06	13.10	12.27	11.84	11.51	11.18	10.85	10.53
5			2.82	12.79	16.57	14.06	13.10	12.28	11.48	10.78	10.18	9.64	9.17
6					10.35	14.06	13.11	12.27	11.48	10.78	10.17	9.65	9.17
7						8.79	13.10	12.28	11.48	10.78	10.18	9.64	9.18
8							1.64	7.67	11.48	10.79	10.17	9.65	9.17
9									1.44	6.74	10.18	9.64	9.18
10											1.27	6.03	9.17
11													1.15

Table A-17. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.63%	5.36%	5.11%	4.89%	4.69%	4.50%	4.33%	4.17%	4.02%	3.75%	3.52%	3.41%	3.31%
2	14.16	13.52	12.94	12.41	11.91	11.46	11.04	10.65	10.28	9.63	9.05	8.78	8.53
3	12.03	11.59	11.18	10.79	10.43	10.08	9.77	9.46	9.18	8.66	8.20	7.98	7.78
4	10.23	9.93	9.65	9.38	9.12	8.88	8.64	8.41	8.20	7.80	7.43	7.26	7.09
5	8.75	8.51	8.33	8.16	7.98	7.81	7.64	7.48	7.32	7.02	6.73	6.60	6.47
6	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.65	6.54	6.31	6.10	6.00	5.90
7	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.31	5.90	5.55	5.45	5.38
8	8.74	8.34	7.97	7.63	7.33	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
9	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.34	7.97	7.63	7.32	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
11	5.47	8.35	7.96	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12		1.04	4.98	7.64	7.32	7.04	6.80	6.54	6.31	5.90	5.55	5.38	5.23
13				0.95	4.58	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.22
14						0.88	4.25	6.54	6.31	5.90	5.55	5.38	5.23
15								0.82	3.95	5.91	5.55	5.39	5.22
16										3.69	5.55	5.38	5.23
17											3.47	5.39	5.22
18												0.67	3.27

Table A-17. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	3.13%	2.96%	2.813%	2.557%	2.344%	2.250%	2.123%	2.009%	1.875%	1.607%	1.406%	1.250%	1.125%
2	8.07	7.66	7.289	6.644	6.104	5.865	5.540	5.250	4.906	4.217	3.697	3.292	2.966
3	7.40	7.06	6.742	6.191	5.722	5.513	5.227	4.968	4.661	4.036	3.559	3.182	2.877
4	6.78	6.50	6.237	5.769	5.364	5.182	4.931	4.702	4.428	3.863	3.425	3.076	2.791
5	6.22	5.99	5.769	5.375	5.029	4.871	4.652	4.450	4.207	3.698	3.297	2.973	2.707
6	5.70	5.51	5.336	5.009	4.715	4.579	4.388	4.212	3.996	3.539	3.173	2.874	2.626
7	5.23	5.08	4.936	4.667	4.420	4.304	4.140	3.986	3.796	3.387	3.054	2.778	2.547
8	4.94	4.69	4.566	4.349	4.144	4.046	3.906	3.773	3.607	3.242	2.940	2.686	2.471
9	4.94	4.69	4.460	4.064	3.885	3.803	3.685	3.571	3.426	3.103	2.829	2.596	2.397
10	4.94	4.69	4.460	4.064	3.729	3.584	3.476	3.379	3.255	2.970	2.723	2.510	2.325
11	4.94	4.69	4.460	4.064	3.730	3.584	3.383	3.205	3.092	2.843	2.621	2.426	2.255
12	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.721	2.523	2.345	2.187
13	4.94	4.69	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.605	2.428	2.267	2.122
14	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.571	2.337	2.192	2.058
15	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.118	1.996
16	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.048	1.937
17	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.878
18	4.95	4.69	4.460	4.065	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.005	1.822
19	3.09	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.93	4.460	4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
21			2.788	4.064	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
23				2.540	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
25					2.331	3.585	3.382	3.205	2.994	2.571	2.253	2.004	1.806
26						2.240	3.383	3.206	2.993	2.571	2.253	2.005	1.806
27							3.382	3.205	2.994	2.571	2.253	2.004	1.806
28							0.423	3.206	2.993	2.571	2.253	2.005	1.806
29								2.003	2.994	2.571	2.253	2.004	1.806
30									2.993	2.571	2.253	2.005	1.806
31									1.871	2.571	2.253	2.004	1.806
32										2.571	2.253	2.005	1.806
33										2.571	2.253	2.004	1.806
34										2.571	2.253	2.005	1.806
35										2.571	2.253	2.004	1.806
36										1.607	2.253	2.005	1.806
37											2.253	2.004	1.805
38											2.254	2.005	1.806
39											2.253	2.004	1.805
40											2.254	2.005	1.806
41											1.408	2.004	1.805
42												2.005	1.806
43												2.004	1.805
44												2.005	1.806
45												2.004	1.805
46												1.253	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													1.128

Table A-18. **150% Declining Balance Method Mid-Quarter Convention Property Placed in Service in Fourth Quarter**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	7.50%	6.25%	5.36%	4.69%	3.75%	3.13%	2.88%	2.68%	2.50%	2.34%	2.21%	2.08%	1.97%
2	55.50	46.88	40.56	35.74	28.88	24.22	22.41	20.85	19.50	18.31	17.26	16.32	15.48
3	26.91	25.00	23.18	22.34	20.21	18.16	17.24	16.39	15.60	14.88	14.21	13.60	13.03
4	10.09	21.87	22.47	19.86	16.40	14.06	13.26	12.87	12.48	12.09	11.70	11.33	10.98
5			8.43	17.37	16.41	14.06	13.10	12.18	11.41	10.74	10.16	9.65	9.24
6					14.35	14.06	13.10	12.18	11.41	10.75	10.16	9.65	9.17
7						12.31	13.10	12.19	11.41	10.74	10.16	9.64	9.17
8							4.91	10.66	11.41	10.75	10.16	9.65	9.17
9									4.28	9.40	10.17	9.64	9.17
10											3.81	8.44	9.18
11													3.44

Table A-18. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	1.88%	1.79%	1.70%	1.63%	1.56%	1.50%	1.44%	1.39%	1.34%	1.25%	1.17%	1.14%	1.10%
2	14.72	14.03	13.40	12.83	12.31	11.82	11.37	10.96	10.57	9.88	9.27	8.99	8.73
3	12.51	12.03	11.58	11.16	10.77	10.40	10.06	9.74	9.44	8.89	8.40	8.17	7.96
4	10.63	10.31	10.00	9.70	9.42	9.15	8.90	8.66	8.43	8.00	7.61	7.43	7.25
5	9.04	8.83	8.63	8.44	8.24	8.06	7.87	7.69	7.52	7.20	6.90	6.75	6.61
6	8.72	8.32	7.95	7.63	7.33	7.09	6.96	6.84	6.72	6.48	6.25	6.14	6.03
7	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.66	5.58	5.50
8	8.72	8.32	7.95	7.62	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.22
9	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
10	8.71	8.32	7.95	7.62	7.32	7.05	6.78	6.54	6.31	5.91	5.54	5.38	5.22
11	7.63	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
12		3.12	6.96	7.62	7.32	7.04	6.78	6.54	6.30	5.91	5.55	5.38	5.22
13				2.86	6.41	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
14						2.64	5.94	6.54	6.30	5.91	5.55	5.38	5.22
15								2.45	5.52	5.90	5.54	5.37	5.23
16										5.17	5.55	5.38	5.22
17											4.85	5.37	5.23
18												2.02	4.57

Table A-18. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	1.04%	0.99%	0.938%	0.852%	0.781%	0.750%	0.708%	0.670%	0.625%	0.536%	0.469%	0.417%	0.375%
2	8.25	7.82	7.430	6.760	6.201	5.955	5.620	5.321	4.969	4.263	3.732	3.319	2.989
3	7.56	7.20	6.872	6.299	5.814	5.598	5.302	5.036	4.720	4.080	3.592	3.209	2.899
4	6.93	6.63	6.357	5.870	5.450	5.262	5.002	4.766	4.484	3.905	3.458	3.102	2.812
5	6.35	6.11	5.880	5.469	5.110	4.946	4.719	4.511	4.260	3.738	3.328	2.998	2.728
6	5.82	5.63	5.439	5.097	4.790	4.649	4.452	4.269	4.047	3.578	3.203	2.898	2.646
7	5.34	5.18	5.031	4.749	4.491	4.370	4.200	4.041	3.845	3.424	3.083	2.802	2.567
8	4.94	4.77	4.654	4.425	4.210	4.108	3.962	3.824	3.653	3.278	2.968	2.708	2.490
9	4.94	4.69	4.458	4.124	3.947	3.862	3.738	3.619	3.470	3.137	2.856	2.618	2.415
10	4.94	4.69	4.458	4.062	3.730	3.630	3.526	3.426	3.296	3.003	2.749	2.531	2.342
11	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.242	3.132	2.874	2.646	2.447	2.272
12	4.94	4.69	4.458	4.062	3.730	3.582	3.382	3.204	2.994	2.751	2.547	2.365	2.204
13	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.633	2.451	2.286	2.138
14	4.94	4.69	4.458	4.061	3.730	3.582	3.382	3.204	2.994	2.570	2.359	2.210	2.074
15	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.271	2.136	2.011
16	4.94	4.69	4.458	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.065	1.951
17	4.95	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.253	2.005	1.893
18	4.94	4.69	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.836
19	4.33	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
20		4.10	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
21			3.901	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
22				4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
23				3.554	3.729	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
24					3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.805
25					3.263	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
26						3.135	3.382	3.204	2.994	2.570	2.252	2.005	1.805
27							3.383	3.205	2.993	2.571	2.253	2.004	1.806
28							1.268	3.204	2.994	2.570	2.252	2.005	1.805
29								2.804	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									2.619	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										2.249	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											1.971	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												1.754	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													1.580

RATES TO FIGURE INCLUSION AMOUNTS FOR LEASED LISTED PROPERTY

Table A-19. **Amount A Percentages**

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	2.1%	–7.2%	–19.8%	–20.1%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%
7 to 10 years	3.9%	–3.8%	–17.7%	–25.1%	–27.8%	–27.2%	–27.1%	–27.6%	–23.7%	–14.7%	–14.7%	–14.7%
More than 10 years	6.6%	–1.6%	–16.9%	–25.6%	–29.9%	–31.1%	–32.8%	–35.1%	–33.3%	–26.7%	–19.7%	–12.2%

Table A-20. **Amount B Percentages**

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	0.0%	10.0%	22.0%	21.2%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
7 to 10 years	0.0%	9.3%	23.8%	31.3%	33.8%	32.7%	31.6%	30.5%	25.0%	15.0%	15.0%	15.0%
More than 10 years	0.0%	10.1%	26.3%	35.4%	39.6%	40.2%	40.8%	41.4%	37.5%	29.2%	20.8%	12.5%

Appendix B

The *Table of Class Lives and Recovery Periods* has two sections. The first section, *Specific Depreciable Assets Used In All Business Activities, Except As Noted:,* generally lists assets used in all business activities. It is shown as Table B-1. The second section, *Depreciable Assets Used In The Following Activities:,* describes assets used only in certain activities. It is shown as Table B-2.

How To Use the Tables

You will need to look at both Table B-1 and B-2 to find the correct recovery period. Generally, if the property is listed in Table B-1 you use the recovery period shown in that table. However, if the property is specifically listed in Table B-2 under the type of activity in which it is used, you use the recovery period listed under the activity in that table. Use the tables in the order shown below to determine the recovery period of your depreciable property.

Table B-1. Check Table B-1 for a description of the property. If it is described in Table B-1, also check Table B-2 to find the activity in which the property is being used. If the activity is described in Table B-2, read the text (if any) under the title to determine if the property is specifically included in that asset class. If it is, use the recovery period shown in the appropriate column of Table B-2 following the description of the activity. If the activity is not described in Table B-2 or if the activity is described but property either is not specifically included in or is specifically excluded from that asset class, then use the recovery period shown in the appropriate column following the description of the property in Table B-1.

Table B-2. If the property is not listed in Table B-1, check Table B-2 to find the activity in which the property is being used and use the recovery period shown in the appropriate column following the description.

Property not in either table. If the activity or the property is not included in either table, check the end of Table B-2 to find *Certain Property for Which Recovery Periods Assigned.* This property generally has a recovery period of 7 years for GDS or 12 years for ADS. For residential rental property and nonresidential real property see Appendix A, Chart 2 or *Property Classes and Recovery Periods* in chapter 3 for recovery periods for both GDS and ADS.

Example 1. Richard Green is a paper manufacturer. During the year, he made substantial improvements to the land on which his paper plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, paper manufacturing, under asset class 26.1, *Manufacture of Pulp and Paper.* He uses the recovery period under this asset class because it specifically includes land improvements. The land improvements have a 13-year class life and a 7-year recovery period for GDS. If he elects to use the ADS method, the recovery period is 13 years. If Richard only looked at Table B-1, he would select asset class 00.3 *Land Improvements* and incorrectly use a recovery period of 15 years for GDS or 20 years for ADS.

Example 2. Sam Plower produces rubber products. During the year, he made substantial improvements to the land on which his rubber plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, producing rubber products, under asset class 30.1 *Manufacture of Rubber Products.* Reading the headings and descriptions under asset class 30.1, Sam finds that it does not include land improvements. Therefore, Sam uses the recovery period under asset class 00.3. The land improvements have a 20-year class life and a 15-year recovery period for GDS. If he elects to use the ADS method, the recovery period is 20 years.

Example 3. Pam Martin owns a retail clothing store. During the year, she purchased a desk and a cash register for use in her business. She checks Table B-1 and finds office furniture under asset class 00.11. Cash registers are not listed in any of the asset classes in Table B-1. She then checks Table B-2 and finds her activity, retail store, under asset class 57.0, *Distributive Trades and Services,* which includes "assets used in wholesale and retail trade." This asset class does not specifically list office furniture or a cash register. She looks back at Table B-1 and uses asset class 00.11 for the desk. The desk has a 10-year class life and a 7-year recovery period for GDS. If she elects to use the ADS method the recovery period is 10 years. For the cash register, she uses asset class 57.0 because cash registers are not listed in Table B-1 but it is an "asset" used in her retail business. The cash register has a 9-year class life and a 5-year recovery period for GDS. If she elects to use the ADS method, the recovery period is 9 years.

Table B-1. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
	SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:			
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.	10	7	10
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: A computer is a programmable electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention. It usually consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. Excluded from this category are adding machines, electronic desk calculators, etc., and other equipment described in class 00.13. 2) Peripheral equipment consists of the auxiliary machines which are designed to be placed under control of the central processing unit. Nonlimiting examples are: Card readers, card punches, magnetic tape feeds, high speed printers, optical character readers, tape cassettes, mass storage units, paper tape equipment, keypunches, data entry devices, teleprinters, terminals, tape drives, disc drives, disc files, disc packs, visual image projector tubes, card sorters, plotters, and collators. Peripheral equipment may be used on-line or off-line. Does not incude equipment that is an integral part of other capital equipment that is included in other classes of economic activity, i.e., computers used primarily for process or production control, switching, channeling, and automating distributive trades and services such as point of sale (POS) computer systems. Also, does not include equipment of a kind used primarily for amusement or entertainment of the user.	6	5	5
00.13	**Data Handling Equipment; except Computers:** Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.	6	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)**	6	5	6
00.22	**Automobiles, Taxis**	3	5	5
00.23	**Buses**	9	5	9
00.241	**Light General Purpose Trucks:** Includes trucks for use over the road (actual weight less than 13,000 pounds)	4	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)	6	5	6
00.25	**Railroad Cars and Locomotives, except those owned by railroad transportation companies**	15	7	15
00.26	**Tractor Units for Use Over-The-Road**	4	3	4
00.27	**Trailers and Trailer-Mounted Containers**	6	5	6
00.28	**Vessels, Barges, Tugs, and Similar Water Transportation Equipment, except those used in marine construction**	18	10	18
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.	20	15	20
00.4	**Industrial Steam and Electric Generation and/or Distribution Systems:** Includes assets, whether such assets are section 1245 property or 1250 property, providing such assets are depreciable, used in the production and/or distribution of electricity with rated total capacity in excess of 500 Kilowatts and/or assets used in the production and/or distribution of steam with rated total capacity in excess of 12,500 pounds per hour for use by the taxpayer in its industrial manufacturing process or plant activity and not ordinarily available for sale to others. Does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. Assets used to generate and/or distribute electricity or steam of the type described above, but of lesser rated capacity, are not included, but are included in the appropriate manufacturing equipment classes elsewhere specified. Also includes electric generating and steam distribution assets, which may utilize steam produced by a waste reduction and resource recovery plant, used by the taxpayer in its industrial manufacturing process or plant activity. Steam and chemical recovery boiler systems used for the recovery and regeneration of chemicals used in manufacturing, with rated capacity in excess of that described above, with specifically related distribution and return systems are not included but are included in appropriate manufacturing equipment classes elsewhere specified. An example of an excluded steam and chemical recovery boiler system is that used in the pulp and paper manufacturing equipment classes elsewhere specified. An example of an excluded steam and chemical recovery boiler system is that used in the pulp and paper manufacturing industry.	22	15	22

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
	DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:			
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.	10	7	10
01.11	**Cotton Ginning Assets**	12	7	12
01.21	**Cattle, Breeding or Dairy**	7	5	7
01.221	**Any breeding or work horse that is 12 years old or less at the time it is placed in service****	10	7	10
01.222	**Any breeding or work horse that is more than 12 years old at the time it is placed in service****	10	3	10
01.223	**Any race horse that is more than 2 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 and that is neither a race horse nor a horse described in class 01.222****	*	3	12
01.225	**Any horse not described in classes 01.221, 01.222, 01.223, or 01.224**	*	7	12
01.23	**Hogs, Breeding**	3	3	3
01.24	**Sheep and Goats, Breeding**	5	5	5
01.3	**Farm buildings except structures included in Class 01.4**	25	20	25
01.4	**Single purpose agricultural or horticultural structures (within the meaning of section 168(i)(13) of the Code)**	15	10***	15
10.0	**Mining:** Includes assets used in the mining and quarrying of metallic and nonmetallic minerals (including sand, gravel, stone, and clay) and the milling, beneficiation and other primary preparation of such materials.	10	7	10
13.0	**Offshore Drilling:** Includes assets used in offshore drilling for oil and gas such as floating, self-propelled and other drilling vessels, barges, platforms, and drilling equipment and support vessels such as tenders, barges, towboats and crewboats. Excludes oil and gas production assets.	7.5	5	7.5
13.1	**Drilling of Oil and Gas Wells:** Includes assets used in the drilling of onshore oil and gas wells and the provision of geophysical and other exploration services; and the provision of such oil and gas field services as chemical treatment, plugging and abandoning of wells and cementing or perforating well casings. Does not include assets used in the performance of any of these activities and services by integrated petroleum and natural gas producers for their own account.	6	5	6
13.2	**Exploration for and Production of Petroleum and Natural Gas Deposits:** Includes assets used by petroleum and natural gas producers for drilling of wells and production of petroleum and natural gas, including gathering pipelines and related storage facilities. Also includes petroleum and natural gas offshore transportation facilities used by producers and others consisting of platforms (other than drilling platforms classified in Class 13.0), compression or pumping equipment, and gathering and transmission lines to the first onshore transshipment facility. The assets used in the first onshore transshipment facility are also included and consist of separation equipment (used for separation of natural gas, liquids, and in Class 49.23), and liquid holding or storage facilities (other than those classified in Class 49.25). Does not include support vessels.	14	7	14
13.3	**Petroleum Refining:** Includes assets used for the distillation, fractionation, and catalytic cracking of crude petroleum into gasoline and its other components.	16	10	16
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.	6	5	6
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.	17	10	17
20.2	**Manufacture of Sugar and Sugar Products:** Includes assets used in the production of raw sugar, syrup, or finished sugar from sugar cane or sugar beets.	18	10	18
20.3	**Manufacture of Vegetable Oils and Vegetable Oil Products:** Includes assets used in the production of oil from vegetable materials and the manufacture of related vegetable oil products.	18	10	18
20.4	**Manufacture of Other Food and Kindred Products:** Includes assets used in the production of foods and beverages not included in classes 20.1, 20.2 and 20.3.	12	7	12
20.5	**Manufacture of Food and Beverages—Special Handling Devices:** Includes assets defined as specialized materials handling devices such as returnable pallets, palletized containers, and fish processing equipment including boxes, baskets, carts, and flaking trays used in activities as defined in classes 20.1, 20.2, 20.3 and 20.4. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	4	3	4

* Property described in asset classes 01.223, 01.224, and 01.225 are assigned recovery periods but have no class lives.
** A horse is more than 2 (or 12) years old after the day that is 24 (or 144) months after its actual birthdate.
*** 7 if property was placed in service before 1989.

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
21.0	**Manufacture of Tobacco and Tobacco Products:** Includes assets used in the production of cigarettes, cigars, smoking and chewing tobacco, snuff, and other tobacco products.	15	7	15
22.1	**Manufacture of Knitted Goods:** Includes assets used in the production of knitted and netted fabrics and lace. Assets used in yarn preparation, bleaching, dyeing, printing, and other similar finishing processes, texturing, and packaging, are elsewhere classified.	7.5	5	7.5
22.2	**Manufacture of Yarn, Thread, and Woven Fabric:** Includes assets used in the production of spun yarns including the preparing, blending, spinning, and twisting of fibers into yarns and threads, the preparation of yarns such as twisting, warping, and winding, the production of covered elastic yarn and thread, cordage, woven fabric, tire fabric, braided fabric, twisted jute for packaging, mattresses, pads, sheets, and industrial belts, and the processing of textile mill waste to recover fibers, flocks, and shoddies. Assets used to manufacture carpets, man-made fibers, and nonwovens, and assets used in texturing, bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	11	7	11
22.3	**Manufacture of Carpets and Dyeing, Finishing, and Packaging of Textile Products and Manufacture of Medical and Dental Supplies:** Includes assets used in the production of carpets, rugs, mats, woven carpet backing, chenille, and other tufted products, and assets used in the joining together of backing with carpet yarn or fabric. Includes assets used in washing, scouring, bleaching, dyeing, printing, drying, and similar finishing processes applied to textile fabrics, yarns, threads, and other textile goods. Includes assets used in the production and packaging of textile products, other than apparel, by creasing, forming, trimming, cutting, and sewing, such as the preparation of carpet and fabric samples, or similar joining together processes (other than the production of scrim reinforced paper products and laminated paper products) such as the sewing and folding of hosiery and panty hose, and the creasing, folding, trimming, and cutting of fabrics to produce nonwoven products, such as disposable diapers and sanitary products. Also includes assets used in the production of medical and dental supplies other than drugs and medicines. Assets used in the manufacture of nonwoven carpet backing, and hard surface floor covering such as tile, rubber, and cork, are elsewhere classified.	9	5	9
22.4	**Manufacture of Textile Yarns:** Includes assets used in the processing of yarns to impart bulk and/or stretch properties to the yarn. The principal machines involved are falsetwist, draw, beam-to-beam, and stuffer box texturing equipment and related highspeed twisters and winders. Assets, as described above, which are used to further process man-made fibers are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	8	5	8
22.5	**Manufacture of Nonwoven Fabrics:** Includes assets used in the production of nonwoven fabrics, felt goods including felt hats, padding, batting, wadding, oakum, and fillings, from new materials and from textile mill waste. Nonwoven fabrics are defined as fabrics (other than reinforced and laminated composites consisting of nonwovens and other products) manufactured by bonding natural and/or synthetic fibers and/or filaments by means of induced mechanical interlocking, fluid entanglement, chemical adhesion, thermal or solvent reaction, or by combination thereof other than natural hydration bonding as ocurs with natural cellulose fibers. Such means include resin bonding, web bonding, and melt bonding. Specifically includes assets used to make flocked and needle punched products other than carpets and rugs. Assets, as described above, which are used to manufacture nonwovens are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	10	7	10
23.0	**Manufacture of Apparel and Other Finished Products:** Includes assets used in the production of clothing and fabricated textile products by the cutting and sewing of woven fabrics, other textile products, and furs; but does not include assets used in the manufacture of apparel from rubber and leather.	9	5	9
24.1	**Cutting of Timber:** Includes logging machinery and equipment and roadbuilding equipment used by logging and sawmill operators and pulp manufacturers for their own account.	6	5	6
24.2	**Sawing of Dimensional Stock from Logs:** Includes machinery and equipment installed in permanent or well established sawmills.	10	7	10
24.3	**Sawing of Dimensional Stock from Logs:** Includes machinery and equipment in sawmills characterized by temporary foundations and a lack, or minimum amount, of lumberhandling, drying, and residue disposal equipment and facilities.	6	5	6
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.	10	7	10
26.1	**Manufacture of Pulp and Paper:** Includes assets for pulp materials handling and storage, pulp mill processing, bleach processing, paper and paperboard manufacturing, and on-line finishing. Includes pollution control assets and all land improvements associated with the factory site or production process such as effluent ponds and canals, provided such improvements are depreciable but does not include buildings and structural components as defined in section 1.48-1(e)(1) of the regulations. Includes steam and chemical recovery boiler systems, with any rated capacity, used for the recovery and regeneration of chemicals used in manufacturing. Does not include assets used either in pulpwood logging, or in the manufacture of hardboard.	13	7	13

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) GDS (MACRS)	ADS
26.2	**Manufacture of Converted Paper, Paperboard, and Pulp Products:** Includes assets used for modification, or remanufacture of paper and pulp into converted products, such as paper coated off the paper machine, paper bags, paper boxes, cartons and envelopes. Does not include assets used for manufacture of nonwovens that are elsewhere classified.	10	7	10
27.0	**Printing, Publishing, and Allied Industries:** Includes assets used in printing by one or more processes, such as letter-press, 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.	11	7	11
28.0	**Manufacture of Chemicals and Allied Products:** Includes assets used to manufacture basic organic and inorganic chemicals; chemical products to be used in further manufacture, such as synthetic fibers and plastics materials; and finished chemical products. Includes assets used to further process man-made fibers, to manufacture plastic film, and to manufacture nonwoven fabrics, when such assets are located in the same plant in an integrated operation with chemical products producing assets. Also includes assets used to manufacture photographic supplies, such as film, photographic paper, sensitized photographic paper, and developing chemicals. Includes all land improvements associated with plant site or production processes, such as effluent ponds and canals, provided such land improvements are depreciable but does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. Does not include assets used in the manufacture of finished rubber and plastic products or in the production of natural gas products, butane, propane, and by-products of natural gas production plants.	9.5	5	9.5
30.1	**Manufacture of Rubber Products:** Includes assets used for the production of products from natural, synthetic, or reclaimed rubber, gutta percha, balata, or gutta siak, such as tires, tubes, rubber footwear, mechanical rubber goods, heels and soles, flooring, and rubber sundries; and in the recapping, retreading, and rebuilding of tires.	14	7	14
30.11	**Manufacture of Rubber Products—Special Tools and Devices:** Includes assets defined as special tools, such as jigs, dies, mandrels, molds, lasts, patterns, specialty containers, pallets, shells; and tire molds, and accessory parts such as rings and insert plates used in activities as defined in class 30.1. Does not include tire building drums and accessory parts and general purpose small tools such as wrenches and drills, both power and hand-driven, and other general purpose equipment such as conveyors and transfer equipment.	4	3	4
30.2	**Manufacture of Finished Plastic Products:** Includes assets used in the manufacture of plastics products and the molding of primary plastics for the trade. Does not include assets used in the manufacture of basic plastics materials nor the manufacture of phonograph records.	11	7	11
30.21	**Manufacture of Finished Plastic Products—Special Tools:** Includes assets defined as special tools, such as jigs, dies, fixtures, molds, patterns, gauges, and specialty transfer and shipping devices, used in activities as defined in class 30.2. Special tools are specifically designed for the production or processing of particular parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3.5	3	3.5
31.0	**Manufacture of Leather and Leather Products:** Includes assets used in the tanning, currying, and finishing of hides and skins; the processing of fur pelts; and the manufacture of finished leather products, such as footwear, belting, apparel, and luggage.	11	7	11
32.1	**Manufacture of Glass Products:** Includes assets used in the production of flat, blown, or pressed products of glass, such as float and window glass, glass containers, glassware and fiberglass. Does not include assets used in the manufacture of lenses.	14	7	14
32.11	**Manufacture of Glass Products—Special Tools:** Includes assets defined as special tools such as molds, patterns, pallets, and specialty transfer and shipping devices such as steel racks to transport automotive glass, used in activities as defined in class 32.1. Special tools are specifically designed for the production or processing of particular parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	2.5	3	2.5
32.2	**Manufacture of Cement:** Includes assets used in the production of cement, but does not include assets used in the manufacture of concrete and concrete products nor in any mining or extraction process.	20	15	20
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.	15	7	15

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
33.2	**Manufacture of Primary Nonferrous Metals:** Includes assets used in the smelting, refining, and electrolysis of nonferrous metals from ore, pig, or scrap, the rolling, drawing, and alloying of nonferrous metals; the manufacture of castings, forgings, and other basic products of nonferrous metals; and the manufacture of nails, spikes, structural shapes, tubing, wire, and cable.	14	7	14
33.21	**Manufacture of Primary Nonferrous Metals—Special Tools:** Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and drawings concerning such special tools used in the activities as defined in class 33.2, Manufacture of Primary Nonferrous Metals. Special tools are specifically designed for the production or processing of particular products or parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices. Rolls, mandrels and refractories are not included in class 33.21 but are included in class 33.2.	6.5	5	6.5
33.3	**Manufacture of Foundry Products:** Includes assets used in the casting of iron and steel, including related operations such as molding and coremaking. Also includes assets used in the finishing of castings and patternmaking when performed at the foundry, all special tools and related land improvements.	14	7	14
33.4	**Manufacture of Primary Steel Mill Products:** Includes assets used in the smelting, reduction, and refining of iron and steel from ore, pig, or scrap; the rolling, drawing and alloying of steel; the manufacture of nails, spikes, structural shapes, tubing, wire, and cable. Includes assets used by steel service centers, ferrous metal forges, and assets used in coke production, regardless of ownership. Also includes related land improvements and all special tools used in the above activities.	15	7	15
34.0	**Manufacture of Fabricated Metal Products:** Includes assets used in the production of metal cans, tinware, fabricated structural metal products, metal stampings, and other ferrous and nonferrous metal and wire products not elsewhere classified. Does not include assets used to manufacture non-electric heating apparatus.	12	7	12
34.01	**Manufacture of Fabricated Metal Products—Special Tools:** Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and returnable containers and drawings concerning such special tools used in the activities as defined in class 34.0. Special tools are specifically designed for the production or processing of particular machine components, products, or parts, and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3	3	3
35.0	**Manufacture of Electrical and Non-Electrical Machinery and Other Mechanical Products:** Includes assets used to manufacture or rebuild finished machinery and equipment and replacement parts thereof such as machine tools, general industrial and special industry machinery, electrical power generation, transmission, and distribution systems, space heating, cooling, and refrigeration systems, commercial and home appliances, farm and garden machinery, construction machinery, mining and oil field machinery, internal combustion engines (except those elsewhere classified), turbines (except those that power airborne vehicles), batteries, lamps and lighting fixtures, carbon and graphite products, and electromechanical and mechanical products including business machines, instruments, watches and clocks, vending and amusement machines, photographic equipment, medical and dental equipment and appliances, and ophthalmic goods. Includes assets used by manufacturers or rebuilders of such finished machinery and equipment in activities elsewhere classified such as the manufacture of castings, forgings, rubber and plastic products, electronic subassemblies or other manufacturing activities if the interim products are used by the same manufacturer primarily in the manufacture, assembly, or rebuilding of such finished machinery and equipment. Does not include assets used in mining, assets used in the manufacture of primary ferrous and nonferrous metals, assets included in class 00.11 through 00.4 and assets elsewhere classified.	10	7	10
36.0	**Manufacture of Electronic Components, Products, and Systems:** Includes assets used in the manufacture of electronic communication, computation, instrumentation and control system, including airborne applications; also includes assets used in the manufacture of electronic products such as frequency and amplitude modulated transmitters and receivers, electronic switching stations, television cameras, video recorders, record players and tape recorders, computers and computer peripheral machines, and electronic instruments, watches, and clocks; also includes assets used in the manufacture of components, provided their primary use is products and systems defined above such as electron tubes, capacitors, coils, resistors, printed circuit substrates, switches, harness cables, lasers, fiber optic devices, and magnetic media devices. Specifically excludes assets used to manufacture electronic products and components, photocopiers, typewriters, postage meters and other electromechanical and mechanical business machines and instruments that are elsewhere classified. Does not include semiconductor manufacturing equipment included in class 36.1.	6	5	6
36.1	**Any Semiconductor Manufacturing Equipment:** Includes equipment used in the manufacturing of semiconductors if the primary use of the semiconductors so produced is in products and systems of the type defined in class 36.0.	5	5	5

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
37.11	**Manufacture of Motor Vehicles:** Includes assets used in the manufacture and assembly of finished automobiles, trucks, trailers, motor homes, and buses. Does not include assets used in mining, printing and publishing, production of primary metals, electricity, or steam, or the manufacture of glass, industrial chemicals, batteries, or rubber products, which are classified elsewhere. Includes assets used in manufacturing activities elsewhere classified other than those excluded above, where such activities are incidental to and an integral part of the manufacture and assembly of finished motor vehicles such as the manufacture of parts and subassemblies of fabricated metal products, electrical equipment, textiles, plastics, leather, and foundry and forging operations. Does not include any assets not classified in manufacturing activity classes, e.g., does not include any assets classified in asset guideline classes 00.11 through 00.4. Activities will be considered incidental to the manufacture and assembly of finished motor vehicles only if 75 percent or more of the value of the products produced under one roof are used for the manufacture and assembly of finished motor vehicles. Parts that are produced as a normal replacement stock complement in connection with the manufacture and assembly of finished motor vehicles are considered used for the manufacture assembly of finished motor vehicles. Does not include assets used in the manufacture of component parts if these assets are used by taxpayers not engaged in the assembly of finished motor vehicles.	12	7	12
37.12	**Manufacture of Motor Vehicles—Special Tools:** Includes assets defined as special tools, such as jigs, dies, fixtures, molds, patterns, gauges, and specialty transfer and shipping devices, owned by manufacturers of finished motor vehicles and used in qualified activities as defined in class 37.11. Special tools are specifically designed for the production or processing of particular motor vehicle components and have no significant utilitarian value, and cannot be adapted to further or different use, after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and powerdriven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3	3	3
37.2	**Manufacture of Aerospace Products:** Includes assets used in the manufacture and assembly of airborne vehicles and their component parts including hydraulic, pneumatic, electrical, and mechanical systems. Does not include assets used in the production of electronic airborne detection, guidance, control, radiation, computation, test, navigation, and communication equipment or the components thereof.	10	7	10
37.31	**Ship and Boat Building Machinery and Equipment:** Includes assets used in the manufacture and repair of ships, boats, caissons, marine drilling rigs, and special fabrications not included in asset classes 37.32 and 37.33. Specifically includes all manufacturing and repairing machinery and equipment, including machinery and equipment used in the operation of assets included in asset class 37.32. Excludes buildings and their structural components.	12	7	12
37.32	**Ship and Boat Building Dry Docks and Land Improvements:** Includes assets used in the manufacture and repair of ships, boats, caissons, marine drilling rigs, and special fabrications not included in asset classes 37.31 and 37.33. Specifically includes floating and fixed dry docks, ship basins, graving docks, shipways, piers, and all other land improvements such as water, sewer, and electric systems. Excludes buildings and their structural components.	16	10	16
37.33	**Ship and Boat Building—Special Tools:** Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and drawings concerning such special tools used in the activities defined in classes 37.31 and 37.32. Special tools are specifically designed for the production or processing of particular machine components, products, or parts, and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	6.5	5	6.5
37.41	**Manufacture of Locomotives:** Includes assets used in building or rebuilding railroad locomotives (including mining and industrial locomotives). Does not include assets of railroad transportation companies or assets of companies which manufacture components of locomotives but do not manufacture finished locomotives.	11.5	7	11.5
37.42	**Manufacture of Railroad Cars:** Includes assets used in building or rebuilding railroad freight or passenger cars (including rail transit cars). Does not include assets of railroad transportation companies or assets of companies which manufacture components of railroad cars but do not manufacture finished railroad cars.	12	7	12
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. **Railroad Transportation:** Classes with the prefix 40 include the assets identified below that are used in the commercial and contract carrying of passengers and freight by rail. Assets of electrified railroads will be classified in a manner corresponding to that set forth below for railroads not independently operated as electric lines. Excludes the assets included in classes with the prefix beginning 00.1 and 00.2 above, and also excludes any non-depreciable assets included in Interstate Commerce Commission accounts enumerated for this class.	12	7	12

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) GDS (MACRS)	ADS
40.1	**Railroad Machinery and Equipment:** Includes assets classified in the following Interstate Commerce Commission accounts: **Roadway accounts:** (16) Station and office buildings (freight handling machinery and equipment only) (25) TOFC/COFC terminals (freight handling machinery and equipment only) (26) Communication systems (27) Signals and interlockers (37) Roadway machines (44) Shop machinery **Equipment accounts:** (52) Locomotives (53) Freight train cars (54) Passenger train cars (57) Work equipment	14	7	14
40.2	**Railroad Structures and Similar Improvements:** Includes assets classified in the following Interstate Commerce Commission road accounts: (6) Bridges, trestles, and culverts (7) Elevated structures (13) Fences, snowsheds, and signs (16) Station and office buildings (stations and other operating structures only) (17) Roadway buildings (18) Water stations (19) Fuel stations (20) Shops and enginehouses (25) TOFC/COFC terminals (operating structures only) (31) Power transmission systems (35) Miscellaneous structures (39) Public improvements construction	30	20	30
40.3	**Railroad Wharves and Docks:** Includes assets classified in the following Interstate Commerce accounts: (23) Wharves and docks (24) Coal and ore wharves	20	15	20
40.4	**Railroad Track**	10	7	10
40.51	**Railroad Hydraulic Electric Generating Equipment**	50	20	50
40.52	**Railroad Nuclear Electric Generating Equipment**	20	15	20
40.53	**Railroad Steam Electric Generating Equipment**	28	20	28
40.54	**Railroad Steam, Compressed Air, and Other Power Plan Equipment**	28	20	28
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.	8	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.	8	5	8
44.0	**Water Transportation:** Includes assets used in the commercial and contract carrying of freight and passengers by water except the transportation assets included in classes with the prefix 00.2. Includes all related land improvements.	20	15	20
45.0	**Air Transport:** Includes assets (except helicopters) used in commercial and contract carrying of passengers and freight by air. For purposes of section 1.167(a)-11(d)(2)(iv)(a) of the regulations, expenditures for “repair, maintenance, rehabilitation, or improvement,” shall consist of direct maintenance expenses (irrespective of airworthiness provisions or charges) as defined by Civil Aeronautics Board uniform accounts 5200, maintenance burden (exclusive of expenses pertaining to maintenance buildings and improvements) as defined by Civil Aeronautics Board accounts 5300, and expenditures which are not “excluded additions” as defined in section 1.167(a)-11(d)(2)(vi) of the regulations and which would be charged to property and equipment accounts in the Civil Aeronautics Board uniform system of accounts.	12	7	12
45.1	**Air Transport (restricted):** Includes each asset described in the description of class 45.0 which was held by the taxpayer on April 15, 1976, or is acquired by the taxpayer pursuant to a contract which was, on April 15, 1976, and at all times thereafter, binding on the taxpayer. This criterion of classification based on binding contract concept is to be applied in the same manner as under the general rules expressed in section 49(b)(1), (4), (5) and (8) of the Code (as in effect prior to its repeal by the Revenue Act of 1978, section 312(c)(1), (d), 1978-3 C.B. 1, 60).	6	5	6
46.0	**Pipeline Transportation:** Includes assets used in the private, commercial, and contract carrying of petroleum, gas and other products by means of pipes and conveyors. The trunk lines and related storage facilities of integrated petroleum and natural gas producers are included in this class. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2; C.B. 102, but includes all other related land improvements.	22	15	22

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) GDS (MACRS)	ADS
48.11	**Telephone Communications:** Includes the assets classified below and that are used in the provision of commercial and contract telephonic services such as: **Telephone Central Office Buildings:** Includes assets intended to house central office equipment, as defined in Federal Communications Commission Part 31 Account No. 212 whether section 1245 or section 1250 property.	45	20	45
48.12	**Telephone Central Office Equipment:** Includes central office switching and related equipment as defined in Federal Communications Commission Part 31 Account No. 221. Does not include computer-based telephone central office switching equipment included in class 48.121. Does not include private branch exchange (PBX) equipment.	18	10	18
48.121	**Computer-based Telephone Central Office Switching Equipment:** Includes equipment whose functions are those of a computer or peripheral equipment (as defined in section 168(i)(2)(B) of the Code) used in its capacity as telephone central office equipment. Does not include private exchange (PBX) equipment.	9.5	5	9.5
48.13	**Telephone Station Equipment:** Includes such station apparatus and connections as teletypewriters, telephones, booths, private exchanges, and comparable equipment as defined in Federal Communications Commission Part 31 Account Nos. 231, 232, and 234.	10	7*	10*
48.14	**Telephone Distribution Plant:** Includes such assets as pole lines, cable, aerial wire, underground conduits, and comparable equipment, and related land improvements as defined in Federal Communications Commission Part 31 Account Nos. 241, 242.1, 242.2, 242.3, 242.4, 243, and 244.	24	15	24
48.2	**Radio and Television Broadcastings:** Includes assets used in radio and television broadcasting, except transmitting towers. **Telegraph, Ocean Cable, and Satellite Communications (TOCSC)** includes communications-related assets used to provide domestic and international radio-telegraph, wire-telegraph, ocean-cable, and satellite communications services; also includes related land improvements. If property described in Classes 48.31–48.45 is comparable to telephone distribution plant described in Class 48.14 and used for 2-way exchange of voice and data communication which is the equivalent of telephone communication, such property is assigned a class life of 24 years under this revenue procedure. Comparable equipment does not include cable television equipment used primarily for 1-way communication.	6	5	6
48.31	**TOCSC—Electric Power Generating and Distribution Systems:** Includes assets used in the provision of electric power by generation, modulation, rectification, channelization, control, and distribution. Does not include these assets when they are installed on customers premises.	19	10	19
48.32	**TOCSC—High Frequency Radio and Microwave Systems:** Includes assets such as transmitters and receivers, antenna supporting structures, antennas, transmission lines from equipment to antenna, transmitter cooling systems, and control and amplification equipment. Does not include cable and long-line systems.	13	7	13
48.33	**TOCSC—Cable and Long-line Systems:** Includes assets such as transmission lines, pole lines, ocean cables, buried cable and conduit, repeaters, repeater stations, and other related assets. Does not include high frequency radio or microwave systems.	26.5	20	26.5
48.34	**TOCSC—Central Office Control Equipment:** Includes assets for general control, switching, and monitoring of communications signals including electromechanical switching and channeling apparatus, multiplexing equipment patching and monitoring facilities, in-house cabling, teleprinter equipment, and associated site improvements.	16.5	10	16.5
48.35	**TOCSC—Computerized Switching, Channeling, and Associated Control Equipment:** Includes central office switching computers, interfacing computers, other associated specialized control equipment, and site improvements.	10.5	7	10.5
48.36	**TOCSC—Satellite Ground Segment Property:** Includes assets such as fixed earth station equipment, antennas, satellite communications equipment, and interface equipment used in satellite communications. Does not include general purpose equipment or equipment used in satellite space segment property.	10	7	10
48.37	**TOCSC—Satellite Space Segment Property:** Includes satellites and equipment used for telemetry, tracking, control, and monitoring when used in satellite communications.	8	5	8
48.38	**TOCSC—Equipment Installed on Customer's Premises:** Includes assets installed on customer's premises, such as computers, terminal equipment, power generation and distribution systems, private switching center, teleprinters, facsimile equipment and other associated and related equipment.	10	7	10
48.39	**TOCSC—Support and Service Equipment:** Includes assets used to support but not engage in communications. Includes store, warehouse and shop tools, and test and laboratory assets. **Cable Television (CATV):** Includes communications-related assets used to provide cable television community antenna television services. Does not include assets used to provide subscribers with two-way communications services.	13.5	7	13.5

* Property described in asset guideline class 48.13 which is qualified technological equipment as defined in section 168(i)(2) is assigned a 5-year recovery period.

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
48.41	**CATV—Headend:** Includes assets such as towers, antennas, preamplifiers, converters, modulation equipment, and program non-duplication systems. Does not include headend buildings and program origination assets.	11	7	11
48.42	**CATV—Subscriber Connection and Distribution Systems:** Includes assets such as trunk and feeder cable, connecting hardware, amplifiers, power equipment, passive devices, directional taps, pedestals, pressure taps, drop cables, matching transformers, multiple set connector equipment, and convertors.	10	7	10
48.43	**CATV—Program Origination:** Includes assets such as cameras, film chains, video tape recorders, lighting, and remote location equipment excluding vehicles. Does not include buildings and their structural components.	9	5	9
48.44	**CATV—Service and Test:** Includes assets such as oscilloscopes, field strength meters, spectrum analyzers, and cable testing equipment, but does not include vehicles.	8.5	5	8.5
48.45	**CATV—Microwaave Systems:** Inlcudes assets such as towers, antennas, transmitting and receiving equipment, and broad band microwave assets is used in the provision of cable television services. Does not include assets used in the provision of common carrier services.	9.5	5	9.5
49.11	**Electric, Gas, Water and Steam, Utility Services:** Includes assets used in the production, transmission and distribution of electricity, gas, steam, or water for sale including related land improvements. **Electric Utility Hydraulic Production Plant:** Includes assets used in the hydraulic power production of electricity for sale, including related land improvements, such as dams, flumes, canals, and waterways.	50	20	50
49.12	**Electric Utility Nuclear Production Plant:** Includes assets used in the nuclear power production and electricity for sale and related land improvements. Does not include nuclear fuel assemblies.	20	15	20
49.121	**Electric Utility Nuclear Fuel Assemblies:** Includes initial core and replacement core nuclear fuel assemblies (i.e., the composite of fabricated nuclear fuel and container) when used in a boiling water, pressurized water, or high temperature gas reactor used in the production of electricity. Does not include nuclear fuel assemblies used in breader reactors.	5	5	5
49.13	**Electric Utility Steam Production Plant:** Includes assets used in the steam power production of electricity for sale, combusion turbines operated in a combined cycle with a conventional steam unit and related land improvements. Also includes package boilers, electric generators and related assets such as electricity and steam distribution systems as used by a waste reduction and resource recovery plant if the steam or electricity is normally for sale to others.	28	20	28
49.14	**Electric Utility Transmission and Distribution Plant:** Includes assets used in the transmission and distribution of electricity for sale and related land improvements. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102.	30	20	30
49.15	**Electric Utility Combustion Turbine Production Plant:** Includes assets used in the production of electricity for sale by the use of such prime movers as jet engines, combustion turbines, diesel engines, gasoline engines, and other internal combustion engines, their associated power turbines and/or generators, and related land improvements. Does not include combustion turbines operated in a combined cycle with a conventional steam unit.	20	15	20
49.21	**Gas Utility Distribution Facilities:** Includes gas water heaters and gas conversion equipment installed by utility on customers' premises on a rental basis.	35	20	35
49.221	**Gas Utility Manufactured Gas Production Plants:** Includes assets used in the manufacture of gas having chemical and/or physical properties which do not permit complete interchangeability with domestic natural gas. Does not include gas-producing systems and related systems used in waste reduction and resource recovery plants which are elsewhere classified.	30	20	30
49.222	**Gas Utility Substitute Natural Gas (SNG) Production Plant (naphtha or lighter hydrocarbon feedstocks):** Includes assets used in the catalytic conversion of feedstocks or naphtha or lighter hydrocarbons to a gaseous fuel which is completely interchangeable with domestic natural gas.	14	7	14
49.223	**Substitute Natural Gas—Coal Gasification:** Includes assets used in the manufacture and production of pipeline quality gas from coal using the basic Lurgi process with advanced methanation. Includes all process plant equipment and structures used in this coal gasification process and all utility assets such as cooling systems, water supply and treatment facilities, and assets used in the production and distribution of electricity and steam for use by the taxpayer in a gasification plant and attendant coal mining site processes but not for assets used in the production and distribution of electricity and steam for sale to others. Also includes all other related land improvements. Does not include assets used in the direct mining and treatment of coal prior to the gasification process itself.	18	10	18
49.23	**Natural Gas Production Plant**	14	7	14
49.24	**Gas Utility Trunk Pipelines and Related Storage Facilities:** Excluding initial clearing and grading land improvements as specified in Rev. Rul. 72-40.	22	15	22
49.25	**Liquefied Natural Gas Plant:** Includes assets used in the liquefaction, storage, and regasification of natural gas including loading and unloading connections, instrumentation equipment and controls, pumps, vaporizers and odorizers, tanks, and related land improvements. Also includes pipeline interconnections with gas transmission lines and distribution systems and marine terminal facilities.	22	15	22

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
49.3	**Water Utilities:** Includes assets used in the gathering, treatment, and commercial distribution of water.	50	20***	50
49.4	**Central Steam Utility Production and Distribution:** Includes assets used in the production and distribution of steam for sale. Does not include assets used in waste reduction and resource recovery plants which are elsewhere classified.	28	20	28
49.5	**Waste Reduction and Resource Recovery Plants:** Includes assets used in the conversion of refuse or other solid waste or biomass to heat or to a solid, liquid, or gaseous fuel. Also includes all process plant equipment and structures at the site used to receive, handle, collect, and process refuse or other solid waste or biomass in a waterwall, combustion system, oil or gas pyrolysis system, or refuse derived fuel system to create hot water, gas, steam and electricity. Includes material recovery and support assets used in refuse or solid refuse or solid waste receiving, collecting, handling, sorting, shredding, classifying, and separation systems. Does not include any package boilers, or electric generators and related assets such as electricity, hot water, steam and manufactured gas production plants classified in classes 00.4, 49.13, 49.221, and 49.4. Does include, however, all other utilities such as water supply and treatment facilities, ash handling and other related land improvements of a waste reduction and resource recovery plant.	10	7	10
50.	**Municipal Wastewater Treatment Plant**	24	15	24
51.	**Municipal Sewer**	50	20***	50
57.0	**Distributive Trades and Services:** Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.	9	5	9*
57.1	**Distributive Trades and Services—Billboard, Service Station Buildings and Petroleum Marketing Land Improvements:** Includes section 1250 assets, including service station buildings and depreciable land improvements, whether section 1245 property or section 1250 property, used in the marketing of petroleum and petroleum products, but not including any of these facilities related to petroleum and natural gas trunk pipelines. Includes car wash buildings and related land improvements. Includes billboards, whether such assets are section 1245 property or section 1250 property. Excludes all other land improvements, buildings and structural components as defined in section 1.48-1(e) of the regulations. See *Gas station convenience stores* in chapter 3.	20	15	20
79.0	**Recreation:** Includes assets used in the provision of entertainment services on payment of a fee or admission charge, as in the operation of bowling alleys, billiard and pool establishments, theaters, concert halls, and miniature golf courses. Does not include amusement and theme parks and assets which consist primarily of specialized land improvements or structures, such as golf courses, sports stadia, race tracks, ski slopes, and buildings which house the assets used in entertainment services.	10	7	10
80.0	**Theme and Amusement Parks:** Includes assets used in the provision of rides, attractions, and amusements in activities defined as theme and amusement parks, and includes appurtenances associated with a ride, attraction, amusement or theme setting within the park such as ticket booths, facades, shop interiors, and props, special purpose structures, and buildings other than warehouses, administration buildings, hotels, and motels. Includes all land improvements for or in support of park activities (e.g., parking lots, sidewalks, waterways, bridges, fences, landscaping, etc.), and support functions (e.g., food and beverage retailing, souvenir vending and other nonlodging accommodations) if owned by the park and provided exclusively for the benefit of park patrons. Theme and amusement parks are defined as combinations of amusements, rides, and attractions which are permanently situated on park land and open to the public for the price of admission. This guideline class is a composite of all assets used in this industry except transportation equipment (general purpose trucks, cars, airplanes, etc., which are included in asset guideline classes with the prefix 00.2), assets used in the provision of administrative services (asset classes with the prefix 00.1) and warehouses, administration buildings, hotels and motels.	12.5	7	12.5
	Certain Property for Which Recovery Periods Assigned			
	A. Personal Property With No Class Life		7	12
	Section 1245 Real Property With No Class Life		7	40
	B. Qualified Technological Equipment, as defined in section 168(i)(2).	**	5	5
	C. Property Used in Connection with Research and Experimentation referred to in section 168(e)(3)(B).	**	5	class life if no class life—12
	D. Alternative Energy Property described in sections 48(1)(3)(viii) or (iv), or section 48(1)(4) of the Code.	**	5	class life if no class life—12
	E. Biomass property described in section 48(1)(15) and is a qualifying small production facility within the meaning of section 3(17)(c) of the Federal Power Act (16 U.S.C. 796(17)(C)), as in effect on September 1, 1986.	**	5	class life if no class life—12

* Any high technology medical equipment as defined in section 168(i)(2)(C) which is described in asset guideline class 57.0 is assigned a 5-year recovery period for the alternate MACRS method.

** The class life (if any) of property described in classes B, C, D, or E is determined by reference to the asset guideline classes. If an item of property described in paragraphs B, C, D, or E is not described in any asset guideline class, such item of property has no class life.

*** Use straight line over 25 years if placed in service after June 12, 1996, unless placed in service under a binding contract in effect before June 10, 1996, and at all times until placed in service.

Glossary

The definitions in this glossary are the meanings of the terms as used in this publication. The same term used in another publication may have a slightly different meaning.

Abstract fees: Expenses generally paid by a buyer to research the title of real property.

Active conduct of a trade or business: To determine if a trade or business is actively conducted requires an examination of all the facts and circumstances. Generally, for the section 179 deduction, a taxpayer is considered to actively conduct a trade or business if he or she meaningfully participates in the management or operations of the trade or business. A mere passive investor in a trade or business does not actively conduct the trade or business.

Adjusted basis: The original cost of property, plus certain additions and improvements, minus certain deductions such as depreciation allowed or allowable and casualty losses.

Amortization: A ratable deduction for the cost of intangible property over its useful life.

Amount realized: The total of all money received plus the fair market value of all property or services received from a sale or exchange. The amount realized also includes any liabilities assumed by the buyer and any liabilities to which the property transferred is subject, such as real estate taxes or a mortgage.

Basis: A way of measuring an individual's investment in property for tax purposes.

Business/investment use: Usually, a percentage showing how much an item of property, such as an automobile, is used for business and investment purposes.

Capitalized: Expended or treated as an item of a capital nature. A capitalized amount is not deductible as a current expense and must be included in the basis of property.

Circumstantial evidence: Details or facts which indirectly point to other facts.

Class life/lives: A number of years that establishes the property class and recovery period for most types of property under the General Depreciation System (GDS) and Alternative Depreciation System (ADS).

Clean-fuel vehicle: Clean-fuel vehicle property is made up of two kinds of property.

1) Motor vehicles produced by an original equipment manufacturer and designed to be propelled by a clean-burning fuel. The only part of a vehicle's basis that qualifies for the deduction is:
   a) A clean-fuel engine that can use a clean-burning fuel,
   b) The property used to store or deliver the fuel to the engine, or
   c) The property used to exhaust gases from the combustion of the fuel.
2) Any property installed on a motor vehicle (including installation costs) to enable it to be propelled by a clean-burning fuel if:
   a) The property is an engine (or modification of an engine) that can use a clean-burning fuel, or
   b) The property is used to store or deliver that fuel to the engine or to exhaust gases from the combustion of that fuel.

Clean-fuel vehicle refueling property: Clean-fuel vehicle refueling property includes any property (other than a building or its structural components) used to:

1) Store or dispense a clean-burning fuel into the fuel tank of a motor vehicle propelled by the fuel, but only if the storage or dispensing is at the point where the fuel is delivered into the tank, or
2) Recharge motor vehicles propelled by electricity, but only if the property is located at the point where the vehicles are recharged.

Commuting: Travel between a personal home and work or job site within the area of an individual's tax home.

Convention: A method established under the Modified Accelerated Cost Recovery System (MACRS) to determine the portion of the year to depreciate property both in the year the property is placed in service and in the year of disposition.

Declining balance method: An accelerated method to depreciate property. The General Depreciation System (GDS) of MACRS uses the 150% and 200% declining balance methods for certain types of property. A depreciation rate (percentage) is determined by dividing the declining balance percentage by the recovery period for the property.

Disposed: Permanently withdrawn from use in a trade or business or from the production of income.

Documentary evidence: Written records which establish certain facts.

Exchange: To barter, swap, part with, give, or transfer property for other property or services.

Fair market value (FMV): The price which property brings when it is offered for sale by one who is willing but not obligated to sell, and is bought by one who is willing or desires to buy but is not compelled to do so.

Fiduciary: The one who acts on behalf of another as a guardian, trustee, executor, administrator, receiver, or conservator.

Fungible commodity: A commodity of a nature that one part may be used in place of another part.

Goodwill: An intangible property such as the advantage or benefit received in property beyond its mere value. It is not confined to a name but can also be attached to a particular area where business is transacted, to a list of customers, or to other elements of value in business as a going concern.

Grantor: The one who transfers property to another.

Listed property: Passenger automobiles, any other property used for transportation, property of a type generally used for entertainment, recreation or amusement, computers and their peripheral equipment (unless used only at a regular business establishment and owned or leased by the person operating the establishment), and cellular telephones or similar telecommunications equipment.

Nonresidential real property: Most real property other than residential rental property.

Nontaxable exchange: An exchange of property in which any gain or loss realized is not recognized (included in or deducted from income) for tax purposes. This usually involves exchanges of like-kind property.

Placed in service: Ready and available for a specific use whether in a trade or business, the production of income, a tax-exempt activity, or a personal activity.

Property class: A category for property under MACRS. It generally determines the depreciation method, recovery period, and convention.

Recovery period: The number of years over which the basis (cost) of an item of property is recovered.

Refueling property: See *Clean-fuel vehicle refueling property.*

Remainder interest: That part of an estate which is left after all the other provisions of a will have been satisfied.

Residential rental property: Real property, generally buildings or structures, if 80% or more of its annual gross rental income is from dwelling units.

Salvage value: An estimated value of property at the end of its useful life. Not used under MACRS.

Section 1245 property: Property that is or has been subject to an allowance for depreciation or amortization. Section 1245 property includes personal property, single purpose agricultural and horticultural structures, storage facilities used in connection with the distribution of petroleum or primary products of petroleum, and railroad grading or tunnel bores.

Section 1250 property: Real property (other than section 1245 property) which is or has been subject to an allowance for depreciation.

Standard mileage rate: The established amount for optional use in determining a tax deduction for automobiles instead of deducting depreciation and actual operating expenses.

Straight line method: A way to figure depreciation for property that ratably deducts the same amount for each year in the recovery period. The rate (in percentage terms) is determined by dividing 1 by the number of years in the recovery period.

Structural components: Parts that together form an entire structure, such as a building. The term includes those parts of a building such as walls, 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. It also includes plumbing fixtures such as sinks, bathtubs, electrical wiring and lighting fixtures, and other parts that form the structure.

Taxable exchange: An exchange of property in which the gain or loss is recognized (included in or deducted from income) for tax purposes.

Tax-exempt: Not subject to tax.

Term interest: A life interest in property, an interest in property for a term of years, or an income interest in a trust. It generally refers to a present or future interest in income from property or the right to use property which terminates or fails upon the lapse of time, the occurrence of an event or the failure of an event to occur.

Unadjusted depreciable basis: The basis of an item of property for purposes of figuring gain on a sale without taking into account any depreciation taken in earlier years but with adjustments for amortization, the section 179 deduction, any deduction claimed for clean-fuel vehicles or clean-fuel vehicle refueling property, and any electric vehicle credit.

Unit-of-production method: A way to figure depreciation for certain property. 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 1000 units before its useful life ends, and actually produces 100 units in a year, the percentage to figure depreciation for that year is 10% of the machine's cost less its salvage value.

Useful life: An estimate of how long an item of property can be expected to be usable in trade or business or to produce income. Under MACRS, you recover the cost of property over a set recovery period. The recovery period is based on the property class to which your property is assigned. The class your property is assigned to is generally determined by its class life. The class life for most property is established and listed in Appendix B.

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Tax Publications for Business Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

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- **334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- **509** Tax Calendars for 2001
- **553** Highlights of 2000 Tax Changes
- **910** Guide to Free Tax Services

Employer's Guides

- **15** Circular E, Employer's Tax Guide
- **15-A** Employer's Supplemental Tax Guide
- **15-B** Employer's Tax Guide to Fringe Benefits
- **51** Circular A, Agricultural Employer's Tax Guide
- **80** Circular SS, Federal Tax Guide For Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands
- **179** Circular PR Guía Contributiva Federal Para Patronos Puertorriqueños
- **926** Household Employer's Tax Guide

Specialized Publications

- **225** Farmer's Tax Guide
- **378** Fuel Tax Credits and Refunds
- **463** Travel, Entertainment, Gift, and Car Expenses
- **505** Tax Withholding and Estimated Tax
- **510** Excise Taxes for 2001
- **515** Withholding of Tax on Nonresident Aliens and Foreign Corporations
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- **947** Practice Before the IRS and Power of Attorney
- **954** Tax Incentives for Empowerment Zones and Other Distressed Communities
- **1544** Reporting Cash Payments of Over $10,000
- **1546** The Taxpayer Advocate Service of the IRS

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **579SP** Cómo Preparar la Declaración de Impuesto Federal
- **594SP** Comprendiendo el Proceso de Cobro
- **850** English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- **1544SP** Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. Items with an asterisk are available by fax. For these orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number
W-2 Wage and Tax Statement	10134
W-4 Employee's Withholding Allowance Certificate*	10220
940 Employer's Annual Federal Unemployment (FUTA) Tax Return*	11234
940-EZ Employer's Annual Federal Unemployment (FUTA) Tax Return*	10983
941 Employer's Quarterly Federal Tax Return	17001
1040 U.S. Individual Income Tax Return*	11320
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8582 Passive Activity Loss Limitations*	63704
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