



Department of the Treasury
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How To Depreciate Property

- **Section 179 Deduction**
- **MACRS**
- **Listed Property**

For use in preparing
2001 Returns



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Contents

Important Changes	2
Important Reminder	2
Introduction	2
1. Overview of Depreciation	2
What Property Can Be Depreciated?	3
When Does Depreciation Begin and End?	6
Can You Use MACRS To Depreciate Your Property?	7
What Is the Basis of Your Depreciable Property?	10
How Do You Treat Improvements?	11
Do You Have To File Form 4562?	11
How Do You Correct Depreciation Deductions?	12
2. Electing the Section 179 Deduction	13
What Property Qualifies?	14
How Much Can You Deduct?	16
How Do You Elect the Deduction?	19
When Must You Recapture the Deduction?	20
3. Figuring Depreciation Under MACRS	20
Which Depreciation System (GDS or ADS) Applies?	21
Which Property Class Applies Under GDS?	21
What Is the Placed-in-Service Date?	23
What Is the Basis for Depreciation?	23
Which Recovery Period Applies?	23
Which Convention Applies?	25
Which Depreciation Method Applies?	25
How Is the Depreciation Deduction Figured?	27
How Do You Use General Asset Accounts?	36
When Do You Recapture MACRS Depreciation?	40
4. Additional Rules for Listed Property	40
What Is Listed Property?	41
Does the Limit for Employees Apply?	42
Do the Business-Use Limits Apply?	43
Do the Passenger Automobile Limits Apply?	47
What Records Must Be Kept?	49
How Is Listed Property Information Reported?	51
5. Comprehensive Example	52
6. How To Get Tax Help	57
Appendix A — MACRS Percentage Table Guide	59
Appendix B — Table of Class Lives and Recovery Periods	84
Glossary	95
Index	97

Important Changes

Increase in the section 179 deduction. The maximum section 179 deduction you can elect for property you placed in service during 2001 has increased to \$24,000. This amount will continue to increase through 2003. See *Dollar Limit under How Much Can You Deduct?* in chapter 2.

Election not to apply the mid-quarter convention under MACRS. If you file your 2001 return on a calendar year basis, on a fiscal year basis, or for a short tax year and the third or fourth quarter of your tax year includes September 11, 2001, you can elect to apply the half-year convention to all property placed in service during the year that would otherwise be subject to the mid-quarter convention under MACRS. See *Which Convention Applies?* and *Using the Applicable Convention in a Short Tax Year* in chapter 3.

Important Reminder

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.

Introduction

This publication explains how you can recover the cost of business or income-producing property through deductions for depreciation. It also explains how you can elect to take a section 179 deduction, instead of depreciation deductions, for certain property and the additional rules for "listed property." In addition, the publication describes how to figure depreciation and how to fill out Form 4562, *Depreciation and Amortization*.



The depreciation methods discussed in this publication do not generally apply to property placed in service before 1987. If you want information about depreciating such property, see Publication 534.

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

Do you need a different publication? The following table shows where you can get more detailed information when depreciating certain types of property.

For information on depreciating:	See Publication:
A car	463 , <i>Travel, Entertainment, Gift, and Car Expenses</i>
Residential rental property	527 , <i>Residential Rental Property</i>
Office space in your home	587 , <i>Business Use of Your Home</i>
Farm property	225 , <i>Farmer's Tax Guide</i>

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

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1.

Overview of Depreciation

Introduction

Depreciation is an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, age, deterioration, or obsolescence of the property.

This chapter discusses the general rules for depreciating property. It explains what property can be depreciated, when depreciation begins and ends, whether MACRS can be used to figure depreciation, what the basis for depreciation is, and how to treat improvements. It also explains whether you have to file Form 4562 and how you can correct depreciation claimed incorrectly in a previous year.

Useful Items

You may want to see:

Publication

- 534** Depreciating Property Placed in Service Before 1987
- 535** Business Expenses

- ❑ **538** Accounting Periods and Methods
- ❑ **551** Basis of Assets

Form (and Instructions)

- ❑ **Sch C (Form 1040)** Profit or Loss From Business
- ❑ **Sch C-EZ (Form 1040)** Net Profit From Business
- ❑ **2106** Employee Business Expenses
- ❑ **2106-EZ** Unreimbursed Employee Business Expenses
- ❑ **3115** Application for Change in Accounting Method
- ❑ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

What Property Can Be Depreciated?

Terms you may need to know (see Glossary):

Adjusted basis
 Amortization
 Basis
 Commuting
 Disposition
 Fair market value
 Goodwill
 Intangible property
 Listed property
 Placed in service
 Remainder interest
 Tangible property
 Term interest
 Useful life

You can depreciate most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment. You can also depreciate certain intangible property, such as patents, copyrights, and computer software.

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

- It must be property you own.
- It must be used in your business or income-producing activity.
- It must have a determinable useful life.
- It must be expected to last more than one year.
- It must **not** be excepted property.

The following discussions provide information about these requirements.

Property You Own

To claim depreciation, you usually must be the owner of the property. You are considered as owning property even if it is subject to a debt.

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. 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.

Leased property. You can depreciate leased property only if you retain the incidents of ownership for the property. 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 *How Do You Treat Improvements?* later in this chapter and *Additions and Improvements under Which Recovery Period Applies?* 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 for property 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.

Life tenant. Generally, if you hold business or investment property as a life tenant, you can depreciate it as if you were the absolute owner of the property. However, see *Certain term interests in property under Excepted Property*, later.

Cooperative apartments. If you are a tenant-stockholder in a cooperative housing corporation and use your cooperative apartment in your business or for the production of income, you can deduct depreciation for the apartment even though it is owned by the corporation. Your deprecia-

tion deduction is your share of the corporation's depreciation.

Figure your depreciation deduction as follows.

- 1) Figure the depreciation for all the depreciable real property owned by the corporation. If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.
 - a) Multiply your cost per share by the total number of outstanding shares.
 - b) Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.
 - c) Subtract from the amount figured in (b) any mortgage debt that is not for the depreciable real property, such as the part for the land.
- 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 in (2) by the percentage you figured in (3). This is your share of the depreciation.

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 ($\frac{1}{2}$ 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 amounts.

- The fair market value of the property on the date you change your apartment to business use. This is usually the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.
- The corporation's adjusted basis in the property on that date. Do not subtract depreciation when figuring the corporation's adjusted basis.

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

Property Used in Your Business or Income-Producing Activity

To claim depreciation on property, you must use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be taxable. You cannot depreciate property that you use solely for personal activities.

Partial business or investment use. If you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the business or investment use. For example, you cannot deduct depreciation on a car based on its use for commuting, personal shopping trips, family vacations, driving children to and from school, or similar 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.



Although you can combine business and investment use of property when figuring depreciation deductions, do not treat investment use as qualified business use when determining whether the business-use limits apply to listed property. For information about qualified business use of listed property, see Do the Business-Use Limits Apply? in chapter 4.

Office in the home. If you use part of your home as an office, you may be able to deduct depreciation on that part based on its business use. For information about depreciating your home office, see Publication 587.

Inventory. You can never depreciate inventory because it is not held for **use** in your business. Inventory is any property you hold primarily for sale to customers in the ordinary course of your business. For more information, see *Inventories* in Publication 538.

In some cases, it is not clear whether property is held for sale (inventory) or for use in your business. If it is unclear, examine carefully all the facts in the operation of the particular business. The following example shows how a careful examination of the facts in two similar situations results in different conclusions. (Also, see *Rent-to-own dealer* under *Which Property Class Applies Under GDS?* in chapter 3.)

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.

Containers. Generally, containers for the products you sell are part of inventory and you cannot depreciate them. However, you can depreciate containers used to ship your products if they have a life longer than one year and meet the following requirements.

- They qualify as property used in your business.
- Title to the containers does not pass to the buyer.

To determine if these requirements are met, 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?

Property Having a Determinable Useful Life

To be depreciable, your property must have a determinable useful life. This means that it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

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.

Land preparation costs. Although you cannot depreciate land, you can depreciate certain costs (such as landscaping costs) 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. Add your other land preparation costs to the basis of your land because they have no determinable life and you cannot depreciate them.

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, a trademark or trade name does not have a determinable useful life and, therefore, you cannot depreciate its cost. However, you may be able to amortize its cost over 15 years if you acquired it after August 10, 1993 (after July 25, 1991, if elected). For more information, see chapter 9 in Publication 535.

Property Lasting More Than One Year

To be depreciable, property must have a useful life that extends substantially beyond the year you place it in service.

Example. You maintain a library for use in your profession. You can depreciate it. However, if you buy technical books, journals, or information services for use in your business that have a useful life of one year or less, you cannot depreciate them. Instead, you deduct their cost as a business expense.

Excepted Property

Even if the requirements explained in the preceding discussions are met, you cannot depreciate the following property.

- Property placed in service and disposed of in the same year.
- Equipment used to build capital improvements. You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements. (See *Uniform Capitalization Rules* in Publication 551.)
- Section 197 intangibles.
- Certain term interests.

Section 197 intangibles. You cannot depreciate section 197 intangibles. Instead, you must amortize their cost over 15 years. For information, see chapter 9 in Publication 535.

Section 197 intangibles include the following types of property acquired after August 10, 1993 (after July 25, 1991, if elected).

- 1) Franchises.
- 2) Certain agreements not to compete.
- 3) The following property, unless you created it other than in connection with the acquisition of assets constituting a business or a substantial part of a business.
 - a) Patents and copyrights.
 - b) Customer or subscription lists, location contracts, and insurance expirations.
 - c) Designs, patterns, and formats, including certain computer software.

Computer software. Computer software is a section 197 intangible only if you acquired it in connection with the acquisition of assets constituting a business or a substan-

tial part of a business. However, computer software is not a section 197 intangible and can be depreciated, even if acquired in connection with the acquisition of a business, if it meets all of the following tests.

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

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

For information on how to depreciate software that is not a section 197 intangible, see *Intangible Property* under *Can You Use MACRS To Depreciate your Property?* later in this chapter.

If you lease computer software, see *Leased property* under *Property You Own*, earlier.

Certain term interests in property. You cannot depreciate a term interest in property acquired by gift, bequest, or inheritance. In addition, you cannot depreciate a term interest in property created or acquired after July 27, 1989, for any period during which the remainder interest is held, directly or indirectly, by a person related to you.

Related persons. For a description of related persons, see the discussion on pre-1987-use property under *Can You Use MACRS To Depreciate Your Property?* later in this chapter. For this purpose, however, treat as related persons only the relationships listed in items (1) through (9) of that discussion and substitute “50%” for “10%” each place it appears.

Basis adjustments. If you would be allowed a depreciation deduction for a term interest in property except that the holder of the remainder interest is related to you, you generally must reduce your basis in the term interest by any depreciation or amortization not allowed.

If you hold the remainder interest, you generally must increase your basis in that interest by the depreciation not allowed to the term interest holder. However, do not increase your basis for depreciation not allowed for periods during which either of the following situations applies.

- The term interest is held by an organization exempt from tax.
- The term interest 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.

These basis adjustment rules do not apply to dividend rights that were separated from any stripped preferred stock if you purchased the rights after April 30, 1993, or your basis in the rights is determined by reference to their basis in the hands of such purchaser.

When Does Depreciation Begin and End?

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

You place property in service when it is ready and available for a specific use, whether in a business activity, an income-producing activity, 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. If you place property in service in a personal activity, you cannot claim depreciation. If you change the property’s use to use in a business or income-producing activity, you begin to depreciate it at the time of the change.

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 begin to claim depreciation 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 begin to depreciate the planter that year because it was ready and available for its specific use.

Example 3. 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 4. 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 5. 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.

Idle Property

You must claim a deduction for depreciation on property used in your business or for the production of income 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.

Cost or Other Basis Fully Recovered

You stop depreciating property when you have fully recovered your cost or other basis. You recover your basis when you have taken section 179 and depreciation deductions equal to your cost or investment in the property. See *What Is the Basis of Your Depreciable Property?* later.

Retired From Service

You stop depreciating property when you retire it from service, even if you have not fully recovered its cost or other basis. 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 because of any of the following events.

- You sell or exchange the property.
- You convert the property to personal use.
- You abandon the property.
- The property is destroyed.

Can You Use MACRS To Depreciate Your Property?

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Convention
Exchange
Fiduciary
Grantor
Intangible property
Nonresidential real property
Placed in service

Related persons
Residential rental property
Salvage value
Section 1245 property
Section 1250 property
Standard mileage rate
Straight line method
Unit-of-production method
Useful life

You must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate **most** property. MACRS is explained in chapter 3.

The following discussions describe the types of property that cannot be depreciated using MACRS and explain what depreciation method should be used instead. You **cannot** use MACRS to depreciate the following property.

- Property you placed in service before 1987.
- Certain pre-1987-use property.
- Intangible property.
- Films, video tapes, and recordings.
- Certain corporate or partnership property acquired in a nontaxable transfer.
- Property you elected to exclude from MACRS.

If your property is not described in the above list, figure the depreciation using MACRS. See chapter 3 for information.

Property You Placed in Service Before 1987

You cannot use MACRS for property you placed in service before 1987 (except property you placed in service after July 31, 1986, if MACRS was elected). Property placed in service before 1987 must be depreciated under the methods discussed in Publication 534.

For a discussion of when property is placed in service, see *When Does Depreciation Begin and End*, earlier.

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

Improvements made after 1986. You must treat an improvement made after 1986 to property you placed in service before 1987 as separate depreciable property. Therefore, you can depreciate that improvement as separate property under MACRS if it is the type of property that otherwise qualifies for MACRS depreciation. For more information about improvements, see *How Do You Treat Improvements?* later in this chapter and *Additions and Improvements under Which Recovery Period Applies?* in chapter 3.

Pre-1987-Use Property

You may not be able to use MACRS for property you acquired and placed in service after 1986 if any of the situations described in the following discussions apply. If you cannot use MACRS, the property must be depreciated under the methods discussed in Publication 534.



For the following discussions, do not treat 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.

Personal property. You cannot use MACRS for personal property (section 1245 property) in any of the following situations.

- 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 lease 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 generally cannot use MACRS for real property (section 1250 property) in any of the following situations.

- You or someone related to you owned the property in 1986.
- You lease the property to a person who owned the property in 1986 (or someone related to that person).
- You acquired the property in a like-kind exchange, involuntary conversion, or repossession of property you or someone related to you owned in 1986. 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 carried-over part of the basis.

Exceptions. These 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. (For information on how to figure depreciation under ACRS, see Publication 534.)

- 3) Property that was MACRS property in the hands of the person from whom you acquired it because of (2).

Example. On March 3, 2001, 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 2001. Because your father owned and used the machinery in 1986, it does not qualify for MACRS unless the deduction under ACRS is more than the deduction under MACRS. Your deduction under ACRS would be \$150. Your deduction under MACRS would be \$142.90. Because the deduction for the machinery under ACRS is more than that under MACRS, you must use MACRS.

Related persons. For this purpose, the following are related persons.

- 1) An individual and a member of his or her family, including only a spouse, child, parent, brother, sister, half-brother, half-sister, ancestor, and lineal descendant.
- 2) A corporation and an individual who directly or indirectly owns 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 trust fiduciary and a corporation if more than 10% of the value of the outstanding stock is directly or indirectly owned by or for the trust or grantor of the trust.
- 5) The grantor and fiduciary, 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 (or, if that person is an individual, a member of that person's family) who directly or indirectly controls the organization.
- 8) Two S corporations, and an S corporation and a regular corporation, if the same persons own more than 10% of the value of the outstanding stock of each corporation.
- 9) A corporation and a partnership if the same persons own both of the following.
 - a) More than 10% of the value of the outstanding stock of the corporation.
 - b) More than 10% of the capital or profits interest in the partnership.
- 10) A partnership and a person who directly or indirectly owns more than 10% of the capital or profits interests in the partnership.
- 11) Two partnerships, if the same persons directly or indirectly own more than 10% of the capital or profits interests in each.

- 12) 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.)

When to determine relationship. 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.

Ownership of stock or partnership interest. To determine whether a person directly or indirectly owns any of the outstanding stock of a corporation or an interest in a partnership, apply the following rules.

- 1) Stock or a partnership interest directly or indirectly owned by or for a corporation, partnership, estate, or trust is considered 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 directly or indirectly own 5% or more of the value of the stock of the corporation.
- 2) An individual is considered to own the stock or partnership interest directly or indirectly owned by or for the individual's family.
- 3) An individual who owns, except by applying rule (2), any stock in a corporation is considered to own the stock directly or indirectly owned by or for the individual's partner.
- 4) For purposes of rules (1), (2), or (3), stock or a partnership interest considered to be owned by a person under rule (1) is treated as actually owned by that person. But stock or a partnership interest considered to be owned by an individual under rule (2) or (3) is not treated as owned by that individual for reapplying either rule (2) or (3) to make another person considered to be the owner of the same stock or partnership interest.

Intangible Property

Generally, if you can depreciate intangible property, you usually use the straight line method of depreciation. However you can choose to depreciate certain intangible property under the income forecast method.



You cannot depreciate intangible property that is a section 197 intangible or that otherwise does not meet all the requirements discussed earlier under What Property Can Be Depreciated.

Straight Line Method

This method lets you deduct the same amount of depreciation each year over the useful life of the property. 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 to get his \$300 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.

Patents and copyrights. 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 when you acquire it. But if the patent or copyright 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. If you can depreciate the cost of computer software, you can use the straight line method over a useful life of 36 months.

Income Forecast Method

You can choose to use the income forecast method instead of the straight line method to depreciate the following depreciable intangibles.

- Motion picture films or video tapes.
- Sound recordings.
- Copyrights.
- Books.
- Patents.

Under the income forecast method, each year's depreciation deduction is equal to the cost, less salvage value, of the property, multiplied by a fraction. The numerator of the fraction is the current year's net income from the property, and the denominator is the total income anticipated from the property through the end of the 10th taxable year following the taxable year the property is placed in service. For more information, see section 167(g) of the Internal Revenue Code.

Films, Video Tapes, and Recordings

You cannot use MACRS for motion picture films, video tapes, and sound recordings. For this purpose, sound recordings are discs, tapes, or other phonorecordings re-

sulting from the fixation of a series of sounds. You can depreciate this property under the straight line method or the income forecast method (both discussed earlier under *Intangible Property*).

Videocassettes. If you are in the business of renting videocassettes, you can depreciate only those videocassettes bought for rental. If the videocassette has a useful life of one year or less, you can deduct the cost as a business expense.

Corporate or Partnership Property Acquired in a Nontaxable Transfer

MACRS does not apply to property used before 1987 and transferred after 1986 to a corporation or partnership (except property the transferor placed in service after July 31, 1986, if MACRS was elected) to the extent its basis is carried over from the property's adjusted basis in the transferor's hands. You must continue to use the same depreciation method as the transferor and figure depreciation as if the transfer had not occurred. However, if MACRS would otherwise apply, you can use it to depreciate the part of the property's basis that exceeds the carried-over basis.

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.

Election To Exclude Property From MACRS

If you can 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.

What Is the Basis of Your Depreciable Property?

Terms you may need to know (see Glossary):

Abstract fees
Adjusted basis
Basis
Exchange
Fair market value

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.

Cost as Basis

The basis of property you buy is its cost plus amounts you paid for items such as sales tax, freight charges, and installation and testing fees. The cost includes the amount you pay in cash, debt obligations, other property, or 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 pay for the property plus the amount of the assumed debt.

Example. You make a \$20,000 down payment on 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 costs. The basis of real property also includes certain fees and charges you pay in addition to the purchase price. These are generally shown on your settlement statement and include the following.

- Legal and recording fees.
- Abstract fees.
- Survey charges.
- Owner's title insurance.
- Amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

For fees and charges you cannot include in the basis of property, see *Real Property* in Publication 551.

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 and the regulations under section 263A of the Internal Revenue Code.

Other Basis

“Other basis” refers to basis that is determined by the way you received the property. For example, your basis is other than cost if you acquired the property in exchange for other property, as payment for services you performed, as a gift, or as an inheritance. If you acquired property in this or some other way, see Publication 551 to determine your basis.

Property Changed From Personal Use

If you held property for personal use and later use it in your business or income-producing activity, your depreciable basis is the **lesser** of the following.

- 1) The fair market value (FMV) of the property on the date of the change in 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 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).

Adjusted Basis

To find your property’s basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the 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.
- Paying legal fees for perfecting the title.
- Settling zoning issues.
- Receiving rebates.
- Incurring a casualty or theft loss.

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

If you depreciate your property under MACRS, you may also have to reduce your basis by certain deductions and credits with respect to the property. For more information, see *What Is the Basis For Depreciation?* in chapter 3.

How Do You Treat Improvements?

Terms you may need to know (see Glossary):

Improvement

If you improve depreciable property, you must treat the improvement as separate depreciable property. For more information, see *Additions and Improvements under Which Recovery Period Applies?* in chapter 3.

Repairs. You generally deduct the cost of repairing business property in the same way as any other business expense. However, if a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, you must treat it as an improvement and depreciate it.

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

Improvements to rented property. You can depreciate permanent improvements you make to business property you rent from someone else.

Do You Have To File Form 4562?

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 items.

- A section 179 deduction for the current year or a section 179 carryover from a prior year. See Part I of Form 4562. (See chapter 2 for information on the section 179 deduction.)
- Depreciation for property placed in service during the current year. See Part II of Form 4562.

Table 1–1. Purpose of Form 4562

This table describes the purpose of the various parts of Form 4562. For more information about the form, see *Do You Have to File Form 4562?*

Part	Purpose
I	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Reporting Modified Accelerated Cost Recovery System (MACRS) depreciation deductions for property (other than listed property) placed in service during the current year
III	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Summarizing other parts
V	<ul style="list-style-type: none">• Reporting depreciation on automobiles and other listed property• Reporting information on the use of automobiles and other transportation vehicles
VI	<ul style="list-style-type: none">• Reporting amortization deductions

- Depreciation on any vehicle or other listed property, regardless of when it was placed in service. See Part V of Form 4562.
- A deduction for any vehicle if the deduction is reported on a form other than Schedule C (Form 1040) or Schedule C-EZ (Form 1040). See Part V of Form 4562.
- Amortization of costs that began in the current year. See Part VI of Form 4562.
- Depreciation on any asset on a corporate income tax return (other than Form 1120S, *U.S. Income Tax Return for an S Corporation*) regardless of when it was placed in service. See Parts II and III of Form 4562.



You must submit a separate Form 4562 for each business or activity on your return for which Form 4562 is required.

Table 1 presents an overview of the purpose of the various parts of Form 4562.

Employee. Do not use Form 4562 if you are an employee and you deduct job-related vehicle expenses using either actual expenses (including depreciation) or the standard mileage rate. 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 for any expenses.

How Do You Correct Depreciation Deductions?

Terms you may need to know (see Glossary):

Basis

If you deducted an incorrect amount of depreciation in any year, you may be able to make a correction by filing an amended return for that year. See *Filing an 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 reduce your basis by any amount deducted from which you received a tax benefit.

Filing an Amended Return

You can file an amended return to correct the amount of depreciation claimed for any property in any of the following situations.

- You claimed the incorrect amount because of a mathematical error made in any year.
- You claimed the incorrect amount because of a posting error made in any year.
- You have not adopted a method of accounting for the property.

You have adopted a method of accounting for the property if you deducted an incorrect amount of depreciation for it on two or more consecutively filed tax returns for reasons other than a mathematical or posting error.

When to file. 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. (A return filed early is considered filed on the due date.)

- 2 years from the time you paid your tax for that year.

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 to request a change to a permissible method of accounting for depreciation. Revenue Procedure 97–27 in Cumulative Bulletin 1997–1 gives general instructions for getting approval.

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 System (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 Cumulative Bulletin 1999–2 have instructions for getting automatic approval and list 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)(c) of the Appendix of Revenue Procedure 99–49.

2.

Electing the Section 179 Deduction

Introduction

Under section 179 of the Internal Revenue Code, you can choose to recover all or part of the cost of certain qualifying property, up to a limit, by deducting it in the year you place the property in service. This is the section 179 deduction. You can elect the section 179 deduction instead of recovering the cost by taking depreciation deductions.



Estates and trusts cannot elect the section 179 deduction.



Electing the section 179 deduction is not always to your advantage. The election may reduce or eliminate your eligibility to claim the earned income credit, reduce your coverage under the social security system, and prevent you from fully using your exemptions and deductions.

This chapter explains what property does and does not qualify for the section 179 deduction, what limits apply to the deduction, and how to elect it. It also explains when and how to recapture the deduction.

Useful Items

You may want to see:

Publication

- ☐ **537** Installment Sales
- ☐ **544** Sales and Other Dispositions of Assets

Form (and Instructions)

- ☐ **4562** Depreciation and Amortization
- ☐ **4797** Sales of Business Property

See chapter 6 for information about getting publications and forms.

What Property Qualifies?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Class life

Structural components

Tangible property

To qualify for the section 179 deduction, your property must meet all the following requirements.

- 1) It must be eligible property.
- 2) It must be acquired for business use.
- 3) It must have been acquired by purchase.
- 4) It must **not** be excepted property.

The following discussions provide information about these requirements.

Eligible Property

To qualify for the section 179 deduction, your property must be one of the following types of depreciable property.

- 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.

Tangible personal property. Tangible personal property is any tangible property that is not real property. It includes the following property.

- Machinery and equipment.
- Property contained in or attached to a building (other than structural components), such as refrigerators, grocery store counters, office equipment, printing presses, testing equipment, and signs.

- Gasoline storage tanks and pumps at retail service stations.
- Livestock, including horses, cattle, hogs, sheep, goats, and mink and other furbearing animals.

Land and land improvements, such as buildings and other permanent structures and their components, are real property, not personal property. Land improvements include swimming pools, paved parking areas, wharves, docks, bridges, and fences.

The treatment of property as tangible personal property for the section 179 deduction is not controlled by its treatment under local law. For example, property may not be tangible personal property for the deduction even if treated so under local law, and some property (such as fixtures) may be tangible personal property for the deduction even if treated as real property under local law.

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.

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

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

For this purpose, livestock includes poultry.

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 that 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, the work space can be used only for the following activities.

- 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.

Property Acquired for Business Use

To qualify for the section 179 deduction, your property must have been acquired for use in your trade or business. Property you acquire only for the production of income, such as investment property, rental property (if renting property is not your trade or business), and property that produces royalties, does not qualify.

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. If you use the property more than 50% for business, multiply the cost of the property by the percentage of business use. Use the resulting business cost to figure your section 179 deduction.

Example. 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).

Property Acquired by Purchase

To qualify for the section 179 deduction, your property must have been acquired by purchase. For example, property acquired by gift or inheritance does not qualify.

Property is **not** considered acquired by purchase in the following situations.

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

Related persons. Related persons are described in chapter 1 in the discussion on pre-1987-use property under *Can You Use MACRS To Depreciate Your Property*. However, to determine whether property qualifies for the section 179 deduction, treat as an individual's family only his or her spouse, ancestors, and lineal descendants and substitute "50%" for "10%" each place it appears.

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.

Excepted Property

Even if the requirements explained in the preceding discussions are met, you cannot elect the section 179 deduction for the following property.

- Certain property you lease to others (if you are a noncorporate lessor).
- Certain property used predominantly to furnish lodging or in connection with the furnishing of lodging.
- Air conditioning or heating units.
- Property used predominantly outside the United States (except property described in section 168(g)(4) of the Internal Revenue Code).
- Property used by certain tax-exempt organizations.
- Property used by governmental units.
- Property used by foreign persons or entities.

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 property.

- 1) Property you manufacture or produce and lease to others.
- 2) Property you purchase and lease to others if both the following tests are met.
 - 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 rents and reimbursed amounts) are more than 15% of the rental income from the property.

Property used for lodging. Generally, you cannot claim a section 179 deduction for property used predominantly to furnish lodging or in connection with the furnishing of lodging. However, this does **not** apply to the following types of property.

- Nonlodging commercial facilities that are available to those 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.
- Any certified historic structure to the extent its basis is due to qualified rehabilitation expenditures.
- Any energy property.

Energy property. Energy property is either of the following types of equipment.

- 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. For electric-

ity generated by geothermal power, this applies only to its production, distribution, or use 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).

How Much Can You Deduct?

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Placed in service

Your section 179 deduction is generally the cost of the qualifying property. However, the total amount you can elect to deduct under section 179 is subject to a dollar limit and a business income limit. These limits apply to each taxpayer, not to each business. However, see *Married Individuals* under *Dollar Limit*, later.

Use Part I of Form 4562 to figure your section 179 deduction.

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

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's qualifying costs for the section 179 deduction are \$4,720 (\$520 + \$4,200).

Depreciating the excess cost. If you deduct only part of the cost of your qualifying property as a section 179 deduction, you can generally depreciate the cost you do not deduct. To figure your basis for depreciation using MACRS (discussed in chapter 3), you must subtract the amount of the section 179 deduction from the cost of the qualifying property. The result is the amount you use to figure any depreciation deduction. For information on how to figure depreciation, see chapter 3.

Dollar Limit

The total amount you can elect to deduct under section 179 for 2001 cannot be more than \$24,000. If you acquire and place in service more than one item of qualifying property during the year, you can allocate the section 179 deduction among the items in any way, as long as the total deduction is not more than \$24,000. You do not have to claim the full \$24,000.



Beginning in 2003, the total amount you can elect to deduct under section 179 will increase to \$25,000.



After you apply the dollar limit to determine a tentative deduction, you must apply the business income limit (described later) to determine your actual section 179 deduction.

Example. In 2001, you bought and placed in service a \$25,000 forklift and a \$1,500 circular saw for your business. You elect to deduct \$22,500 for the forklift and the entire \$1,500 for the saw, a total of \$24,000. This is the maximum amount you can deduct. Your \$1,500 deduction for the saw completely recovered its cost. Your basis for depreciation is zero. The basis for depreciation of your forklift is \$2,500. You figure this by subtracting your \$22,500 section 179 deduction for the forklift from the \$25,000 cost of the forklift.

Reduced dollar limit for cost exceeding \$200,000. If the cost of your qualifying section 179 property placed in service in a year is over \$200,000, you must reduce the dollar limit (but not below zero) by the amount of cost over \$200,000. If the cost of your section 179 property placed in service during 2001 is \$224,000 or more, you cannot take a section 179 deduction and you cannot carry over the cost that is more than \$224,000.

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 dollar limit to \$17,000 (\$24,000 – \$7,000).

Increased dollar limit for enterprise zone businesses. The dollar limit on the section 179 deduction is increased if your business qualifies as an enterprise zone business. The increase is the smaller of the following amounts.

- \$20,000 (\$35,000 for tax years beginning after 2001).
- The cost of section 179 property that is also qualified zone property.

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

Additional limit for passenger automobiles. For passenger automobiles placed in service in 2001, the total of the section 179 and depreciation deductions generally cannot be more than \$3,060. For more information, see *Do the Passenger Automobile Limits Apply?* in chapter 4.

Married Individuals

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 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 dollar limit, including the reduction for costs over \$200,000. You must allocate the dollar limit (after any reduction) between you. You must allocate 50% to each, unless you both elect a different allocation. If the percentages elected by each of you do not total 100%, 50% will be allocated to each of you.

Example. Jack Elm is married. He and his wife file separate returns. Jack bought and placed in service \$200,000 of qualified farm machinery in 2001. His wife has her own business, and she bought and placed in service \$5,000 of qualified business equipment. Their combined dollar limit is \$19,000. This is because they must figure the limit as if they were one taxpayer. They reduce the \$24,000 dollar limit by the \$5,000 excess of their costs over \$200,000.

They elect to allocate the \$19,000 dollar limit as follows.

- \$14,250 (75%) to Mr. Elm's machinery.
- \$4,750 (25%) to Mrs. Elm's equipment.

If they did not make an election to allocate their costs in this way, they would each be limited to \$9,500 (\$19,000 × 50%).

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

- The dollar limit (after reduction for any cost of section 179 property over \$200,000).
- The total cost of section 179 property you and your spouse elected to expense on your separate returns.

Example. The facts are the same as in the previous example except that Jack elected to deduct \$4,000 on his separate return and his wife elected to deduct \$2,000. After the due date of their returns, they file a joint return. Their dollar limit for the section 179 deduction is \$6,000. This is the lesser of the following amounts.

- \$19,000—The dollar limit less the cost of section 179 property over \$200,000.
- \$6,000—The total they elected to expense on their separate returns.

Business Income Limit

The total cost you can deduct each year after you apply the dollar limit is limited to the taxable income from the active conduct of any trade or business during the year. Gener-

ally, you are considered to actively conduct a trade or business if you meaningfully participate in the management or operations of the trade or business.

Any cost not deductible in one year under section 179 because of this limit can be carried to the next year. See *Carryover of disallowed deduction*, later.

Taxable income. Figure taxable income for this purpose by totaling the net income and losses from all trades and businesses you actively conducted during the year. Net income or loss from a trade or business includes the following items.

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

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

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.
- Any unreimbursed employee business expenses.

Two different taxable income limits. In addition to the business income limit for your section 179 deduction, you may have a taxable income limit for some other deduction. 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	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 business 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 business income limit. This disallowed deduction amount is shown on line 13 of Form 4562. You use the amount you carry over to determine your section 179 deduction in the next year. Enter that amount on line 10 of your Form 4562 for the next year.

If you place more than one property in service in a year, you can select the properties for which all or a part of the costs will be carried forward. Your selections must be shown in your books and records. For this purpose, treat section 179 costs allocated from a partnership or an S corporation as one item of section 179 property. 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 costs from more than one year are carried a subsequent year in which only part of the total carryover can be deducted, you must deduct the costs being carried from the earliest year first.



If there is a sale or other disposition of your property (including a transfer at death) before you can use the full amount of your disallowed section 179 deduction, neither you nor the new owner can deduct any of the unused amount. Instead, you must add it back to the property's basis.

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 partnerships (shown on Schedule K-1 (Form 1065), *Partner's Share of Income, Credits, Deductions, etc.*) to his or her nonpartnership section 179 costs and then applies the dollar limit to this total. To determine any reduction in the dollar limit for costs over \$200,000, the partner does not include any of the cost of section 179 property placed in service by the partnership. After the dollar limit (and any reduction in the dollar limit due to nonpartnership section 179 costs) is applied, any remaining cost of the partnership and nonpartnership section 179 property is subject to the business income limit.

Example. In 2001, Beech Partnership placed in service section 179 property with a total cost of \$204,000. The partnership must reduce its dollar limit by \$4,000 (\$204,000 – \$200,000). Its maximum section 179 deduction is \$20,000 (\$24,000 – \$4,000), and it elects to expense that amount. Because the partnership's taxable income from the active conduct of all its trades or businesses for the year was \$30,000, it can deduct the full \$20,000. It allocates \$10,000 of its section 179 deduction and \$15,000 of its taxable income to Dean, one of its partners.

In addition to being a partner in Beech Partnership, Dean is also a partner in the Cedar Partnership, which allocated to him a \$7,000 section 179 deduction and \$12,000 taxable income from the active conduct of its business. He also conducts a business as a sole proprietor and, in 2001, placed in service in that business qualifying section 179 property costing \$15,500. He had a net loss of \$5,000 from that business for the year.

Because Dean does not have to include partnership costs to figure any reduction in his dollar limit, his total section 179 costs for the year are not more than \$200,000 and his dollar limit is not reduced. His maximum section 179 deduction is \$24,000. He elects to expense all of the \$17,000 in section 179 deductions allocated from the partnerships, plus \$7,000 of his sole proprietorship's section 179 costs, and notes that information in his books and records. However, his deduction is limited to his business taxable income of \$22,000 (\$15,000 from Beech Partnership, plus \$12,000 from Cedar Partnership minus \$5,000 loss from his sole proprietorship). He carries over \$2,000 (\$24,000 – \$22,000) of the elected section 179 costs to 2002. He allocates the carryover amount to the cost of section 179 property placed in service in his sole proprietorship, and notes that allocation in his books and records.

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

Partner's share of partnership's taxable income. For purposes of the business 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.

Different tax years. For purposes of section 179, if the partner's tax year and that of the partnership differ, the partner's share of the partnership's taxable income for a tax year is determined based on the partnership tax year that ends with or within the partner's 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 its tax year ending January 31, 2001, Oak Company's taxable income from the active conduct of its business is \$80,000, of which \$70,000 was earned during 2000. John and James each include \$40,000 (each partner's entire share) of partnership taxable income in computing their business income limit for the 2001 tax year.

Adjustment of partner's basis in partnership. A partner must reduce the basis of his or her partnership interest by the total amount of section 179 expenses allocated from the partnership even if the partner cannot currently deduct the total amount. If the partner disposes of his or her partnership interest, the partner's basis for determining gain or loss is increased by any outstanding carryover of disallowed section 179 expenses allocated from the partnership.

Adjustment of partnership's basis in section 179 property. 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.

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 its 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 and losses 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, or 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. 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.

How Do You Elect the Deduction?

Terms you may need to know (see Glossary):

Listed property

Placed in service

You elect the section 179 deduction by completing Part I of **Form 4562**.



If you elect the deduction for listed property (described in chapter 4), complete Part V of Form 4562 before completing Part I.

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. (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.



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.

Revoking an election. Once you elect a section 179 deduction, you cannot change your selection of qualifying property or revoke your election without IRS approval. The IRS will grant approval only in extraordinary circum-

stances. A request to change or revoke the election is subject to a user fee.

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.



You must file your request with the:
Commissioner of Internal Revenue
Washington, DC 20224

When Must You Recapture the Deduction?

Terms you may need to know
(see Glossary):

Disposition
Exchange
Recapture
Recovery period
Section 1245 property

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. You also increase the basis of the property by the recapture amount. Recovery periods for property are discussed under *Which Recovery Period Applies?* in chapter 3.



*If you sell, exchange, or otherwise dispose of the property, do **not** figure the recapture amount under the rules explained in this discussion. Instead, use the rules for recapturing depreciation explained in chapter 3 of Publication 544 under Section 1245 Property.*

Figuring the recapture amount. 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. The result is the amount you must recapture.

Example. In 1999, Paul Lamb, a calendar year taxpayer, bought and placed in service section 179 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 1999 and 2000. In 2001, he used the property 40% for business and 60% for personal use. He figures his recapture amount as follows.

Section 179 deduction claimed (1999)	\$5,000.00	
Minus: Allowable depreciation (instead of section 179):		
1999	\$1,666.50	
2000	2,222.50	
2001 (\$740.50 × 40% (business))	296.20	4,185.20
2001 — Recapture amount		\$ 814.80

Paul must include \$814.80 in income for 2001.

3.

Figuring Depreciation Under MACRS

Introduction

The Modified Accelerated Cost Recovery System (MACRS) is used to recover the basis of most business and investment property placed in service after 1986. MACRS consists of two depreciation systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). Generally, these systems provide different methods and recovery periods to use in figuring depreciation deductions.



To be sure you can use MACRS to figure depreciation for your property, see Can You Use MACRS To Depreciate Your Property? in chapter 1.

This chapter explains how to determine which MACRS depreciation system applies to your property. It also discusses other information you need to know before you can figure depreciation under MACRS. This information includes the property's recovery class, placed-in-service date, and basis, as well as the applicable recovery period, convention, and depreciation method. It explains how to use this information to figure your depreciation deduction and how to use a general asset account to depreciate a group of properties. Finally, it explains when and how to recapture MACRS depreciation.

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
- ❑ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

Which Depreciation System (GDS or ADS) Applies?

Terms you may need to know (see Glossary):

Listed property
 Nonresidential real property
 Placed in service
 Property class
 Recovery period
 Residential rental property
 Tangible property
 Tax exempt

Your use of either the General Depreciation System (GDS) or the Alternative Depreciation System (ADS) to depreciate property under MACRS determines what depreciation method and recovery period you use. You generally must use GDS unless you are specifically required by law to use ADS or you elect to use it.

Required use of ADS. 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.

- Any property for which an election to use ADS was made (discussed next).

Electing ADS. Although your property may qualify for GDS, you can elect to use ADS. The election generally must cover all property in the same property class that you placed in service during the year. However, the election for residential rental property and nonresidential real property can be made on a property-by-property basis. Once you make this election, you can never revoke it.

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

Which Property Class Applies Under GDS?

Terms you may need to know (see Glossary):

Class life
 Nonresidential real property
 Placed in service
 Property class
 Recovery period
 Residential rental property
 Section 1250 property

The following is a list of the nine property classes under GDS 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 (defined later).
- 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.
 - f) Appliances, carpets, furniture, etc., used in a residential rental real estate activity.
- 3) **7-year property.**

- a) Office furniture and fixtures (such as desks, files, and safes).
 - b) Agricultural machinery and equipment.
 - c) 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 improvements made directly to land or added to it (such as shrubbery, fences, roads, and bridges).
 - b) Any retail motor fuels outlet (defined later), such as a convenience store.
- 6) **20-year property.** This class includes farm buildings (other than single purpose agricultural or horticultural structures).
- 7) **25-year property.** This class is water utility property, which is either of the following.
- a) Property that is an integral part of the gathering, treatment, or commercial distribution of water, and that, without regard to this provision, would be 20-year property.
 - b) Any municipal sewer.
- 8) **Residential rental property.** This is any building or structure, such as a rental home (including a mobile home), if 80% or more of its gross rental income for the tax year is from dwelling units. A dwelling unit is a house or apartment used to provide living accommodations in a building or structure. It does not include a unit in a hotel, motel, 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.
- 9) **Nonresidential real property.** This is section 1250 property, such as an office building, store, or warehouse, that is neither residential rental property nor property with a class life of less than 27.5 years.

If your property is not listed above, you can determine its property class from the *Table of Class Lives and Recovery Periods* in Appendix B. The property class is generally the same as the GDS recovery period indicated in the table.

Qualified 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. It is tangible personal property generally used in the home for personal use. It includes computers and peripheral equip-

ment, 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.

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 requirements.

- 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 that 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 with no further obligations and no entitlement 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 dispose

of the property until all contract payments have been made.

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 (whether or not it is also used to sell food or other convenience items) and 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.

What Is the Placed-in-Service Date?

Terms you may need to know (see Glossary):

Placed in service

You begin to claim depreciation when your property is placed in service for either use in a trade or business or the production of income. The placed-in-service date for your property is the date the property is ready and available for a specific use. It is therefore not necessarily the date it is first used. If you converted property held for personal use to use in a trade or business or for the production of income, treat the property as being placed in service on the conversion date. See *Placed in Service* under *When Does Depreciation Begin and End?* in chapter 1 for examples illustrating when property is placed in service.

What Is the Basis for Depreciation?

Terms you may need to know (see Glossary):

Basis

The basis for depreciation of MACRS property is the property's cost or other basis multiplied by the percentage of business/investment use. (For a discussion of business/investment use, see *Partial business or investment use* under *Property Used in Your Business or Income-Producing Activity* in chapter 1.) Reduce that amount by the following items.

- Any deduction for section 179 property.

- Any deduction for removal of barriers to the disabled and the elderly.
- Any investment credit, disabled access credit, or enhanced oil recovery credit.

For information about how to determine the cost or other basis of property, see *What Is the Basis of Your Depreciable Property?* in chapter 1.

Which Recovery Period Applies?

Terms you may need to know (see Glossary):

Active conduct of a trade or business

Basis

Improvement

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Section 1245 property

The recovery period of property is the number of years over which you recover its cost or other basis. It is determined based on the depreciation system (GDS or ADS) used.

Recovery Periods Under GDS

Under GDS, property that is not qualified Indian reservation property is depreciated over one of the following recovery periods.

<u>Property Class</u>	<u>Recovery Period</u>
3-year property	3 years ¹
5-year property	5 years
7-year property	7 years
10-year property	10 years ²
15-year property	15 years ²
20-year property	20 years
25-year property	25 years ³
Residential rental property	27.5 years
Nonresidential real property	39 years ⁴

¹ 15 years for qualified rent-to-own property placed in service before August 6, 1997.

² 39 years for property that is a retail motor fuels outlet placed in service before August 20, 1996 (31.5 years if placed in service before May 13, 1993), unless you elected to depreciate it over 15 years.

³20 years for property placed in service before June 13, 1996, or under a binding contract in effect before June 10, 1996.

⁴31.5-years for property placed in service before May 13, 1993 (or before January 1, 1994, if under a binding contract in effect before May 13, 1993, or if construction began before May 13, 1993).

The GDS recovery periods for property not listed above can be found in Appendix B, *Table of Class Lives and Recovery Periods*. Residential rental property and nonresidential real property are defined earlier under *Which Property Class Applies Under GDS*.

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). See Publication 587 for a discussion of the tests you must meet to claim expenses, including depreciation, for the business use of your home.

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

Indian Reservation Property

The recovery periods for qualified property you placed in service on an Indian reservation after 1993 and before 2004 are shorter than those listed earlier. The following table shows these shorter recovery periods.

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

Nonresidential real property is defined earlier under *Which Property Class Applies Under GDS*.

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, other than qualified infrastructure property.
- 2) Property acquired directly or indirectly from a related person.
- 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 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 for qualified business use (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. For purposes of item (2) above, see the discussion on pre-1987-use property under *Can You Use MACRS To Depreciate Your Property?* in chapter 1 for a description of related persons.

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.

Recovery Periods Under ADS

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.

<u>Property</u>	<u>Recovery Period</u>
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 property	40 years
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. Rent-to-own

property, residential rental property, and nonresidential real property are defined earlier under *Which Property Class Applies Under GDS*.

Additions and Improvements

An addition or improvement you make to depreciable property is treated as separate depreciable property. (See *How Do You Treat Improvements?* in chapter 1.) Its property class and recovery period are the same as those that would apply to the original 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 in service the property to which you made the addition or improvement.

Example. You own a rental home that 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.

Which Convention Applies?

Terms you may need to know (see Glossary):

Basis
Convention
Disposition
Nonresidential real property
Placed in service
Recovery period
Residential rental property

Under MACRS, averaging conventions establish when the recovery period begins and ends. The convention you use determines the number of months for which you can claim depreciation in the year you place property in service and in the year you dispose of the property.

The mid-month convention. Use this convention for all nonresidential real property and residential rental property.

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 a one-half month of depreciation is allowed for the month the property is placed in service or disposed of.

The mid-quarter convention. Use this convention if the mid-month convention does not apply and the total depre-

ciable bases of MACRS property you 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) are more than 40% of the total depreciable bases of all MACRS property you placed in service during the entire year. However, see *Exception*, next.

Under this convention, you treat all property placed in service or disposed of during any quarter of the tax year as placed in service or disposed of at the midpoint of that quarter. This means that 1½ months of depreciation is allowed for the quarter the property is placed in service or disposed of.

Exception. If you are a calendar year taxpayer, or a fiscal year taxpayer whose third or fourth quarter of your 2001 tax year includes September 11, 2001, then you can elect to apply the half-year convention, discussed next, to all property (other than nonresidential real property and residential rental property) placed in service during your 2001 tax year. (For information on applying this exception to a short tax year, see *Using the Applicable Convention in a Short Tax Year*, later.) To make this election, write “Election Pursuant to Notice 2001–70” across the top of your Form 4562 for 2001.

The half-year convention. Use this convention if neither the mid-quarter convention nor the mid-month convention applies.

Under this 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 a one-half year of depreciation is allowed for the year the property is placed in service or disposed of.

Which Depreciation Method Applies?

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
Tax exempt

MACRS provides three depreciation methods under GDS and one depreciation method under ADS.

- 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.



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.

Table 3–1 lists the types of property you can depreciate under each method. It also give a brief explanation of the method.

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.

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.

Table 3–1. Depreciation Methods

Note. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.		
Method	Type of Property	Benefit
GDS using 200% DB	<ul style="list-style-type: none"> • Nonfarm 3-, 5-, 7-, and 10-year property 	<ul style="list-style-type: none"> • Provides a greater deduction during the earlier recovery years. • Changes to SL when that method provides an equal or greater deduction.
GDS using 150% DB	<ul style="list-style-type: none"> • All farm property (except real property) • All 15- and 20-year property • Nonfarm 3-, 5-, 7-, and 10-year property 	<ul style="list-style-type: none"> • Provides a greater deduction during the earlier recovery years. • Changes to SL when that method provides an equal or greater deduction.¹
GDS using SL	<ul style="list-style-type: none"> • Nonresidential real property • Residential rental property • Trees or vines bearing fruit or nuts • Water utility property • All 3-, 5-, 7-, 10-, 15-, and 20-year property² 	<ul style="list-style-type: none"> • Provides for equal yearly deductions (except for the first and last years).
ADS using SL	<ul style="list-style-type: none"> • Listed property used 50% or less for business • Property used predominantly outside the U.S. • Tax-exempt property • Tax-exempt bond-financed property • Imported property³ • Any property for which you elect to use this method² 	<ul style="list-style-type: none"> • Provides for equal yearly deductions.

¹The MACRS percentage tables in Appendix A have the switch to the straight line method built into their rates.
²Elective method.
³See section 168(g)(6) of the Internal Revenue Code.

Electing a Different Method

As shown in the *Depreciation Methods* table, 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 6 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.



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.

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. As explained earlier under *Which Depreciation System (GDS or ADS) Applies*, you can elect to use ADS even though your property may come under GDS. 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 *ADS Recovery Periods* table, 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 an ADS recovery period.

How Is the Depreciation Deduction Figured?

Terms you may need to know (see Glossary):

Adjusted basis
Amortization
Basis
Business/investment use
Clean-fuel vehicle
Clean-fuel vehicle refueling property
Convention
Declining balance method
Disposition
Exchange
Nonresidential real property
Placed in service
Property class
Recovery period
Straight line method

To figure your depreciation deduction under MACRS, you first determine the depreciation system, property class, placed-in-service date, basis amount, recovery period, convention, and depreciation method that applies to your property. Then you are ready to figure your depreciation deduction. You can figure it using a percentage table provided by the IRS, or you can figure it yourself without using the table.

Using the MACRS Percentage Tables

To help you figure your deduction under MACRS, the IRS has established percentage tables that incorporate the applicable convention and depreciation method. These percentage tables are in Appendix A near the end of this publication.

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 percentage tables immediately follow the guide.

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 *Figuring the Deduction for a Short Tax Year*, later, for information on figuring the deduction.

- 3) Once you start using the percentage tables, you generally must continue to use them for the entire recovery period of the property.
- 4) You must stop using the tables if you adjust the basis of the property for **any** reason other than—
 - a) Depreciation allowed or allowable, or
 - b) An addition or improvement to that property that is depreciated as a separate item of property.

Basis adjustment due to recapture of clean-fuel vehicle deduction or credit. If you increase the basis of your property because of the recapture of part or all of a deduction for clean-fuel vehicles or the credit for clean-fuel vehicle refueling property, you cannot continue to use the percentage tables. For the year of the adjustment and the remaining recovery period, you must figure the depreciation deduction yourself using the property's adjusted basis at the end of the year. See *Figuring the Deduction Without Using the Tables*, later.

Basis adjustment due to casualty loss. If you reduce the basis of your property because of a casualty, you cannot continue to use the percentage tables. For the year of the adjustment and the remaining recovery period, you must figure the depreciation yourself using the property's adjusted basis at the end of the year. See *Figuring the Deduction Without Using the Tables*, later.

Example. On October 26, 2000, 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 (\$29,000 – \$19,000). She figured her deduction using the percentage tables. For 2000, her depreciation was \$357.

In July 2001, the property was vandalized and Sandra had a deductible casualty loss of \$3,000. Because she must adjust the property's basis for the casualty loss, she can no longer use the percentage tables. Her adjusted basis at the end of 2001, before figuring her 2001 depreciation, is \$6,643. She figures that amount by subtracting the 2000 depreciation of \$357 and the casualty loss of \$3,000 from the unadjusted basis of \$10,000. She must now figure her depreciation for 2001 without using the percentage tables.

Figuring the Unadjusted Basis of Your Property

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

- Any amortization taken on the property.
- Any section 179 deduction claimed.
- Any deduction claimed for a 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.)

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

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.

MACRS Worksheet

You can use this worksheet to help you figure your depreciation deduction using the percentage tables. (Use a separate worksheet for each item of property.) Then use the information from this worksheet to prepare Form 4562.



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



MACRS Worksheet

Part I

1. Description of property _____
2. Date placed in service _____
3. MACRS system (GDS or ADS) _____
4. Recovery period _____
5. Method and 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 other items, including deduction for clean-fuel vehicle refueling property \$ _____
11. Subtract line 10 from line 9. This is your 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, 2001. You use the furniture only for business. This is the only

property you placed in service this year. You did not elect a section 179 deduction. You use GDS and the half-year convention to figure your depreciation. 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	8/11/01
3. MACRS system (GDS or ADS)	GDS
4. Recovery period	7-Year
5. Method and convention	200%DB/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 other items, including deduction for clean-fuel vehicle refueling property	-0-
11. Subtract line 10 from line 9. This is your 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
2002	\$10,000	24.49%	\$2,449
2003	10,000	17.49	1,749
2004	10,000	12.49	1,249
2005	10,000	8.93	893
2006	10,000	8.92	892
2007	10,000	8.93	893
2008	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. The building's unadjusted basis is its original cost, \$100,000.

You refer to the *MACRS Percentage Table Guide* in Appendix A and find that you should use Table A-7a. 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 the year, 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 during the year is \$10,000. The \$5,000 basis of the computer, 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 the year. Therefore, you must use the mid-quarter convention for all three items unless, under the exception for property placed in service in 2001, you elect to apply the half-year convention.

You refer to the *MACRS Percentage Table Guide* in Appendix A to determine which table you should use under the mid-quarter convention. Because you do not elect to apply the half-year convention and 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	Basis	Percentage	Deduction
1st	Machine	\$4,000	25.00	\$1,000
2nd	Machine	4,000	21.43	857
1st	Furniture	1,000	10.71	107
2nd	Furniture	1,000	25.51	255
1st	Computer	5,000	5.00	250
2nd	Computer	5,000	38.00	1,900

Sale or Other Disposition Before the Recovery Period Ends

If you sell or otherwise dispose of your property before the end of its recovery period, your depreciation deduction for the year of the disposition will be only part of the depreciation amount for the full year. You have disposed of your property if you have permanently withdrawn it from use in your business or income-producing activity because of its sale, exchange, retirement, abandonment, involuntary conversion, or destruction. After you figure the full-year depreciation amount, figure the deductible part using the convention that applies to the property.

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

Mid-quarter convention used. For property for which you used the mid-quarter convention, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation by the percentage listed below for the quarter in which you disposed of the property.

Quarter	Percentage
First	12.5%
Second	37.5
Third	62.5
Fourth	87.5

Example. On December 2, 1999, 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 unadjusted basis for the property was \$10,000. You used the mid-quarter convention because this was the only item of business property you placed in service in 1999 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 1999 and 2000 were \$500 (5% of \$10,000) and \$3,800 (38% of \$10,000). You disposed of the property on April 6, 2001. To determine your depreciation deduction for 2001, first figure the deduction for the full year. This is \$2,280 (22.8% of \$10,000). Because April is in the second quarter of the year, you multiply \$2,280 by 37.5% to get your depreciation deduction of \$855 for 2001.

Mid-month convention used. If you dispose of residential rental or nonresidential real property, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation 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, 1999, you purchased and placed in service residential rental property. The property cost \$100,000, not including the cost of land. You used Table A-6 to figure your MACRS depreciation for this property. You sold the property on March 2, 2001. You file your tax return based on the calendar year.

A full year of depreciation for 2001 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 2001. Multiply \$3,636 by 2.5 and divide by 12 to get your 2001 depreciation deduction of \$757.50.

Figuring the Deduction Without Using the Tables

Instead of using the rates in the percentage tables to figure your depreciation deduction, you can figure it yourself. Before making the computation each year, you must reduce your adjusted basis in the property by the depreciation claimed the previous year.



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

Declining Balance Method

When using a declining balance method, you apply the same depreciation rate each year to the adjusted basis of your property. You must use the applicable 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 straight line method is explained later.

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.
- 2) Apply the applicable 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 *Using the Applicable Convention*, later, for information on how to figure depreciation for the year you dispose of it.

Figuring depreciation under the declining balance method and switching to the straight line method is illustrated in *Example 1*, later, under *Examples*.

Declining balance rate. You figure your declining balance rate by dividing the specified declining balance percentage (150% or 200% changed to a decimal) by the number of years in the property's recovery period. For example, for 3-year property depreciated using the 200% declining balance method, divide 2.00 (200%) by 3 to get 0.6667, or 66.67% declining balance rate. For 15-year property depreciated using the 150% declining balance method, divide 1.50 (150%) by 15 to get 0.10, or 10% declining balance rate.

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

Property Class	Method	Declining Balance Rate	Year
3-year	200% DB	66.667%	3rd
5-year	200% DB	40.0	4th
7-year	200% DB	28.571	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 apply a different depreciation rate each year to the adjusted basis of your property. You must use the applicable convention in the year you place the property in service and the year you dispose of the property.

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

- 1) Multiply your adjusted basis in the property by the straight line rate.
- 2) Apply the applicable 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.
- 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 *Using the Applicable Convention*, next, for information on how to figure depreciation for the year you dispose of it.

Straight line rate. 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 that 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%).

Using the Applicable Convention

The applicable convention (discussed earlier under *Which Convention Applies?*) affects how you figure your depreciation deduction for the year you place your property in service and for the year you dispose of it. And, because it determines how much of the recovery period remains at the beginning of each year, it also affects the depreciation rate for property you depreciate under the straight line method. See *Straight line rate* in the previous discussion. Use the applicable convention as explained in the following discussions.

Half-year convention. If this convention applies (or you elect to apply it for property placed in service in your 2001 tax year), you deduct a half-year of depreciation for the first year and the last year that you depreciate the property. You deduct a full year of depreciation for any other year during the recovery period.

Figure your depreciation deduction for the year you place the property in service by dividing the depreciation for a full year by 2. If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition the same way. If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final 6 months of the recovery period is the amount of your unrecovered basis in the property.

Mid-quarter convention. If this convention applies (and you do not elect to apply the half-year convention for property placed in service in your 2001 tax year), the depreciation you can deduct for the first year you depreciate the property depends on the quarter in which you place the property in service.

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

Figure your depreciation deduction for the year you place the property in service by multiplying the depreciation for a full year by the percentage listed below for the quarter you place the property in service.

Quarter	Percentage
First	87.5%
Second	62.5
Third	37.5
Fourth	12.5

If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation by the percentage listed below for the quarter you dispose of the property.

Quarter	Percentage
First	12.5%
Second	37.5
Third	62.5
Fourth	87.5

If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final quarter of the recovery period is the amount of your unrecovered basis in the property.

Mid-month convention. If this convention applies, the depreciation you can deduct for the first year that you

depreciate the property depends on the month in which you place the property in service. Figure your depreciation deduction for the year you place the property in service by multiplying the depreciation for a full year by a fraction. The numerator of the fraction is the number of full months in the year that the property is in service plus $\frac{1}{2}$ (or 0.5). The denominator is 12.

If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition the same way. If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final month of the recovery period is the amount of your unrecovered basis in the property.

Example. You use the calendar year and place non-residential 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). You multiply the depreciation for a full year by $4.5/12$, or 0.375.

Examples

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—200% DB method and half-year convention. In February, you placed in service depreciable property with a 5-year recovery period and a basis of \$1,000. You do not elect to take the section 179 deduction. You use GDS and the 200% declining balance (DB) method to figure your depreciation. When the straight line (SL) method results in an equal or larger deduction, you switch to the SL method. Because you did not place any property in service in the last three months of the year, you must use the half-year convention.

First year. You figure 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%. You multiply the adjusted basis of the property (\$1,000) by the 40% DB rate. You apply the half-year convention by dividing the result (\$400) by 2. Depreciation for the first year under the 200% DB method is \$200.

You figure the depreciation rate under the straight line (SL) method by dividing 1 by 5, the number of years in the recovery period. The result is 20%. You multiply the adjusted basis of the property (\$1,000) by the 20% SL rate. You apply 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, you deduct the \$200 figured under the 200% DB method.

Second year. You reduce the adjusted basis (\$1,000) by the depreciation claimed in the first year (\$200). You multiply the result (\$800) by the DB rate (40%). Depreciation for the second year under the 200% DB method is \$320.

You figure the SL depreciation rate by dividing 1 by 4.5, the number of years remaining in the recovery period. (Because of the half-year convention, you used only half a

year of the recovery period in the first year.) You multiply 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, you deduct the \$320 figured under the 200% DB method.

Third year. You reduce the adjusted basis (\$800) by the depreciation claimed in the second year (\$320). You multiply the result (\$480) by the DB rate (40%). Depreciation for the third year under the 200% DB method is \$192.

You figure the SL depreciation rate by dividing 1 by 3.5. You multiply 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, you deduct the \$192 figured under the 200% DB method.

Fourth year. You reduce the adjusted basis (\$480) by the depreciation claimed in the third year (\$192). You multiply the result (\$288) by the DB rate (40%). Depreciation for the fourth year under the 200% DB method is \$115.

You figure the SL depreciation rate by dividing 1 by 2.5. You multiply the reduced adjusted basis (\$288) by the result (40%). Depreciation under the SL method for the fourth year is \$115.

Because the SL method provides an equal deduction, you switch to the SL method and deduct the \$115.

Fifth year. You reduce the adjusted basis (\$288) by the depreciation claimed in the fourth year (\$115) to get the reduced adjusted basis of \$173. You figure the SL depreciation rate by dividing 1 by 1.5. You multiply the reduced adjusted basis (\$173) by the result (66.67%). Depreciation under the SL method for the fifth year is \$115.

Sixth year. You reduce the adjusted basis (\$173) by the depreciation claimed in the fifth year (\$115) to get the reduced adjusted basis of \$58. Because there is less than one year remaining in the recovery period, the SL depreciation rate for the sixth year is 100%. You multiply the reduced adjusted basis (\$58) by 100% to arrive at the depreciation deduction for the sixth year (\$58).

Example 2—SL method and 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 use GDS, the straight line (SL) method, and the mid-month convention to figure your depreciation.

First year. You figure the SL depreciation rate for the building by dividing 1 by 39 years. The result is .02564. The depreciation for a full year is \$2,564 ($\$100,000 \times .02564$). Under the mid-month convention, you treat the property as placed in service in the middle of January. You 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 ($\$2,564 \times .958$).

Second year. You subtract \$2,456 from \$100,000 to get your adjusted basis of \$97,544 for the second year. The SL rate is .02629. This is 1 divided by the remaining recovery period of 38.042 years (39 years reduced by 11.5 months or .958 year). Your depreciation for the building for the second year is \$2,564 ($\$97,544 \times .02629$).

Third year. The adjusted basis is \$94,980 ($\$97,544 - \$2,564$). The SL rate is .027 (1 divided by 37.042 remain-

ing years). Your depreciation for the third year is \$2,564 ($\$94,980 \times .027$).

Example 3—200% DB method and 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 and the 200% declining balance (DB) method 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 placed in service during the year (\$10,000) and you do not elect to apply the half-year convention, you must use the mid-quarter convention. This convention applies to all three items of property. The safe and office furniture are 7-year property and the computer is 5-year property.

The 200% DB rate for 7-year property is .28571. You determine this by dividing 2.00 (200%) by 7 years. The depreciation for the safe for a full year is \$1,143 ($\$4,000 \times .28571$). Because you placed the safe in service in the first quarter of your tax year, you multiply \$1,143 by 87.5% (the mid-quarter percentage for the first quarter). The result, \$1,000, is your deduction for depreciation on the safe for the first year.

For the second year, the adjusted basis of the safe is \$3,000. You figure 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 ($\$3,000 \times .28571$).

Because the furniture is also 7-year property, you use the same 200% DB rate of .28571. You multiply the basis of the furniture (\$1,000) by .28571 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% (the mid-quarter percentage for the third quarter). The result, \$107, is your deduction for depreciation on the furniture for the first year.

For the second year, the adjusted basis of the furniture is \$893. You figure this by subtracting the first year's depreciation (\$107) from the basis of the furniture (\$1,000). Your depreciation for the second year is \$255 ($\$893 \times .28571$).

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

For the second year, the adjusted basis of the computer is \$4,750. You figure this by subtracting the first year's

depreciation (\$250) from the basis of the computer (\$5,000). Your depreciation deduction for the second year is \$1,900 ($\$4,750 \times .40$).

Example 4—200% DB method and mid-quarter convention. Last year, in October, you bought and placed in service in your business an item of 7-year property. This was 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 used 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 ($\$10,000 \times 3.57\%$).

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 DB rate by dividing 2.00 (200%) by 7 years. The result is .28571 or 28.571%. You multiply the adjusted basis of your property (\$10,143) by the declining balance rate of .28571 to get your depreciation deduction of \$2,898 for this year.

Figuring the Deduction for Carried-Over-Basis Property

If your property has a carried-over basis because you acquired it in an exchange or involuntary conversion of other property or in a nontaxable transfer, you may have to figure depreciation for the property as if the exchange, conversion, or transfer had not occurred.

Property Acquired in an Exchange or Involuntary Conversion

You generally must depreciate MACRS property that you acquired in a like-kind exchange or an involuntary conversion of other MACRS property over the remaining recovery period of the exchanged or involuntarily converted property. You also generally continue to use the same depreciation method and convention. You can depreciate the part of the acquired property's basis that exceeds its carried-over basis (the adjusted basis of the exchanged or converted property) as newly purchased MACRS property.



If you placed the acquired MACRS property in service before January 3, 2000, you continue to use your original method of depreciating that property.

Property Acquired in a Nontaxable Transfer

You must depreciate MACRS property acquired by a corporation or partnership in certain nontaxable transfers over the property's remaining recovery period in the transferor's hands, as if the transfer had not occurred. You must continue to use the same depreciation method and convention as the transferor. You can depreciate the part of the property's basis that exceeds its carried-over basis (the transferor's adjusted basis in the property) as newly purchased MACRS property.

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.

Figuring the Deduction for a 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 property you place in service or dispose of 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 or disposed of).

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

Using the Applicable Convention in a Short Tax Year

The applicable convention establishes the date property is treated as placed in service and disposed of. 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 determined by applying the convention. The remaining recovery period at the beginning of the next tax year is the full recovery period less the part for which depreciation was allowable in the first tax year.

The following discussions explain how to use the applicable convention in a short tax year.

Mid-month convention. Under the mid-month convention, you always treat your property as placed in service or disposed of on the midpoint of the month it is placed in service or disposed of. 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 or disposed of 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 or disposed of on either the first day or the midpoint of a month.

For example, a short tax year that begins on June 20 and ends on December 31 consists of 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, 2001. 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, 2001.

Not on first or last day of month. For a short tax year not beginning on the first day of a 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 or disposed of 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 or disposed of 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. However, see *Exception*, next.

You treat property under the mid-quarter convention as placed in service or disposed of on the midpoint of the quarter of the tax year in which it is placed in service or disposed of. 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 day 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 by dividing the number of days in your short tax year by 4.

- 3) Determine the midpoint of each quarter by dividing 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 day or midpoint of a month, treat the property as placed in service or disposed of on the nearest preceding first day or midpoint of that month.

Exception. If the third or fourth quarter of your short tax year includes September 11, 2001, you can elect to apply the half-year convention, discussed earlier, to all property (other than nonresidential real property and residential rental property) placed in service during that tax year. (The dates included in the third or fourth quarter can be determined by dividing the number of days in the short tax year by 4.) To make this election, write "Election Pursuant to Notice 2001-70" across the top of your Form 4562 for the tax year.

Example. 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 does not elect to apply the half-year convention and, therefore, 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 – 8/07	7/02	7/01
8/08 – 10/19	9/13	9/01
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 day or the midpoint of November, Tara Corporation must treat the property as placed in service in the middle of November.

Property Placed in Service 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 After a 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. Tara is allowed 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 $\frac{5}{12}$ 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, it was placed in service in the last 3 months of the tax year, and the corporation does not elect to apply the half-year convention.

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 $\frac{4}{12}$ to get the short tax year depreciation of \$133.

Property Placed in Service Before a Short Tax Year

If you have a short tax year after the tax year in which you began depreciating property, you must change the way you figure depreciation for that property. If you were using the percentage tables, you can no longer use them. You must figure depreciation for the short tax year and each later tax year as explained next.

Depreciation After a Short Tax Year

You can use either of the following methods to figure the depreciation for years after a short tax year.

- The simplified method.
- The allocation method.

You must use the method you choose consistently.

Using the simplified method for a 12-month year.

Under the simplified method, you figure the depreciation for a later 12-month year in the recovery period by multiplying the adjusted basis of your property at the beginning of the year by the applicable depreciation rate.

Example. Tara Corporation had a short tax year of 10 months, ending on December 31. During that year, 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 adjusted basis on January 1 of the next year is \$833 (\$1,000 – \$167). Tara's depreciation for that next year is 40% of \$833, or \$333.

Using the simplified method for a short year. If a later tax year in the recovery period is a short tax year, you figure depreciation for that year by multiplying the adjusted 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.

Using the simplified method for an early disposition. If you dispose of property in a later tax year before the end of the recovery period, determine the depreciation for the year of disposition by multiplying the adjusted basis of the property at the beginning of the tax year by the applicable depreciation rate and then multiplying the result by a fraction. The fraction's numerator 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). Its denominator is 12.

Using the allocation method for a 12-month or short tax year. Under the allocation method, you figure the depreciation for each later tax year by allocating to that year the depreciation attributable to the parts of the recovery years that fall within that 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 that year. For each recovery year included, multiply the depreciation attributable to that recovery year by a fraction. The fraction's numerator is the number of months (including parts of a month) that are included 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. Assume the same facts as in Example 1 under *Property Placed in Service in a Short Tax Year*. The Tara Corporation's first tax year after the short tax year is a full year of 12 months, beginning January 1 and ending December 31. The first 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 the 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 next tax year. The depreciation for the next tax year is \$333, which is the sum of the following.

- \$233—The depreciation for the first recovery year ($\$400 \times 7/12$).

- \$100—The depreciation for the second recovery year. This is figured by multiplying the adjusted basis of \$600 ($\$1,000 - \400) by 40%, then multiplying the \$240 result by $5/12$.

Using the allocation method for an early disposition. If you dispose of property before the end of the recovery period in a later tax year, determine the depreciation for the year of disposition by multiplying the depreciation figured for each recovery year or part of a recovery year included in the tax year by a fraction. The numerator of the fraction is the number of months (including parts of months) the property is treated as in service in the tax year (applying the applicable convention). 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.

How Do You Use General Asset Accounts?

Terms you may need to know (see Glossary):

Adjusted basis
Amortization
Amount realized
Basis
Clean-fuel vehicle
Clean-fuel vehicle refueling property
Convention
Disposition
Exchange
Placed in service
Recovery period
Section 1245 property
Unadjusted basis

To make it easier to figure MACRS depreciation, you can group separate properties into one or more general asset accounts (GAAs). You can then depreciate all the properties in each account as a single item of property.

Property you cannot include. You cannot include property in a GAA if you use it in both a personal activity and a trade or business (or for the production of income) in the year in which you first place it in service. If property you included in a GAA is later used in a personal activity, see *Terminating GAA Treatment*, later.

Property generating foreign source income. For information on the GAA treatment of property that generates foreign source income, see section 1.168(i)-1(f) of the regulations.

Grouping Property

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

- Asset class, if any.
- Recovery period.
- Depreciation method.
- Convention.

The following rules also apply when you establish a GAA.

- **No asset class.** Properties without an asset class, but with the same depreciation method, recovery period, and convention, can be grouped into the same GAA.
- **Mid-quarter convention.** Property subject to the mid-quarter convention can only be grouped into a GAA with property placed in service in the same quarter.
- **Mid-month convention.** Property subject to the mid-month convention can only be grouped into a GAA with property 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 GAA.

Figuring Depreciation for a GAA

After you have set up a GAA, you generally figure the depreciation for it by using the applicable depreciation method, recovery period, and convention for the property in the GAA. For each GAA, record the depreciation allowance in a separate depreciation reserve account.

Example. Make & Sell, a calendar-year corporation, set up a GAA for ten machines. The machines cost a total of \$10,000 and were placed in service in June 2001. One of the machines cost \$8,200 and the rest cost a total of \$1,800. This GAA is depreciated under the 200% declining balance method with a 5-year recovery period and a half-year convention. Make & Sell did not claim the section 179 deduction on the machines. The depreciation allowance for 2001 is \$2,000 $[(\$10,000 \times 40\%) \div 2]$. As of January 1, 2002, the depreciation reserve account is \$2,000.

Passenger automobiles. To figure depreciation on passenger automobiles in a GAA, apply the deduction limits discussed in chapter 4 under *Do the Passenger Automobile Limits Apply*. Multiply the amount determined using these limits by the number of automobiles originally included in the account, reduced by the total number of automobiles removed from the GAA as discussed in *Terminating GAA Treatment*, later.

Disposing of GAA Property

When you dispose of property included in a GAA, the following rules generally apply.

- 1) Neither the depreciable basis nor the depreciation reserve account of the GAA is affected. You continue to depreciate the account as if the disposition had not occurred.
- 2) The property is treated as having an adjusted basis of zero, so you cannot realize a loss on the disposition. If the property is transferred to a supplies, scrap, or similar account, its basis in that account is zero.
- 3) Any amount realized on the disposition is treated as ordinary income. (See *Treatment of amount realized*, later in this discussion.)

However, these rules do **not** apply to any disposition described later under *Terminating GAA Treatment*.

Disposition. Property in a GAA 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 disposition.

Treatment of amount realized. When you dispose of property in a GAA, you must recognize any amount realized from the disposition as ordinary income, up to a limit. The limit is:

- The unadjusted depreciable basis of the GAA **plus**
- Any expensed costs for property in the GAA that are subject to recapture as depreciation (not including any expensed costs for property that you removed from the GAA under the rules discussed later in *Terminating GAA Treatment*), **minus**
- Any amount previously recognized as ordinary income upon the disposition of other property from the GAA.

Unadjusted depreciable basis. The unadjusted depreciable basis of a GAA is the total of the unadjusted depreciable bases of all the property in the GAA. The unadjusted depreciable basis of an item of property in a GAA is the amount you would use to figure gain or loss on its sale, but figured without reducing your original basis by any depreciation taken in earlier years. However, you do reduce your original basis by any amortization deduction, section 179 deduction, deduction for a clean-fuel vehicle or clean-fuel vehicle refueling property, or electric vehicle credit.

Expensed costs. 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 deductions for the following.
 - a) Pollution control facilities.
 - b) Removal of barriers for the elderly and disabled.
 - c) Tertiary injectants.
 - d) Reforestation expenses.

Example 1. The facts are the same as in the example under *Figuring Depreciation for a GAA*, earlier. In February 2002, Make & Sell sells the machine that cost \$8,200 to an unrelated person for \$9,000. The machine is treated as having an adjusted basis of zero.

On its 2002 tax return, Make & Sell recognizes the \$9,000 amount realized as ordinary income because it is not more than the GAA's unadjusted depreciable basis (\$10,000) plus any expensed cost (for example, the section 179 deduction) for property in the GAA (\$0), minus any amounts previously recognized as ordinary income because of dispositions of other property from the GAA (\$0).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the sale of the machine. The depreciation allowance for the GAA in 2002 is \$3,200 $[(\$10,000 - \$2,000) \times 40\%]$.

Example 2. Assume the same facts as in Example 1. In June 2003, Make & Sell sells seven machines to an unrelated person for a total of \$1,100. These machines are treated as having an adjusted basis of zero.

On its 2003 tax return, Make & Sell recognizes \$1,000 as ordinary income. This is the GAA's unadjusted depreciable basis (\$10,000) plus the expensed costs (\$0), minus the amount previously recognized as ordinary income (\$9,000). The remaining amount realized of \$100 $(\$1,100 - \$1,000)$ is section 1231 gain (discussed in chapter 3 of Publication 544).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the disposition of the machines. The depreciation allowance for the GAA in 2003 is \$1,920 $[(\$10,000 - \$5,200) \times 40\%]$.

Terminating GAA Treatment

You must remove the following property from a GAA.

- Property you dispose of in a nonrecognition transaction or an abusive transaction.
- Property you dispose of in a qualifying disposition or in a disposition of all the property in the GAA, if you choose to terminate GAA treatment.
- Property you change to personal use.
- Property for which you must recapture the investment credit, the credit for qualified electric vehicles, the section 179 deduction, or the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property.

If you remove property from a GAA, you must make the following adjustments.

- 1) Reduce the unadjusted depreciable basis of the GAA by the unadjusted depreciable basis of the property as of the first day of the tax year in which the disposition, change in use, or recapture event occurs. (You can use any reasonable method that is consistently applied to determine the unadjusted depreciable basis of the property you remove from a GAA.)
- 2) Reduce the depreciation reserve account by the depreciation allowed or allowable for the property (computed in the same way as computed for the GAA) as of the end of the tax year immediately preceding the year in which the disposition, change in use, or recapture event occurs.

These adjustments have no effect on the recognition and character of prior dispositions subject to the rules discussed earlier under *Disposing of GAA Property*.

Nonrecognition transactions. If you dispose of GAA property in a nonrecognition transaction, you must remove it from the GAA. 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 recipient (transferee). The recipient of the property (the person to whom it is transferred) must include your (the transferor's) adjusted basis in the property in a GAA. If you transferred either all of the property or the last item of property in a GAA, the recipient's basis in the property is the result of the following.

- The adjusted depreciable basis of the GAA 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.

For this purpose, the **adjusted depreciable basis** of a GAA is the unadjusted depreciable basis of the GAA minus any depreciation allowed or allowable for the GAA.

Abusive transactions. If you dispose of GAA property in an abusive transaction, you must remove it from the GAA. A disposition is an abusive transaction if it is not a nonrecognition transaction (described earlier) and a main pur-

pose for the disposition is to get a tax benefit or a result that would not be available without the use of a GAA. Examples of abusive transactions include the following.

- 1) 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 GAA to take advantage of differing effective tax rates.
- 2) A choice to use a GAA with a main purpose of disposing of property from the GAA so that you can use an expiring net operating loss or credit. For example, if you have a net operating loss carryover or a credit carryover, the following transactions will be considered abusive transactions unless there is strong evidence to the contrary.
 - a) A transfer of GAA property to a related person.
 - b) A transfer of GAA property under an agreement where the property continues to be used, or is available for use, by you.

Figuring gain or loss. You must determine the gain, loss, or other deduction due to an abusive transaction 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 GAA 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 GAA (plus, for section 1245 property originally included in the GAA, any expensed cost), **minus**
 - b) The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Qualifying dispositions. If you dispose of GAA property in a qualifying disposition, you can choose to remove the property from the GAA. A qualifying disposition is one that does not involve all the property, or the last item of property, remaining in a GAA and that is described below.

- 1) A disposition that is a direct result of fire, storm, shipwreck, other casualty, or theft.
- 2) A charitable contribution for which a deduction is allowed.

- 3) A disposition that is a direct result of a cessation, termination, or disposition of a business, manufacturing or other income producing process, operation, facility, plant, or other unit (other than by transfer to a supplies, scrap, or similar account).
- 4) A nontaxable transaction, such as a like-kind exchange or an involuntary conversion, other than a nonrecognition transaction (described earlier) or a transaction that is nontaxable only because it is a disposition from a GAA.

If you choose to remove the property from the GAA, figure your gain, loss, or other deduction resulting from the disposition in the manner described earlier under *Abusive transactions*.

Example. Sankofa, a calendar-year corporation, maintains one GAA for 12 machines. Each machine costs \$15,000 and was placed in service in 2001. 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 GAA uses the 200% declining balance depreciation method, a 5-year recovery period, and a half-year convention. Sankofa does not claim the section 179 deduction for any of the machines. As of January 1, 2003, the depreciation reserve account for the GAA is \$93,600.

In May 2003, 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 remove the three machines from the GAA and figure the gain, loss, or other deduction by taking into account their adjusted bases.

For Sankofa's 2003 return, the depreciation allowance for the GAA is figured as follows. As of December 31, 2002, the depreciation allowed or allowable for the three machines at the New Jersey plant is \$23,400. As of January 1, 2003, the unadjusted depreciable basis of the GAA is reduced from \$180,000 to \$135,000 (\$180,000 minus the \$45,000 unadjusted depreciable bases of the three machines), and the depreciation reserve account is decreased from \$93,600 to \$70,200 (\$93,600 minus \$23,400 depreciation allowed or allowable for the three machines as of December 31, 2002.) The depreciation allowance for the GAA in 2003 is \$25,920 [(\$135,000 - \$70,200) × 40%].

For Sankofa's 2003 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 2003 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 \$1,440 depreciation allowed or allowable in 2003). As a result, the loss recognized in 2003 for each machine is \$760 (\$5,000 - \$5,760). This loss is subject to section 1231 treatment. See chapter 3 of Publication 544 for information on section 1231.

Disposition of all property in a GAA. If you dispose of all the property, or the last item of property, in a GAA, you can choose to end the GAA. If you make this choice, you figure the gain or loss by comparing the adjusted depreciable basis of the GAA with the amount realized.

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

- The depreciation allowed or allowable for the GAA, including any expensed cost (such as section 179 deductions or the additional depreciation allowed or allowable for the GAA), **minus**
- The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Example. Duforcelf, a calendar-year corporation, maintains a GAA for 1,000 calculators that cost a total of \$60,000 and were placed in service in 2001. Assume this GAA 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 2002, Duforcelf sells 200 of the calculators to an unrelated person for \$10,000. The \$10,000 is recognized as ordinary income.

In March 2002, Duforcelf sells the remaining calculators in the GAA to an unrelated person for \$35,000. Duforcelf decides to end the GAA.

On the date of the 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 subject to recapture as ordinary income 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.

Electing To Use a GAA

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

How to make the election. Make the election by completing line 14 of Form 4562.

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 GAA. 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.



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

Revoking an election. You can revoke an election to use a GAA only in the following situations.

- You include in the GAA 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, and that inclusion results in a substantial distortion of income.
- You remove property from the GAA as described under *Terminating GAA Treatment*, earlier.

When Do You Recapture MACRS Depreciation?

Terms you may need to know (see Glossary):

Clean-fuel vehicle
Clean-fuel vehicle refueling property
Disposition
Nonresidential real property
Recapture
Residential rental property

When you dispose of property that you depreciated using MACRS, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the depreciation previously allowed 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.

4.

Additional Rules for Listed Property

Introduction

This chapter discusses the deduction limits and other special rules that apply to certain listed property. Listed property includes cars and other property used for transportation, property used for entertainment, and certain computers and cellular phones.

Deductions for listed property (other than certain leased property) are subject to the following limits and special rules.

- **Limit for employees.** If your use of the property is not for your employer's convenience or is not required as a condition of your employment, you cannot deduct depreciation or rent expenses for your use of the property as an employee.
- **Business-use limits and rules.** If the property is not used predominantly (more than 50%) for qualified business use, you cannot claim the section 179 deduction and any depreciation deduction under the Modified Accelerated Cost Recovery System (MACRS) must be figured using the straight-line method over the ADS recovery period. In addition, you may have to recapture (include in income) any excess depreciation claimed in previous years. A similar inclusion amount applies to certain leased property.
- **Passenger automobile limits and rules.** Annual limits apply to depreciation deductions (including section 179 deductions) for passenger automobiles. You can continue to deduct depreciation for the unrecovered basis resulting from these limits after the end of the recovery period.

This chapter defines listed property and explains the depreciation deduction limits and other special rules that apply, including the special inclusion amount rule for leased property. It also discusses the recordkeeping rules for listed property and explains how to report information about the property on your tax return.



For information on the limits on depreciation deductions for listed property placed in service before 1987, see Publication 534.

Useful Items

You may want to see:

Publication

- 463** Travel, Entertainment, Gift, and Car Expenses
- 535** Business 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
- 4562** Depreciation and Amortization
- 4797** Sales of Business Property

See chapter 6 for information about getting publications and forms.

What Is Listed Property?

Terms you may need to know (see Glossary):

Capitalized
Commuting
Improvement
Recovery period
Straight line method

Listed property is any of the following.

- Any passenger automobile.
- Any other property used for transportation, unless it is an excepted vehicle.
- 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, **unless** it is used only at a regular business establishment and is owned or leased by the person operating the establishment. A regular business establishment includes a portion of a dwelling unit that is used both regularly and exclusively for business as discussed in Publication 587.
- Any cellular telephone (or similar telecommunication equipment).

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.

Passenger Automobiles

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.

For a detailed discussion of passenger automobiles, including leased passenger automobiles, see Publication 463.

Other Property Used for Transportation

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

Excepted vehicles. The following vehicles 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.
- Qualified moving vans.
- Qualified specialized utility repair trucks.
- School buses used in transporting students and employees of schools.
- Other buses with a capacity of at least 20 passengers that are used as passenger buses.
- 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.
- It is prohibited from being used for personal use (other than commuting) outside the limit of the police officer's arrest powers or the fire fighter's obligation to respond to an emergency.
- 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 maintaining 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 that is an integral part of property that 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.

Does the Limit for Employees Apply?

If you are an employee, the use of your listed property (whether owned or rented) in performing services as an employee is a business use only if both the following requirements are met.

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

If these requirements are not met, you cannot deduct depreciation (including the section 179 deduction) or rent expenses for your use of the property as an employee.

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

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

Do the Business-Use Limits Apply?

Terms you may need to know (see Glossary):

Adjusted basis
 Business/investment use
 Capitalized
 Commuting
 Fair market value (FMV)
 Nonresidential real property
 Placed in service
 Recapture
 Recovery period
 Straight line method

The business-use limits apply to listed property not used predominantly (more than 50% of its total use) for qualified business use. Under this limit, the following rules apply.

- Property not used predominantly for qualified business use during the year it is placed in service does not qualify for the section 179 deduction.
- Any depreciation deduction under MACRS for property not used predominantly for qualified business use during **any** year must be figured using the straight-line method over the ADS recovery period. This rule applies each year of the recovery period.
- Excess depreciation on property previously used predominantly for qualified business use must be recaptured (included in income) in the first year in which it is no longer used predominantly for qualified business use.
- A lessee must include an amount in income if the leased property is not used predominantly for qualified business use.



Being required to use the straight line method for an item of listed property not used predominantly for qualified business use 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.

Exception for leased property. The business-use limits 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.

How To Allocate Use

To determine whether the business-use limits apply, you must allocate the use of any item of listed property used for more than one purpose during the year among its various uses.

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.

Entertainment use. Treat the use of listed property for entertainment, recreation, or amusement purposes as a 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.

Commuting use. 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 automobile by another person. If someone else uses your automobile, do not treat that use as business use unless one of the following conditions 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).

Employee deductions. If you are an employee, do not treat your use of listed property as business use unless it is for your employer's convenience and is required as a condition of your employment. See *Does the Limit for Employee's Apply*, earlier.

Qualified Business Use

Qualified business use of listed property is any use of the property in your trade or business. However, it does *not* include the following uses.

- The leasing of property to any 5% owner or related person (to the extent 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 the 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.



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

Exception for leasing or compensatory use of aircraft.

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

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 persons. For a description of related persons, see the discussion on pre-1987-use property under *Can You Use MACRS To Depreciate Your Property?* in chapter 1. For this purpose, however, treat as related persons only the relationships listed in items (1) through (9) of that discussion and substitute "50%" for "10%" each place it appears.

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 prop-

erly withholds tax on it. Because the use of the automobile is pay for the performance of services by a related person, it is not a qualified business use.

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 that its employees use for business purposes. The employees are also allowed to take the automobiles home at night. The fair market value of each employee's use of an automobile for any personal purpose, such as commuting to and from work, is reported as income to the employee 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.

Investment Use

The use of property to produce income in a nonbusiness activity (investment use) is **not** a qualified business use. However, you can treat the investment use as business use to figure the depreciation deduction for the property in a given year.

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 predominantly for qualified business use, she cannot elect a section 179 deduction for the computer and must depreciate it using the straight line method over the ADS recovery period. (Her combined rate of business/investment use for determining her depreciation deduction is 90%.)

Example 2. If Sarah uses her computer 30% of the time to manage her investments and 60% of the time in her consumer research business, it is used predominantly for qualified business use. She can elect a section 179 deduction and, if she does not deduct all the computer's cost, she can depreciate it using the 200% declining balance method over the GDS recovery period. (Her combined business/investment use for determining her depreciation deduction is 90%.)

Recapture of Excess Depreciation

If you used listed property predominantly for qualified business use in the year you placed it in service, you must recapture (include in income) excess depreciation in the first year you do not use it predominantly for qualified business use. You also increase the adjusted basis of your property by the same amount.

Excess depreciation is:

- 1) The depreciation allowable for the property (including any section 179 deduction claimed) for years before

the first year you do not use the property predominantly for qualified business use, **minus**

- 2) The depreciation that would have been allowable for those years if you had not used the property predominantly for qualified business use in the year you placed it in service.

To determine the amount in (2) above, you must refigure the depreciation using the straight line method and the ADS recovery period.

Example. In June 1997, Ellen Rye purchased and placed in service a pickup truck that cost \$18,000. She used it only for qualified business use for 1997 through 2000. Ellen claimed a section 179 deduction of \$10,000 based on the purchase of the truck. She began depreciating it using the 200% DB method over a 5-year GDS recovery period. (Because the pickup truck weighed over 6,000 pounds, it was not subject to the passenger automobile limits discussed later under *Do the Passenger Automobile Limits Apply.*) During 2001, she used the truck 50% for business and 50% for personal purposes. She includes \$4,018 excess depreciation in her gross income for 2001. The excess depreciation is determined as follows.

Total section 179 deduction (\$10,000) and depreciation claimed (\$6,618). (Depreciation is from Table A-1.)	\$16,618
Minus: Depreciation allowable (Table A-8):	
1997 – 10% of \$18,000	\$1,800
1998 – 20% of \$18,000	3,600
1999 – 20% of \$18,000	3,600
2000 – 20% of \$18,000	3,600
	<u>12,600</u>
Excess depreciation	<u>\$4,018</u>

If Ellen's use of the truck does not change to 50% for business and 50% for personal purposes until 2003, there will be no excess depreciation. The total depreciation allowable using Table A-8 through 2003 will be \$18,000, which equals the total of the section 179 deduction and depreciation she will have claimed.

Where to figure and report recapture. Use **Form 4797**, Part IV, to figure the recapture amount. Report the recapture amount as "other income" on the same form or schedule on which you took the depreciation deduction. For example, report the recapture amount as "other income" on Schedule C (Form 1040) if you took the depreciation deduction on Schedule C. If you took the depreciation deduction on Form 2106, report the recapture amount as "other income" on Form 1040, line 21.

Lessee's Inclusion Amount

If you use leased listed property **other than a passenger automobile** for business/investment use, you must include an amount in your income in the first year your qualified business-use percentage is 50% or less. Your qualified business-use percentage is the part of the property's total use that is qualified business use (defined earlier).



For the inclusion amount rules for a leased passenger automobile, see Leasing a Car in chapter 4 of Publication 463.

The inclusion amount is the sum of amount A and amount B, described next. However, see the special rules for the inclusion amount, later, if your lease begins in the last 9 months of your tax year or is for less than one year.

Amount A. Amount A is:

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

The fair market value of the property 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, you must treat that amount as the fair market value.

Amount B. Amount B is:

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

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.

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

**Inclusion Amount Worksheet
for Leased Listed Property**



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, 1999, 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 business use of the property (all of which is qualified business use) is 80% in 1999, 60% in 2000, and 40% in 2001. He must add an inclusion amount to gross income for 2001, the first tax year his qualified business-use percentage is 50% or less. The computer has a 5-year recovery period under both GDS and ADS. Because 2001 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's deductible rent for the computer for 2001 is \$800.

Larry uses the *Inclusion Amount Worksheet for Leased Listed Property* to figure the amount he must include in income for 2001. His inclusion amount is \$224, which is the sum of -\$238 (Amount A) and \$462 (Amount B).

**Inclusion Amount Worksheet
for Leased Listed Property**

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

Lease beginning in the last 9 months of your tax year. Add the inclusion amount to income in the next tax year if all the following apply.

- The lease term begins within 9 months before the close of your tax year.
- You do not use the property predominantly for qualified business use during that part of the tax year.
- The lease term continues into your next tax year.

Figure the inclusion amount by taking into account the average of the business/investment use for both tax years (line 2 of the *Inclusion Amount Worksheet for Leased Listed Property*) and the applicable percentage for the tax year the lease term begins. (Skip lines 6 through 9 of the worksheet and enter zero on line 10.)

Example 1. On August 1, 2000, 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 business use of the property was 50% in 2000 and 90% in 2001. She paid rent of \$3,600 for 2001, of which \$3,240 is deductible. She must include \$147 in income in 2001. The \$147 is the sum of Amount A and Amount B. Amount A is \$147 ($\$10,000 \times 70\% \times 2.1\%$), the product of the fair market value, the average business use for 2000 and 2001, and the applicable percentage for year one from Table A-19. Amount B is zero.

Lease for less than one year. If the lease term is less than one year and you do not use the property predominantly for qualified business use, the amount included in income is the inclusion amount (figured as described in the preceding discussions) multiplied by a fraction. The numerator of the fraction is the number of days in the lease term and the denominator is 365.

The **lease term** for listed property other than residential rental or nonresidential real property includes options to renew. If you have 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, treat them as one lease.

Example 2. On October 1, 2000, 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 was 6 months (ending on March 31, 2001), during which he used the property 45% in business. He must include \$71 in income in 2001. The \$71 is the sum of Amount A and Amount B. Amount A is \$71 ($\$15,000 \times 45\% \times 2.1\% \times 182/365$), 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. Amount B is zero.

Where to report inclusion amount. Report the inclusion amount figured as described in the preceding discussions as "other income" on the same form or schedule on which you took the deduction for your rental costs. For example, report the inclusion amount as "other income" on Schedule C (Form 1040) if you took the deduction on Schedule C. (If you took the deduction for rental costs on Form 2106, report the inclusion amount as "other income" on Form 1040, line 21.)

Do the Passenger Automobile Limits Apply?

Terms you may need to know (see Glossary):

- Basis
- Clean-fuel vehicle
- Convention

- Placed in service
- Recovery period

The depreciation deduction (including the section 179 deduction) you can claim for a passenger automobile each year is limited. (For the definition of a passenger automobile, see *What Is Listed Property?* earlier.)

This section describes the maximum depreciation deduction amounts for 2001 and explains how to deduct, after the recovery period, the unrecovered basis of your property that results from applying the passenger automobile limit.

Exception for clean-fuel modifications. The passenger automobile limits do **not** apply to any costs you pay to retrofit parts and components to modify an automobile to run on clean fuel. The limits apply only to the cost of the automobile without this modification.

Exception for leased cars. The passenger automobile limits generally do not apply to passenger automobiles leased or held for leasing by anyone regularly engaged in the business of leasing passenger automobiles. For information on when you are considered regularly engaged in the business of leasing listed property, including passenger automobiles, see *Exception for leased property*, earlier, under *Do the Business-Use Limits Apply*.

Maximum Depreciation Deduction

Determine the maximum depreciation deduction you can claim for a passenger automobile based on the date you placed the automobile in service. The maximum deduction amounts for most passenger automobiles for 2001 are shown in the following table.

Maximum Depreciation Deduction for Passenger Automobiles

<u>Year Placed in Service</u>	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year and Later</u>
2001	\$3,060	\$4,900	\$2,950	\$1,775
2000		4,900	2,950	1,775
1999			2,950	1,775
1995 – 1998				1,775
1993 – 1994				1,675
1991 – 1992				1,575
Pre-1991				1,475



If your business/investment use of the automobile is less than 100%, you must reduce the maximum deduction amount proportionately.

Example. On April 15, 2001, Virginia Hart bought a car for \$10,000. She used 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 2001. This \$2,000 is below the maximum depreciation deduction of \$3,060 for passenger automobiles placed in service in 2001. She can deduct the full \$2,000.

Electric Vehicles

The maximum depreciation deductions for passenger automobiles that are produced to run primarily on electricity are higher than those for other automobiles. The maximum deduction amounts for electric cars for 2001 are shown in the following table.

Maximum Depreciation Deduction for Electric Vehicles

Year Placed in Service	1st Year	2nd Year	3rd Year	4th Year and Later
2001	\$9,280	\$14,800	\$8,850	\$5,325
2000		14,800	8,850	5,325
1999			8,950	5,325
1997 - 1998				5,425

For more information on electric vehicles, see chapter 12 of Publication 535.

Depreciation Worksheet for Passenger Automobiles

You can use the following worksheet to figure your depreciation deduction using the percentage tables. Then use the information from this worksheet to prepare Form 4562.

Depreciation Worksheet for Passenger Automobiles



Part I

1. Description of property _____
2. Date placed in service _____
3. MACRS system (GDS or ADS) ... _____
4. Recovery period _____
5. Method and convention _____
6. Depreciation rate (from tables) ... _____
7. Maximum depreciation deduction for this year from the appropriate table _____
8. Business/investment-use percentage _____
9. Multiply line 7 by line 8. This is your adjusted maximum depreciation deduction _____

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 limit on the amount you can deduct for depreciation _____
12. Cost or other basis (reduced by any section 179A deduction¹ or credit for electric vehicles²) _____
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 _____
16. Multiply line 15 by line 6. This is your tentative depreciation deduction _____
17. Enter the lesser of line 11 or line 16. This is your depreciation deduction _____

¹The 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.
²Reduce 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 depreciation deduction using the worksheet.

Example. On September 26, 2001, Donald Banks bought a car for \$18,000. He used the car 60% for business during 2001. 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 and uses Table A-1 to determine the depreciation rate. Donald's depreciation deduction is limited to \$836, as shown in the following worksheet.

Depreciation Worksheet for Passenger Automobiles

Part I

1. Description of property _____ Automobile
2. Date placed in service _____ 9/26/01
3. MACRS system (GDS or ADS) _____ GDS
4. Recovery period _____ 5-Year

5. Method and convention	200% DB/Half-Year	
6. Depreciation rate (from tables) . .	.20	
7. Maximum depreciation deduction for this year from the appropriate table	\$3,060	
8. Business/investment-use percentage	60%	
9. Multiply line 7 by line 8. This is your adjusted maximum depreciation deduction		\$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 limit on the amount you can deduct for depreciation		\$836
12. Cost or other basis (reduced by any section 179A deduction ¹ or credit for electric vehicles ²)	\$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 . . .	\$9,800	
16. Multiply line 15 by line 6. This is your tentative depreciation deduction		\$1,960
17. Enter the lesser of line 11 or line 16. This is your depreciation deduction		\$836

¹The 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.

²Reduce 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.

Deductions After the Recovery Period

If the depreciation deductions for your automobile are reduced under the passenger automobile limits, you will have unrecovered basis in your automobile at the end of the recovery period. If you continue to use the automobile for business, you can deduct that unrecovered basis after the recovery period ends. You can claim a depreciation

deduction in each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct each year is determined by the date you placed the car in service and your business/investment-use percentage. See *Maximum Depreciation Deduction*, earlier.

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 and the passenger automobile limits had not applied.



You cannot claim a depreciation deduction for listed property other than passenger automobiles after the recovery period ends. There is no unrecovered basis at the end of the recovery period because you are considered to have used this property 100% for business and investment purposes during all of the recovery period.

Example. In May 1995, 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 (1995 through 2000). You figured your depreciation as shown below.

<u>Year</u>	<u>Percentage</u>	<u>Amount</u>	<u>Limit</u>	<u>Allowed</u>
1995	20.0%	\$6,000	\$3,060	\$3,060
1996	32.0	9,600	4,900	4,900
1997	19.2	5,760	2,950	2,950
1998	11.52	3,456	1,775	1,775
1999	11.52	3,456	1,775	1,775
2000	5.76	1,728	1,775	1,728
Total				\$16,188

At the end of 2000, you had an unrecovered basis of \$13,812 (\$30,000 – \$16,188). If in 2001 and later years you continue to use the car 100% for business, you can deduct each year the lesser of \$1,775 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 \$9,713 (\$16,188 × 60%), but you would still have to reduce your basis by \$16,188 to determine your unrecovered basis.

What Records Must Be Kept?

Terms you may need to know (see Glossary):

- Business/investment use
- Circumstantial evidence

You cannot take any depreciation or section 179 deduction for the use of listed property 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



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 that 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 part 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.

How Long To Keep 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.

How Is Listed Property Information Reported?

Terms you may need to know (see Glossary):

Commuting
Standard mileage rate

You must provide the information about your listed property requested in Part V of Form 4562, Section A, if you claim either of the following deductions.

- Any deduction for a vehicle.
- A depreciation deduction for any other listed property.

If you claim any deduction for a vehicle, you must also provide the information requested in Section B. (If you provide the vehicle for your employee's use, the employee must give you this information.) If you provide any vehicle for use by an employee, you must also answer the questions in Section C.

Vehicles used by your employees. You do not have to complete Section B, Part V, for vehicles used by your employees who are not more-than-5% owners or related persons if you meet at least one of the following requirements.

- 1) You maintain a written policy statement that prohibits one of the following uses of the vehicles.
 - a) All personal use.
 - b) Personal use, other than commuting, by employees who are not officers, directors, or 1%-or-more owners.

- 2) You treat all use of the vehicles by your employees as personal use.
- 3) You provide more than 5 vehicles for use by employees who are not more-than-5% owners or related persons, and you keep the information on their use given to you by employees in your records.
- 4) For demonstrator automobiles provided to full-time salespersons, you maintain a written policy statement that limits the total mileage outside the salesperson's normal working hours and prohibits use of the automobile by anyone else, for vacation trips, or to store personal possessions.

Exceptions. If you file Form 2106, 2106-EZ, or Schedule C-EZ (Form 1040), report information about listed property on that form and not on Form 4562. Also, if you file Schedule C (Form 1040) and are claiming the standard mileage rate or actual vehicle expenses (except depreciation) and you are not required to file Form 4562 for any other reason, report vehicle information in Part IV of Schedule C and not on Form 4562.

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 1997. 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 2001. 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, 1999, the corporation bought the building used as its place of business for \$250,000 and placed it in service. 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 corporation claimed a section 179 deduction for their full cost. It takes no depreciation for this property. The refrigeration equipment, work tables, and cash register are 5-year property. The corporation depreciates this property using the 200% declining balance method. Because no property was placed in service in the last quarter of the tax year, the half-year convention applies. The corporation uses Table A-1 to figure the depreciation for each item.

In 2000, Fields of Flowers bought and placed in service the following property.

- On April 16, a delivery truck for \$32,000.
- On July 3, a typewriter for \$300.

It claimed a \$20,000 section 179 deduction for the truck. The basis of the truck for depreciation is \$12,000 (\$32,000 – \$20,000). The basis of the typewriter for depreciation is its cost of \$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.

In 2001, 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 \$28,800.

The total bases of the counters and the van, placed in service during the last three months of the corporation's tax year, is \$30,670. This is more than 40% of \$34,145, the total bases of all property placed in service during 2001. The corporation does not elect to apply the half-year convention. It must apply the mid-quarter convention for all four items.

The corporation elects to claim a section 179 deduction of \$24,000 for the van. The basis of the van for depreciation is \$4,800 (\$28,800 – \$24,000).

The file cabinets are 7-year property for which the corporation uses Table A-4. The counters, the van, and the computer are 5-year property. The corporation elects to use ADS for its 5-year property. The ADS recovery period is 9 years for the counters and 5 years for the van and

computer. The corporation uses Table A-10 for the computer and Table A-12 for the store counters and van.

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 2001 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 in Part V of Form 4562.

The corporation reports the depreciation for the file cabinets in Section B, Part II. It uses GDS for this property and applies a mid-quarter convention. On line 15(c), it enters "MQ" in column (e) to show the mid-quarter convention is applied and "200DB" in column (f) to show it is using the 200% declining balance method. It enters the depreciation deduction of \$50.87 in column (g).

The corporation reports the depreciation for the store counters and the computer in Section C, Part II. Both properties have a class life assigned to them in the *Table of Class Lives and Recovery Periods* in Appendix B and

neither class life is 12 years or 40 years (lines 16b and 16c). Therefore, the corporation enters the depreciation deduction of \$400.99 on line 16(a) in column (g).

The van is listed property. The corporation reports the depreciation for it in Part V of Form 4562. Fields of Flowers has taxable income of \$45,389. It elects to take a section 179 deduction of \$24,000 on the van. The van weighs over 6,000 pounds. It is not a passenger automobile for the limits discussed under *Do the Passenger Automobile Limits Apply?* in chapter 4.

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 "SL" and "MQ" in column (g) to show it is using the straight line method and the mid-quarter convention. It enters the depreciation deduction of \$120 in column (h) and the section 179 deduction of \$24,000 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(c), 16(a), 17, and 20 and enters the total, \$35,342.36, on line 21. It rounds the total to \$35,342 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	2-2-99	\$250,000	100%		\$12,027.50	\$250,000	SL/MM	GDS 39	2.564%	\$6,410	
Desk and Chair	2-2-99	1,025	100%	\$1,025	-0-	-0-				-0-	
Refrigeration equipment	2-2-99	4,500	100%		2,340	4,500	200DB/HY	GDS/5	19.20%	864	
Work tables	2-2-99	1,200	100%		624	1,200	200DB/HY	GDS/5	19.20%	230.40	
Cash register	2-2-99	675	100%		351	675	200DB/HY	GDS/5	19.20%	129.60	
Subtotal -- 1999 Property										7,634	
Delivery truck	4-16-00	32,000	100%	20,000	1,800	12,000	150DB/HY	GDS/5	25.50%	3,060	
Typewriter	7-3-00	300	100%		45	300	150DB/HY	GDS/5	25.50%	76.50	
Subtotal -- 2000 Property										3,136.50	
Computer	6-21-01	3,000	100%		-0-	3,000	SL/MQ	ADS/5	12.5%	375.00	
File cabinets	9-9-01	475	100%		-0-	475	200DB/MQ	GDS/7	10.71%	50.87	
Store counters	11-1-01	1,870	100%		-0-	1,870	SL/MQ	ADS/9	1.39%	25.99	
Van	11-16-01	28,800	100%	24,000	-0-	4,800	SL/MQ	ADS/5	2.5%	120	
				24,000							571.86
				24,000							11,342.36
* Schedule of property subject to ADS, line 16a of Form 4562											
							SL/MQ	ADS/9			\$25.99
							SL/MQ	ADS/5			375
Amount to be entered on line 16a										\$ 400.99	

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach this form to your return.

Name(s) shown on return

Fields of Flowers

Business or activity to which this form relates

Retail Florist

Identifying number

10-1787889

Part I Election To Expense Certain Tangible Property Under 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	\$24,000
2	Total cost of section 179 property placed in service (see page 2 of the instructions)	2	34,145
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	24,000
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter amount from line 27	7	24,000
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	24,000
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	24,000
10	Carryover of disallowed deduction from 2000 (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	24,000
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11.	12	24,000
13	Carryover of disallowed deduction to 2002. 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 2001 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						
c 7-year property		475	7 yrs.	MQ	200 DB	50.87
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		4,870	*	*	S/L	400.99
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 instructions beginning on page 5.)

17	GDS and ADS deductions for assets placed in service in tax years beginning before 2001	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	120.00
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	35,342.36
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.

* 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	11-16-01	100 %	28,800	4,800	5	SL/MQ	120.00	24,000	
		%							
		%							
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	120.00	
27 Add amounts in column (i). Enter the total here and on line 7, page 1.							27	24,000	

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	
	Yes	No										
28 Total business/investment miles driven during the year (do not include commuting miles—see page 2 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												
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 2001 tax year (see instructions beginning on page 8):					
41 Amortization of costs that began before your 2001 tax year					41
42 Total. Add amounts in column (f). See page 9 of the instructions for where to report					42

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.



Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can:

- Find answers to questions you may have.
- Download forms and publications or search for forms and publications by topic or keyword.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov**.



TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



Phone. Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- **Asking tax questions.** Call the IRS with your tax questions at **1-800-829-1040**.
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- **TeleTax topics.** Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

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CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for record-keeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at **www.irs.gov**. The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676** or visiting the IRS web site at **www.irs.gov**.

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	Any	Any	A-8
GDS ADS	SL	GDS ADS	Mid-Quarter	Any	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

**RATES TO FIGURE INCLUSION AMOUNTS
FOR
LEASED LISTED PROPERTY**

Table A-19. **Amount A Percentages**

<i>Recovery Period of Property Under ADS</i>	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**

<i>Recovery Period of Property Under ADS</i>	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 *Which Recovery Period Applies?* 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
<i>SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:</i>				
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 include 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
<i>DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:</i>				
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(l)(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 false-twist, draw, beam-to-beam, and stuffer box texturing equipment and related high-speed 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 occurs 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	Recovery Periods (in years)		
		Class Life (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	Recovery Periods (in years)		
		Class Life (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	Recovery Periods (in years)		
		Class Life (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 converters.	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: Includes 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 breeder reactors.	5	5	5
49.13	Electric Utility Steam Production Plant: Includes assets used in the steam power production of electricity for sale, combustion 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 <i>Gas station convenience stores</i> 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: 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: Either of the following kinds of property.

- 1) Motor vehicles produced by an original equipment manufacturer and designed to be propelled by a clean-burning 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: 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.

Disposition: The permanent withdrawal 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 that 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.

Improvement: An addition to or partial replacement of property that adds to its value, appreciably lengthens the time you can use it, or adapts it to a different use.

Intangible property: Property that has value but cannot be seen or touched, such as goodwill, patents, copyrights, and computer software.

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.

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.

Recapture: To include as income on your return an amount allowed or allowable as a deduction in a prior year.

Recovery period: The number of years over which the basis (cost) of an item of property is recovered.

Remainder interest: That part of an estate that 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.

Tangible property: Property you can see or touch, such as buildings, machinery, vehicles, furniture, and equipment.

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 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 it 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. ■

Index

A

Addition to property	25
Adjusted basis	11
Agreement not to compete (See Section 197 intangibles)	
Agricultural structure, defined	14
Alternative Depreciation System (ADS):	
Recovery periods	24
Required use	21
Amended return	12
Apartment:	
Cooperative	3
Rental	22
Automobile (See Passenger automobile)	

B

Basis:	
Adjustments	12, 19, 28
Basis for depreciation	23
Casualty loss	28
Changed from personal use	11
Cost	10
Other than cost	11
Recapture of clean-fuel vehicle deduction or credit	28
Term interest	6
Unadjusted	28
Business use of property, partial	4
Business-use limit:	
Listed property	43
Recapture of Section 179 deduction	20

C

Car (See Passenger automobile)	
Carryover of section 179 deduction	18
Casualty loss, effect of	28
Cellular telephone (See Listed property)	
Changing accounting method	13
Comments	2
Communication equipment (See Listed property)	
Commuting	44
Computer (See Listed property)	
Computer software	5, 9
Containers	5
Conventions	25
Cooperative apartment	3
Copyright (See also Section 197 intangibles)	
Correcting depreciation deductions	12
Cost basis	10

Customer list (See Section 197 intangibles)

D

Declining balance:	
Method	30
Rates	30
Deduction limit:	
Automobile	47
Exception for clean-fuel modifications	47
Listed property	42-43
Section 179	16
Depreciation:	
Determinable useful life	5
Excepted property	5
Incorrect amount deducted	12
Methods	25
Property lasting more than one year	5
Property owned	3
Property used in business	4
Recapture	40, 45
Determinable useful life	5
Disposition:	
Before recovery period ends	30
General asset account property	37
Section 179 deduction	20

E

Election:	
ADS method	21, 27
Declining balance (150% DB) method	27
Exclusion from MACRS	10
General asset account	40
Section 179 deduction	19
Straight line method	27
Electric vehicle	48
Employee:	
Deduction limit	42
How to claim depreciation	12
Energy property	15
Exchange of MACRS property	33

F

Farm:	
Business defined	26
Property	26
Figuring MACRS:	
Using percentage tables	27
Without using percentage tables	30
Films	9
Franchise (See Section 197 intangibles)	
Free tax services	57

G

General asset account:	
Abusive transaction	38
Disposing of property	37
Grouping property in	37
Nonrecognition transaction	38
General Depreciation System (GDS), recovery periods	23
Gift (See Basis, other than cost)	
Glossary	95
Goodwill	5

H

Help (See Tax help)	
Horticultural structure, defined	14

I

Idle property	7
Improvements	11, 25
Income forecast method	9
Incorrect depreciation deductions	12
Indian reservation:	
Defined	24
Qualified infrastructure property	24
Qualified property	24
Recovery periods for qualified property	24
Related person	24
Inheritance (See Basis, other than cost)	
Intangible property:	
Depreciation method	9
Goodwill	5
Income forecast method	9
Straight line method	9
Trademark, trade name	5
Inventory	4
Investment use of property, partial	4
Involuntary conversion of MACRS property	33

L

Land:	
Not depreciable	5
Preparation costs	5
Leased property	15
Life tenant (See also Term interests)	
Limit on deduction:	
Automobile	47
Employee	42
Listed property	42-43
Section 179	16
Listed property:	
5% owner	44

Computer	42	Photographic equipment (See Listed property)		Limits:	
Condition of employment	43	Placed in service:		Business (taxable) income . . .	17
Defined	41	Before 1987	7	Business-use, recapture	20
Employee deduction	42	Date	23	Dollar	16
Employer convenience	43	Rule	6	Enterprise zone business	16
Improvements to	41	Property:		Partial business use	15
Leased	45	Classes	21	Passenger automobile	16
Passenger automobile	41	Depreciable	3	Married filing separate returns	17
Qualified business use	44	Idle	7	Partnership rules	18
Recordkeeping	50	Improvements	11	Property:	
Related person	44	Intangible	5	Eligible	14
Reporting on Form 4562	51	Leased	3, 15	Excepted	15
Lodging	15	Listed	41	Purchase required	15
<hr/> <hr/>		Personal	8	Recapture	20
M		Real	8	Recordkeeping	19
Maximum deduction:		Retired from service	7	S corporation rules	19
Electric vehicles	48	Tangible personal	14	Section 197 intangibles	5
Passenger automobiles	47	Term interest	6	Settlement fees	10
Mobile home (See Residential rental property)		Publications (See Tax help)		Short tax year:	
Modified ACRS (MACRS):		<hr/> <hr/>		Figuring depreciation	35
Addition or improvement	25	R		Figuring placed-in-service date	34
Alternative Depreciation System (ADS)	21	Real property	8	Software, computer	5, 9
Conventions	25	Recapture:		Sound recording	9
Declining balance method	30	Clean-fuel vehicle deduction or credit	28	Stock, constructive ownership of	9
Depreciation methods	25	General asset account, abusive transaction	38	Straight line method	9, 31
Farm property	26	Listed property	45	Subscription list (See Section 197 intangibles)	
Figuring, short tax year	35	MACRS depreciation	40	Suggestions	2
General Depreciation System (GDS)	21	Section 179 deduction	20	<hr/> <hr/>	
Percentage tables	27	Recordkeeping:		T	
Property classes	21	Listed property	50	Tangible personal property	14
Recovery periods	23	Section 179	19	Tax help	57
Short tax year	34	Recovery periods:		Taxpayer Advocate	57
Straight line method	31	ADS	24	Term interest	6
More information (See Tax help)		GDS	23	Trade-in of property	16
<hr/> <hr/>		Related persons	6, 8, 15, 24, 44	Trademark or trade name	5
N		Rent-to-own property, defined	22	TTY/TDD information	57
Nonresidential real property	22	Rental home (See Residential rental property)		<hr/> <hr/>	
Nontaxable transfer of MACRS property	34	Rented property, improvements	11	U	
<hr/> <hr/>		Repairs	11	Useful life	5
O		Residential rental property	22	<hr/> <hr/>	
Office in the home	4, 24	Retail motor fuels outlet	23	V	
Ownership, incidents of	3	Revoking:		Video tape	9
<hr/> <hr/>		ADS election	21	Video-recording equipment (See Listed property)	
P		General asset account election	40	<hr/> <hr/>	
Partial business use	15	Section 179 election	19	W	
Passenger automobile:		<hr/> <hr/>		When to use ADS	21
Defined	41	S		Worksheet:	
Electric vehicles	48	Sale of property	30	Depreciation	52
Limit on	47	Section 179 deduction:		Leased listed property	46
Maximum depreciation deduction	47	Automobiles, limit for	16	MACRS	28
Patent (See also Section 197 intangibles)		Business use required	15	Passenger automobile	48
Personal property	8	Carryover	18		■
Phonographic equipment (See Listed property)		Dispositions	20	<hr/> <hr/>	
		Electing	19		

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.

General Guides

- 1** Your Rights as a Taxpayer
- 17** Your Federal Income Tax (For Individuals)
- 334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509** Tax Calendars for 2002
- 553** Highlights of 2001 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 2002
- 515** Withholding of Tax on Nonresident Aliens and Foreign Entities
- 517** Social Security and Other Information for Members of the Clergy and Religious Workers
- 527** Residential Rental Property
- 533** Self-Employment Tax
- 534** Depreciating Property Placed in Service Before 1987
- 535** Business Expenses
- 536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537** Installment Sales
- 538** Accounting Periods and Methods
- 541** Partnerships
- 542** Corporations
- 544** Sales and Other Dispositions of Assets
- 551** Basis of Assets
- 556** Examination of Returns, Appeal Rights, and Claims for Refund
- 560** Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- 561** Determining the Value of Donated Property
- 583** Starting a Business and Keeping Records
- 587** Business Use of Your Home (Including Use by Day-Care Providers)
- 594** The IRS Collection Process
- 595** Tax Highlights for Commercial Fishermen

- 597** Information on the United States-Canada Income Tax Treaty
- 598** Tax on Unrelated Business Income of Exempt Organizations
- 686** Certification for Reduced Tax Rates in Tax Treaty Countries
- 901** U.S. Tax Treaties
- 908** Bankruptcy Tax Guide
- 911** Direct Sellers
- 925** Passive Activity and At-Risk Rules
- 946** How To Depreciate Property
- 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	Form Number and Title	Catalog Number
W-2 Wage and Tax Statement	10134	1120S U.S. Income Tax Return for an S Corporation	11510
W-4 Employee's Withholding Allowance Certificate*	10220	Sch D Capital Gains and Losses and Built-In Gains	11516
940 Employer's Annual Federal Unemployment (FUTA) Tax Return*	11234	Sch K-1 Shareholder's Share of Income, Credits, Deductions, etc.	11520
940-EZ Employer's Annual Federal Unemployment (FUTA) Tax Return*	10983	2106 Employee Business Expenses*	11700
941 Employer's Quarterly Federal Tax Return	17001	2106-EZ Unreimbursed Employee Business Expenses*	20604
1040 U.S. Individual Income Tax Return*	11320	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts*	11744
Sch A & B Itemized Deductions & Interest and Ordinary Dividends*	11330	2441 Child and Dependent Care Expenses*	11862
Sch C Profit or Loss From Business*	11334	2848 Power of Attorney and Declaration of Representative*	11980
Sch C-EZ Net Profit From Business*	14374	3800 General Business Credit	12392
Sch D Capital Gains and Losses*	11338	3903 Moving Expenses*	12490
Sch D-1 Continuation Sheet for Schedule D	10424	4562 Depreciation and Amortization*	12906
Sch E Supplemental Income and Loss*	11344	4797 Sales of Business Property*	13086
Sch F Profit or Loss From Farming*	11346	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*	13141
Sch H Household Employment Taxes*	12187	5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
Sch J Farm Income Averaging*	25513	6252 Installment Sale Income*	13601
Sch R Credit for the Elderly or the Disabled*	11359	8283 Noncash Charitable Contributions*	62299
Sch SE Self-Employment Tax*	11358	8300 Report of Cash Payments Over \$10,000 Received in a Trade or Business*	62133
1040-ES Estimated Tax for Individuals*	11340	8582 Passive Activity Loss Limitations*	63704
1040X Amended U.S. Individual Income Tax Return*	11360	8606 Nondeductible IRAs*	63966
1065 U.S. Return of Partnership Income	11390	8822 Change of Address*	12081
Sch D Capital Gains and Losses	11393	8829 Expenses for Business Use of Your Home*	13232
Sch K-1 Partner's Share of Income, Credits, Deductions, etc.	11394		
1120 U.S. Corporation Income Tax Return	11450		
1120-A U.S. Corporation Short-Form Income Tax Return	11456		