



Publication 946

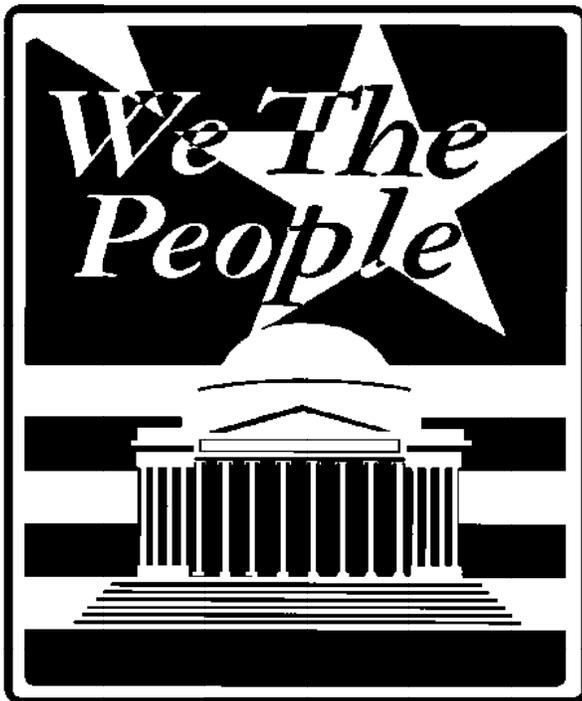
Cat. No. 13081

How To Begin Depreciating Your Property

- Section 179 Deduction
- MACRS
- Listed Property

For use in preparing

1994 Returns



Contents

Introduction	2
1. General Information	3
Depreciation Defined	3
Who Can Claim	3
What Can Be Depreciated	4
What Cannot Be Depreciated	6
When Depreciation Begins and Ends	8
How To Claim Depreciation	8
2. Section 179 Deduction	9
Section 179 Deduction Defined	9
What Costs Can and Cannot Be Deducted	10
Electing the Deduction	12
How To Figure the Deduction	13
When To Recapture the Deduction	16
3. Modified Accelerated Cost Recovery System (MACRS)	17
MACRS Defined	18
What Can Be Depreciated Under MACRS	18
What Cannot Be Depreciated Under MACRS	19
How To Figure the Deduction	20
Percentage Tables	26
Dispositions	29
4. Listed Property	44
Listed Property Defined	44
Predominant Use Test	45
Special Rule for Passenger Automobiles	48
What Records Must Be Kept	50
Deductions in Later Years	52
5. Comprehensive Example	53
Glossary	60
Index	62

Important Changes for 1994

Limits on depreciation for business cars. The total section 179 deduction and depreciation you can take on a car that you use in your business and first place in service in 1994 is \$2,960. Your depreciation cannot exceed \$4,700 for the second year of recovery, \$2,850 for the third year of recovery, and \$1,675 for each later tax year. See *Passenger automobiles*, later.

Shorter recovery period for property on Indian reservations. You can depreciate certain property placed in service on Indian reservations after 1993 over a shorter recovery period than other depreciable property. For

more information, see *Shorter Recovery Period for Property Used on Indian Reservations*.

Important Reminders

Deductions for clean-fuel vehicles and certain refueling property. Deductions are allowable for clean-fuel vehicles and certain clean-fuel vehicle refueling property placed in service after June 30, 1993. For information on these deductions, see Chapter 15 in Publication 535.

Tax credit for qualified electric vehicles. An electric vehicle tax credit is available for qualified electric vehicles placed in service after June 30, 1993. For more information, see Chapter 15 in Publication 535.

Amortization of certain intangibles. You must amortize over 15 years certain intangible assets that you acquired in connection with a trade or business. This generally applies to intangible assets you acquired after August 10, 1993. However, you can elect this treatment for intangible assets you acquired after July 25, 1991.

For more information, see Chapter 12 in Publication 535.

Introduction

Caution: At the time this publication was being prepared for print, final regulations concerning the use of general asset accounts were issued. For more information on general asset accounts, see Publication 553, *Highlights of 1994 Tax Changes*.

This publication explains how you can recover the cost of business or income-producing property through depreciation. It was written for people who have no prior experience with depreciation. Its step-by-step approach will show you how to figure your depreciation deduction and fill out the required tax form. Throughout the publication are examples to help you understand the tax law.

How To Use This Publication

The first chapter begins by defining depreciation in general terms and describing types of property. It states what property can and cannot be depreciated, when depreciation begins and ends, and shows you how to claim depreciation on Form 4562.

Chapter 2 begins by defining the section 179 deduction. Then it discusses what property costs can and cannot be deducted. It also explains when and how to claim the deduction, and how to figure the deduction. This is followed by a worksheet to help you figure the maximum deduction you can take on section 179 property. It concludes with a brief discussion on when to recapture the

deduction. You will note that rental property can be depreciated but does not qualify for the section 179 deduction.

Chapter 3 begins by defining the Modified Accelerated Cost Recovery System (MACRS). It provides an introduction and overview of the entire system. This is followed by a worksheet to help you figure your deduction under MACRS. There is also a chart to locate what percentage table to use and the tables themselves which give the depreciation rates for the first 11 years. Full tables are contained in Appendix A of Publication 534, *Depreciation*. If you have already begun depreciating property under the Accelerated Cost Recovery System (ACRS) or another depreciation method, you will also need to refer to Publication 534.

The fourth chapter defines listed property. It explains the limits that may apply to this type of property and provides examples of the recordkeeping requirements.

The last chapter provides a comprehensive example showing how to figure both the section 179 and depreciation deductions. It shows how to use the worksheets and how to complete the depreciation form.

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

Additional information. For more detailed information on residential rental property, office space in your home, and depreciating a car, see the following:

- Publication 527, *Residential Rental Property*
- Publication 587, *Business Use of Your Home*
- Publication 917, *Business Use of a Car*

Ordering publications and forms. To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

We welcome your suggestions for future editions of this publication. Please send your ideas to:

Internal Revenue Service
Technical Publications Branch (PC:FP:P)
1111 Constitution Avenue, N.W.
Washington, DC 20224

Telephone help. You can call the IRS with your tax questions Monday through Friday during regular business hours. Check your telephone book for the local number or you can call toll-free **1-800-829-1040**.

Telephone help for hearing-impaired persons. If you have access to TDD equipment, you can call **1-800-829-4059** with your tax question or to order forms and publications. See your tax package for the hours of operation.

1.

General Information

Topics

This chapter discusses:

- What depreciation is
- Who can claim depreciation
- What can be depreciated
- What cannot be depreciated
- When depreciation begins and ends
- How to claim depreciation

Useful Items

You may want to see:

Publication

- 534** Depreciation
- 535** Business Expenses
- 538** Accounting Periods and Methods
- 544** Sales and Other Dispositions of Assets
- 551** Basis of Assets
- 917** Business Use of a Car

Form (and Instructions)

- 2106–EZ** Unreimbursed Employee Business Expenses
- 2106** Employee Business Expenses
- 4562** Depreciation and Amortization

The discussion in this chapter gives you the general rules on depreciating property. It explains tangible, intangible, real and personal property and provides examples of these types of property. It tells you when and how to claim depreciation using Form 4562.

Depreciation Defined

Words you may need to know (see Glossary):

Copyright
Franchise
Patent

Trademark and trade name

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

To determine if you can take a depreciation deduction for your property, you must know and understand the types of property, discussed next.

Types of Property

Property is either:

- Tangible property, or
- Intangible property.

Tangible Property

Tangible property is property that can be seen or touched. Tangible property includes two main types:

- 1) Real property, and
- 2) Personal property.

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

Personal property. Tangible personal property includes cars, trucks, machinery, furniture, equipment, and anything that is tangible except real property.

Intangible Property

Intangible property is generally any personal property that has value but cannot be seen or touched. It includes items such as copyrights, franchises, patents, trademarks, and trade names.

Who Can Claim

In order to claim depreciation, you usually must be the owner of property and the property must be used in your trade or business or for producing income. The following examples show who owns the property.

Example 1. You bought rental property in 1987. You made a down payment and assumed the previous owner's mortgage. You own the property and you can depreciate it.

Example 2. You bought a new van in 1994 and use it totally in your courier business. You will be making payments on the van over the next 5-year period. You own the van and can depreciate it.

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

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

What Can Be Depreciated

For property to be depreciable, it must first meet all of the following basic requirements:

- 1) The property must be used in business or held to produce income,
- 2) The property must have a determinable useful life longer than one year, and
- 3) The property must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

Tangible Property

Words you may need to know (see Glossary):

Basis
Business/investment use
Capitalized
Commuting
Idle
Useful life

As discussed earlier under *Types of Property in Depreciation Defined*, tangible property can be seen or touched and includes both real and personal property. You can take a depreciation deduction only for the part of tangible property that is subject to wearing out, decaying, being used up, becoming obsolete, or losing its value due to natural causes. Because nearly all tangible property loses value due to these causes, this discussion will focus on rules for depreciating property in certain circumstances.

Partial Business Use

If you use tangible property for business or investment purposes and for personal purposes, you can deduct depreciation only for the part used in business or held for the production of income.

Example. You own a passenger automobile and use it for both business and nonbusiness purposes. You can deduct depreciation only for the part used in business. Nonbusiness uses include commuting, personal shopping trips, family vacations, and driving children to school and other activities.

Figuring business and investment use. You must keep records showing the business, investment, and nonbusiness use of your property. For more information on depreciating a passenger automobile and the records you must keep, see Publication 917.

Special Situations

Some property generally cannot be depreciated except under certain circumstances. The following discussion deals with rules that help you determine when to depreciate property in these cases.

Land preparation costs. Certain costs you may incur in preparing land for business use, such as landscaping, can be depreciated. These costs must be so closely associated with other depreciable property that a life can be determined for them along with the life of the associated property.

Example. You construct a new building for use in your business and pay amounts 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 building lot. If you replace the building, you would have to destroy the bushes and trees right next to it. Because these bushes and trees have a determinable useful life that is closely associated to the building, you can depreciate them as land preparation costs. Your other land preparation costs should be added to the basis of your land because they have no determinable life and are therefore not depreciable.

Repairs and replacements. If a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, your repair or replacement cost must be capitalized and depreciated. If the repair or replacement does not increase the value of your property, make it more useful, or lengthen its life, the cost of the repair or replacement is deductible in the same way as any other business expense.

Example. If you had to completely replace the roof of a rental house, the replacement roof increases the value and lengthens the life of the property. Therefore, it must be capitalized and depreciated. However, if you had only repaired a small section on one corner of the roof, you would treat this as a deductible repair expense.

Improvements to rental property. Permanent improvements to business property you rent can be depreciated as discussed later in *Additions or improvements to property* under *Property Classes and Recovery Periods* in Chapter 3.

Durable containers. Some durable containers used to ship your products can be depreciated if:

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

To determine the above items and whether your containers can be depreciated, consider the following:

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

Professional libraries. If you maintain a library for use in your profession, you can depreciate it. Any technical books, journals, and information services used in your business and having a useful life of one year or less are deductible in the same way as any other business expense.

Videocassettes. If you are in the business of renting videocassettes, you can depreciate only those videocassettes bought for rental. The cost of any cassette having a useful life of one year or less can be deducted fully in the year of purchase as a business expense.

Idle property. You must claim a deduction for depreciation on property used in your business that is temporarily idle. For example, if you stop using a piece of machinery because there is a temporary lack of market for a product made with the machinery, the machinery is still treated as used in your business for federal tax purposes.

Cooperative apartments. If you use your cooperative apartment in your business or for the production of income, you can deduct your share of the cooperative housing corporation's depreciation. For more information on cooperative apartments, see *Cooperative apartments* in Publication 534.

Intangible Property

Words you may need to know (see Glossary):

Adjusted basis
Agreement not to compete
Basis
Copyright
Franchise
Goodwill
Patent
Salvage value
Straight line method
Useful life

As discussed earlier in *Types of Property* under *Depreciation Defined*, intangible property has value but cannot be seen or touched. Intangible property must either be amortized or depreciated (using the straight line method) as discussed next.

Patents and copyrights. Unless you must amortize the costs of patents or copyrights (as explained next), you can recover the costs through depreciation. The useful life of a patent or copyright is the life granted to it by the government. If it becomes valueless in any year before its useful life expires, you can deduct in full for that year any of its remaining cost or other basis you have not yet depreciated.

Patents and copyrights subject to amortization. If you acquired patents and copyrights as part of the acquisition of a substantial portion of a business after August 10, 1993 (or after July 25, 1991, if elected), you may have to amortize their costs over 15 years. If the patent or copyright is not acquired as part of an acquisition of a substantial portion of a business, depreciate the cost as mentioned previously in *Patents and copyrights*, earlier. For more information on amortization, see Chapter 12 in Publication 535.

Agreement not to compete. Generally, if you bought a business before August 11, 1993, and part of its price is for an agreement not to compete for a fixed number of years, the agreement is depreciable property. However, because goodwill is often confused with an agreement not to compete, and because goodwill is not depreciable, you must be able to establish from the facts and circumstances that you have bought an agreement not to compete.

If you bought a business after August 10, 1993 (after July 25, 1991 if elected), you must amortize over 15 years that part of its price that is for an agreement not to compete. If you can amortize the cost of the agreement, you cannot depreciate it. For more information on amortization, see Chapter 12 in Publication 535.

Designs and patterns. Designs and patterns are intangible properties that can be depreciated only if they have a determinable useful life and cannot be amortized (as explained next).

Designs and patterns subject to amortization. The cost of designs and patterns must be amortized over 15 years if you acquired them after August 10, 1993 (after July 25, 1991, if elected), and you did not create them. However, if after August 10, 1993 (after July 25, 1991, if elected), you created designs and patterns in connection with the acquisition of a substantial portion of a business, you must amortize their costs also. For more information, see Chapter 12 in Publication 535.

Franchises. A franchise is intangible property that can be depreciated only if it has a determinable useful life and cannot be amortized (as explained next).

Franchises subject to amortization. If you acquired a franchise after August 10, 1993 (after July 25, 1991, if elected), you must amortize the cost of the franchise over 15 years. For more information, see Chapter 12 in Publication 535.

Customer or subscription lists, location contracts, and insurance expirations. Generally, you can depreciate these intangible properties only if:

- 1) Their value can be determined separately from the value of any goodwill that goes with the business,
- 2) Their useful life can be determined with reasonable accuracy, and
- 3) They cannot be amortized (as explained next).

Lists, contracts, and expirations subject to amortization. Customer or subscription lists, location contracts, and insurance expirations must be amortized over 15 years if you acquire them after August 10, 1993 (after July 25, 1991, if elected), and you did not create them. However, if after August 10, 1993 (after July 25, 1991, if elected), you created any of these items in connection with the acquisition of a substantial portion of a business, you must amortize their costs. For more information, see Chapter 12 in Publication 535.

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

Software developed before August 11, 1993. If you developed software programs before August 11, 1993 (before July 26, 1991, if elected), you can choose to either treat the development costs as current expenses or capitalize the costs and depreciate them using the straight line method over 5 years (or any shorter life you can clearly establish). You cannot change methods without the approval of the IRS.

Software purchased before August 11, 1993. If you purchased software before August 11, 1993 (before July 26, 1991, if elected), your recovery of costs depends on how you are billed. If the cost of the software is included in the price of computer hardware and the software cost is not separately stated, you treat the entire amount as the cost of the hardware and depreciate it under MACRS as explained in Chapter 3. If the cost of the software is separately stated, you can depreciate the cost using the straight line method over 5 years (or any shorter life you can establish).

Software acquired after August 10, 1993. If you acquire software after August 10, 1993 (after July 25, 1991, if elected), you can depreciate it over 36 months if it meets all three of the following requirements:

- 1) It is readily available for purchase by the general public,
- 2) It is not subject to an exclusive license, and
- 3) It has not been substantially modified.

Even if the software does not meet the above requirements, you can depreciate it over 36 months if it was not acquired in connection with the acquisition of a substantial portion of a business.

If you acquire software after August 10, 1993 (after July 25, 1991, if elected), you must amortize it over 15 years (rather than depreciate it) if it does not meet all three of the requirements listed previously and it was acquired in connection with the acquisition of a substantial portion of a business.

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

Straight Line Method

Generally, you use this method of depreciation for intangible property. It lets you deduct the same amount of depreciation each year.

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

Divide the balance by the number of years remaining in the useful life. This gives you the amount of 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, your depreciation deduction must be prorated for the number of months in use.

Example. In April 1994, Frank bought a patent that was not acquired in connection with the acquisition of a trade or business (or a substantial part of a trade or business). He paid \$5,100 for it. He depreciates the patent under the straight line method, using a 17-year useful life and no salvage value. He takes the \$5,100 basis and divides that amount by 17 years ($\$5,100 \div 17 = \300 , a full year's use). He must prorate the \$300 for his 9 months of use in 1994. This gives him a deduction of \$225 ($\$300 \times 9/12$). In 1995, Frank can deduct \$300 for the full year.

What Cannot Be Depreciated

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

No depreciation deduction is allowed for property placed in service and disposed of during the same tax year.

Tangible Property

Words you may need to know (see Glossary):

Basis
Remainder interest
Term interest
Useful life

Some tangible property, although used in your business or held to produce income, can never be depreciated.

Land. Land can never be depreciated because it does not wear out or become obsolete and it cannot be used up. Land generally includes the cost of clearing, grading, planting, and landscaping because these expenses are all part of the cost of the land itself. Some land preparation costs, however, may be depreciable. For information on these costs, see *Land preparation costs* in *What Can Be Depreciated*, earlier.

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

In some cases, it is not always clear whether the property is inventory or depreciable business property. If unclear, examine carefully all the facts in the operation of the particular business. The following example shows two situations where the facts in the operation should be examined carefully because, although they seem similar, their results are different.

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 facts show that 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, therefore, not depreciable property. In this situation, the facts show that the cars are held primarily for sale to customers in the ordinary course of business.

Containers. Containers are generally part of inventory and cannot be depreciated. For information on some containers that may be depreciated in certain circumstances, see *Durable containers* under *What Can Be Depreciated*, earlier. For more information on inventory, see *Inventories* in Publication 538.

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

Demolition of buildings. You cannot deduct costs (paid or incurred) to demolish any building. Nor can you deduct any loss from a demolition. Instead, you must add these costs to the basis of your land on which the demolished building stood.

Rented property. Generally, a person who uses property subject to depreciation in a trade or business or holds it for producing income is entitled to the depreciation deduction for the property. This is usually the owner of the property. However, for rented property, this is usually the lessor. An owner or lessor is the person who generally bears the burden of exhaustion of capital investment in the property. This means the person who retains the incidents of ownership for the property. The incidents of ownership include:

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

Term interests in property. Under certain circumstances, you cannot take a deduction for depreciation on a term interest in property created or acquired after July 27, 1989, for any period during which the remainder interest is held, directly or indirectly, by a person related to you. A person related to you includes your spouse, child, parent, brother, sister, half-brother, half-sister, ancestor, or lineal descendant.

For more information on the depreciation of a term interest, see Publication 534.

Intangible Property

Words you may need to know (see Glossary):

Capitalized
Goodwill
Trademark and trade name
Useful life

Some types of intangible property can never be depreciated.

Goodwill. Goodwill can never be depreciated 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 have to amortize the cost of the goodwill over 15 years. For more information, see Chapter 12 in Publication 535.

Trademark and trade name. In general, trademark and trade name expenses must be capitalized. This means that the full amount cannot be deducted in the current year. For trademarks and tradenames acquired before August 11, 1993 (before July 26, 1991, if elected), you cannot depreciate or amortize these expenses. For trademarks and trade names acquired after August 10,

1993, you may have to amortize their costs over 15 years. For more information, see Chapter 12 in Publication 535.

When Depreciation Begins and Ends

Words you may need to know (see Glossary):

Basis
Disposed
Exchange
Placed in service
Sale

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 recovered your cost or other basis or when you retire it from service. (See *Retired From Service*, later.) You have fully recovered your cost or other basis when you have taken section 179 and depreciation deductions that are equal to your cost or investment in the property.

Placed in Service

For depreciation purposes, property is considered placed in service when it is ready and available for a specific use, whether in trade or business, the production of income, a tax-exempt activity, or a personal activity. Even if the property is not actually used yet, it is in service when it is ready and available for its specific use. However, you can begin depreciating property only when it is ready and available for a specific use (placed in service) in a trade or business or for the production of income.

Example. You bought a home in 1985 and used it as your personal residence until 1994 when you converted it to rental property. Although its specific use was personal and no depreciation was allowable, the home was placed in service in 1985. However, you can claim a depreciation deduction in 1994 because its use changed to an income-producing use at that time.

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

Retired From Service

Property is retired from service when it is permanently withdrawn from use in a trade or business or in the production of income. The period for depreciation ends when property is retired from service.

You can retire property from service by selling or exchanging it, abandoning it, or destroying it.

How To Claim Depreciation

Words you may need to know (see Glossary):

Amortization
Listed property
Placed in service
Standard mileage rate

Use Form 4562 to elect the section 179 deduction discussed later in *Section 179 Deduction Defined*. Also use this form to claim depreciation and amortization deductions.

Individuals, partnerships, and S corporations must complete and attach Form 4562 to their tax returns if they are claiming:

- 1) The section 179 deduction or a section 179 carry-over deduction from a prior year,
- 2) A depreciation deduction for property placed in service during 1994, discussed later in *MACRS Defined*,
- 3) A depreciation deduction on any listed property, regardless of when it was placed in service,
- 4) A deduction for any vehicle reported on a form other than Schedule C or Schedule C-EZ, or
- 5) A deduction for amortization of costs that began in 1994.

Employees. Employees claiming the standard mileage rate or actual expenses (including depreciation) must use either Form 2106 or Form 2106-EZ instead of Part V of Form 4562. Use Form 2106-EZ if you are claiming the standard mileage rate and are not reimbursed by your employer.

Corporations. All corporations, except S corporations, must complete and file Form 4562 to claim any depreciation or section 179 deduction. In addition, corporations must file Form 4562 for amortization if this is the first year of the amortization period. For more information on costs you can amortize, see Chapter 12 in Publication 535.

Form 4562

Words you may need to know (see Glossary):

Amortization
Listed property
Placed in service

This discussion is a brief description of the purpose for each part of Form 4562. For more information on completing the form, you should refer to the instructions for Form 4562. Form 4562 has six parts.

Part I

This part of Form 4562 is used to elect the section 179 deduction. It is designed to help you figure the maximum section 179 deduction for the current year and any carry-over to the next year. The section 179 deduction and any carryover are explained later in Chapter 2.

Part II

This part of Form 4562 is used to report Modified Accelerated Cost Recovery System (MACRS) depreciation deductions for property (other than listed property) placed in service during 1994. MACRS is discussed in Chapter 3 and listed property is discussed in Chapter 4.

Part III

This part of Form 4562 is used to report MACRS depreciation deductions for property placed in service prior to 1994. It is also used to report property being depreciated under the Accelerated Cost Recovery System (ACRS) which is discussed in Chapter 6 of Publication 534. In addition, it is used to report depreciation deductions that were figured using other methods. If you elect to depreciate property under a method not based on a term of years as discussed in *What Cannot Be Depreciated Under MACRS*, later, report that depreciation deduction in this part.

Part IV

This part of Form 4562 is the summary. You add amounts from certain lines in other parts of the form to arrive at your total depreciation deduction.

Part V

This part of Form 4562 is used to report depreciation on automobiles and other listed property and to report information on the use of automobiles and other transportation vehicles. See Chapter 4.

Part VI

This part of Form 4562 is used to report amortization deductions. For information on amortization, see Chapter 12 in Publication 535.

2.

Section 179 Deduction

Topics

This chapter discusses:

- Section 179 defined
- What costs can and cannot be deducted
- How to elect the deduction
- How to figure the deduction
- When to recapture the deduction

Useful Items

You may want to see:

Publication

- 448** Federal Estate and Gift Taxes
- 534** Depreciation
- 544** Sales and Other Dispositions of Assets
- 551** Basis of Assets

Form (and Instructions)

- 4562** Depreciation and Amortization

This chapter covers rules for the section 179 deduction. It explains what the deduction is, what property qualifies for the deduction, what limits may apply, and how to claim a deduction. Certain costs that you do not recover through the section 179 deduction can be recovered through depreciation. Depreciation is discussed later in Chapter 3.

Section 179 Deduction Defined

Section 179 of the Internal Revenue Code permits certain taxpayers to **elect** to deduct all or part of the cost of certain qualifying property in the year they place it in service, instead of taking depreciation deductions over a specified recovery period. There are limits, however, on the amount you can deduct in a tax year. These limits are discussed in *Deduction Limits* in *How To Figure the Deduction*, later.

Estates and trusts. Estates and trusts are not eligible for the section 179 deduction.

What Costs Can and Cannot Be Deducted

Words you may need to know (see Glossary):

Adjusted basis
Basis
Placed in service

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

Acquired by Purchase

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

Acquired by Trade

If you purchase an asset with cash and a trade-in, part of the basis of the asset you receive is the basis of the trade-in. You cannot claim the section 179 deduction on this part of the basis of the asset. For example, if you buy (for cash and a trade-in) a new truck to use in your business, your cost for the section 179 deduction does not include the adjusted basis of the truck you trade for the new vehicle. See *Adjusted Basis* in Publication 551.

Example. In 1994, Silver Leaf, a retail bakery, traded two ovens having a total adjusted basis of \$680 for a new oven costing \$1,320. The bakery also traded a used van with an adjusted basis of \$4,500 for a new van costing \$9,000. The new items were placed in service in 1994. Silver Leaf was given an \$800 trade-in for the old ovens and paid \$520 cash for the new oven. The bakery was given a 4,800 trade-in and paid \$4,200 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. The portion of the adjusted basis of the property traded that carries over to the basis of the new property is not treated as business cost for purposes of section 179. Silver Leaf has business costs that qualify for a section 179 deduction of \$4,720 (\$520+\$4,200), the part of the cost of the new property not determined by the property traded.

Qualifying Property

Words you may need to know (see Glossary):

Adjusted basis
Basis
Fungible commodities
Placed in service
Structural components

Property qualifying for the section 179 deduction is depreciable property and includes:

- 1) Tangible personal property,
- 2) Other tangible property (except most 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 in any of the activities in (a) above, or
 - c) A facility in any of the activities in (a) for the bulk storage of fungible commodities.
- 3) Single purpose agricultural (livestock) or horticultural structures, and
- 4) Storage facilities (except buildings and their structural components) used in distributing petroleum or any primary product of petroleum.

Leased property. Generally, taxpayers other than corporations cannot claim a section 179 deduction based on property they lease to someone else. However, you can claim a section 179 deduction based on:

- 1) Property you lease to others that you manufactured, and
- 2) Property you lease to others if the term of the lease is less than half of the property's class life and for the first 12 months the property is transferred to the lessee, the total of the business deductions that you are allowed on the property (except rent and reimbursed amounts) are more than 15% of the rental income from the property.

Tangible Personal Property

Tangible personal property is tangible property other than real property. Machinery and equipment are examples of tangible personal property.

Land and land improvements, such as buildings and other permanent structures and their components, are real property and, therefore, not tangible personal property. For the same reason, swimming pools, paved parking areas, wharfs, docks, bridges, fences, and similar property are not tangible personal property.

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

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

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

Single Purpose Agricultural (Livestock) or Horticultural Structures

As used here, livestock includes poultry.

Agricultural structure. A single-purpose agricultural (livestock) structure is any building or enclosure specifically designed, constructed, and used to:

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

Because the full range of livestock breeding is included, special purpose structures are qualifying property if used 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:

- 1) A greenhouse specifically designed, constructed, and used for the commercial production of plants, or
- 2) A structure specifically designed, constructed, and used for the commercial production of mushrooms.

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

If a structure includes work space, that structure is not a single-purpose agricultural or horticultural structure unless the work space is used only for:

- 1) Stocking, caring for, or collecting livestock or plants or their produce,
- 2) Maintaining the enclosure or structure, and

- 3) Maintaining or replacing the equipment or stock enclosed or housed in the structure.

Business and Nonbusiness Use

When you use property for both business and nonbusiness purposes, you can elect the section 179 deduction only if more than 50% of the property's use in the tax year it is placed in service is for trade or business. You must allocate the cost of the property to reflect only its business use. You do this by multiplying the cost of your property by the percentage of business use. This is your business cost and is used to figure your section 179 deduction.

Example 1. On February 4, 1994, May Oak bought and placed in service an item of section 179 property. She paid \$11,000 for it. She used the property 80% for her business and 20% for personal purposes. The business part of the cost of her property is \$8,800 (80% × \$11,000).

Example 2. On September 9, 1994, June Pine bought and placed in service computer equipment. She paid \$9,000 and received a \$1,000 trade-in allowance for her old computer equipment. She had an adjusted basis of \$3,000 in the old computer equipment. Both the old and new equipment was used 90% for business and 10% for personal purposes. Her basis in the new computer equipment is \$12,000 (\$9,000 paid plus the adjusted basis of \$3,000 in the old computer equipment). However, her business cost for purposes of section 179 is limited to 90% (business use percentage) of \$9,000 (cash paid), or \$8,100.

Nonqualifying Property

Words you may need to know (see Glossary):

Adjusted basis
Basis
Fiduciary
Grantor
Placed in service
Structural components

You cannot claim the section 179 deduction on:

- 1) Property held only for the production of income,
- 2) Real property, including buildings and their structural components,
- 3) Property acquired from certain groups or persons, and
- 4) Certain property you lease to others (if you are a noncorporate lessor).

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

Production of Income

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

Acquired From Certain Groups or Persons

Property does not qualify for the section 179 deduction if:

- 1) The property is acquired by one member of a controlled group from a member of the same group, or
- 2) The property's basis is either:
 - Determined in whole or in part by its adjusted basis in the hands of the person from whom you acquired it, or
 - Determined under stepped-up basis rules for property acquired from a decedent as discussed in Publication 448, or
- 3) The property is acquired from a related person.

Related persons. For these purposes, related persons are:

- 1) An individual and his or her spouse, child, parent, or other ancestor or lineal descendant.
- 2) A corporation and any individual who owns directly or indirectly more than 50% of the value of the corporation's outstanding stock.
- 3) Two corporations that are members of the same controlled group.
- 4) A fiduciary of a trust and a corporation if more than 50% of the value of the outstanding stock of the corporation is owned directly or indirectly by or for the trust or the grantor of the trust.
- 5) The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
- 6) The fiduciaries or 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 (including members of the person's family) who directly or indirectly controls the organization.
- 8) A partnership and a person who owns directly or indirectly an interest of more than 50% of the partnership's capital or profits.
- 9) Two partnerships if the same persons directly or indirectly own more than 50% of the capital or profits of each.
- 10) Two S corporations if the same persons own more than 50% in value of the outstanding stock of each corporation.

- 11) An S corporation and a corporation that is not an S corporation if the same persons own more than 50% in value of the outstanding stock of each corporation.
- 12) A corporation and a partnership if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital interest, or profits interest, in the partnership.

Example. Ken Larch is a tailor. In 1994, he bought two industrial sewing machines from his father. Both machines were placed in service in 1994. Although the sewing machines were acquired by purchase, they do not qualify for section 179 because he and his father are related parties. Therefore, he cannot claim a section 179 deduction for the cost of these machines.

Electing the Deduction

The section 179 deduction is not automatic. If you want to take the deduction, you must elect to do so. See *Electing the Deduction*, later.

Placed-in-Service Rule

For the section 179 deduction, your property is treated as placed in service in the tax year it is first made ready and available for a specific use. Such use can be in a trade or business, the production of income, a tax-exempt activity, or a personal activity. Property placed in service in a use that does not qualify it for the section 179 deduction cannot later qualify in another tax year even if its use changes to business.

Example. In 1993, you bought a new car and placed it in service for personal purposes. In 1994, you began to use it for business. The fact that you changed its use to business use does not qualify the cost of your car for a section 179 deduction in 1994. However, you can claim a depreciation deduction for the business use of the car in 1994. To figure the depreciation deduction, see Chapter 3.

How To Make the Election

You make the election by taking your deduction on Form 4562. You attach and file Form 4562 with your original tax return (whether or not you file it timely) or on an amended return filed no later than the due date (including extensions) for your return for the tax 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).

Revoking an Election

Once you elect a section 179 deduction, you can revoke your election only with IRS consent. The IRS will grant you a consent only in extraordinary circumstances. You must file your request for consent with the:

Commissioner of Internal Revenue,
Washington, DC 20224.

You must include in the request your name, address, and taxpayer identification number. You or your representative must sign the request. You must attach a statement to the request showing the year and property involved, and you must set forth in detail the reasons for your request.

Recordkeeping Requirements

You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how the property was acquired, the person it was acquired from, and when it was placed in service. You must stay with your selection of section 179 property for which you claim a deduction when computing your taxable income for the tax year the election is made and for all later tax years.

How To Figure the Deduction

Words you may need to know (see Glossary):

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

The total business cost you can elect to deduct under section 179 for a tax year cannot be more than \$17,500. This \$17,500 maximum dollar limit applies to each taxpayer, not to each business. You do not have to claim the full \$17,500. You can decide how much of the business cost of your qualifying property that you want to deduct under section 179. You may be able to depreciate any cost you do not deduct under section 179. To figure depreciation, see Chapter 3.

If you purchase and place in service more than one item of qualifying property during the year, you can divide the deduction between the items in any way, as long as the total deduction is not more than the limits. If you have only one item of qualifying property and it costs less than \$17,500 (for example, \$3,200), your deduction is limited to the lesser of:

- 1) Your taxable income from your trade or business, or
- 2) \$3,200.

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

You must subtract the amount you elect to deduct under section 179 from the business/investment cost of

the qualifying property. This result is called your unadjusted basis and is the amount you use to figure any depreciation deduction.

Example. In 1994, you bought a \$20,000 fork lift and a \$1,200 circular saw for your business. Both items were placed in service in 1994. You elect to deduct \$16,300 for the fork lift and the entire \$1,200 for the saw, a total of \$17,500. This is the maximum dollar limit you can deduct in 1994. Your \$1,200 deduction for the saw completely recovered its cost. Therefore, your unadjusted basis is zero. The cost of your fork lift is reduced by \$16,300. Therefore, its unadjusted basis is \$3,700. You figure this by subtracting the amount of your section 179 deduction, \$16,300, from the cost of the fork lift, \$20,000.

Deduction Limits

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

- 1) Maximum dollar limit,
- 2) Investment limit, and
- 3) Taxable income limit.

Maximum Dollar Limit

The total cost of section 179 property that you can elect to deduct for any year cannot be more than \$17,500. This maximum dollar limit is reduced if you go over the investment limit (discussed later) in any tax year.

Joint returns. A husband and wife who file a joint return are treated as one taxpayer in determining any reduction to the \$17,500 maximum dollar limit, regardless of which spouse purchased the property or placed it in service.

Example 1. The Elms file a joint return. In 1994, Jack Elm bought and placed in service \$200,000 of qualifying section 179 property. His wife placed in service \$5,000 of qualifying property she bought. Their 1994 maximum dollar limit is \$12,500 because they exceeded the \$200,000 investment limit by \$5,000.

Married individuals filing separate returns. A husband and wife filing separate returns for a tax year are treated as one taxpayer for the \$17,500 maximum dollar limit and the \$200,000 investment limit. Unless they elect otherwise, 50% of the maximum dollar limit (after applying the investment limit) will be allocated to each spouse. If the percentages elected by each spouse do not total 100%, 50 percent will be allocated to each spouse.

Example 2. Jack Elm is married. He and his wife file separate returns for 1994. Jack bought and placed in service \$200,000 of qualified farm machinery in 1994. His wife had her own business and she bought and placed in service \$5,000 of qualified business equipment. If Mr. and Mrs. Elm had filed a joint return for 1994, their maximum dollar limit would have been \$12,500.

This is because their \$17,500 maximum dollar limit would have been reduced by \$5,000 (the excess over the \$200,000 investment limit). They elect to allocate \$12,500 as follows: \$9,375 (75%) to Mr. Elm's machinery and \$3,125 (25%) to Mrs. Elm's equipment. If they did not make an election to allocate their costs, they would be limited to the \$12,500 multiplied by 50% or \$6,250 each on their separate returns.

Joint return after filing separate returns. If a husband and wife elect to file a joint return after the due date for filing the return, the maximum dollar limit on the joint return is the lesser of:

- 1) The maximum dollar limit (after applying the investment limit), or
- 2) The total cost of section 179 property they elected to expense on their separate returns.

Example 3. Assume Jack Elm and his wife in Example 1 had filed separate tax returns. On their separate returns, Jack elected to expense \$4,000 of section 179 property and his wife elected to expense \$2,000. If they subsequently file a joint return after the due date for that return, their maximum dollar limit for section 179 is \$6,000, the lesser of \$12,500 (the maximum dollar limit after applying the investment limit), or \$6,000 (the total amount they elected to expense on their separate returns).

Investment Limit

For each dollar of your business cost over \$200,000 for section 179 property placed in service in a tax year, the \$17,500 maximum dollar limit is reduced (but not below zero) by one dollar. If your business cost of section 179 property placed in service during a tax year is \$217,500 or more, you cannot take a section 179 deduction and you are not allowed to carry over this excess cost.

Example. In 1994, Jane Ash placed in service machinery costing \$207,000. Because this cost exceeds \$200,000 by \$7,000, she must reduce her maximum dollar limit of \$17,500 by \$7,000. If her taxable income is at least \$10,500 or more, she can claim a \$10,500 section 179 deduction for 1994.

Taxable Income Limit

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

Taxable income for this purpose is figured by totaling the net income (or loss) from all trades and businesses you actively conducted during the tax year. Items of income derived from a trade or business actively conducted by you include section 1231 gains (or losses) and interest from working capital of your trade or business.

Also include in total taxable income any wages, salaries, tips, or other compensation earned as an employee. When figuring taxable income, do not take into account any unreimbursed employee business expenses you may have as an employee.

In addition, taxable income is figured without regard to:

- 1) The section 179 expense deduction,
- 2) The self-employment tax deduction, and
- 3) Any net operating loss carryback or carryforward.

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

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

- 1) The sale or exchange of real property or depreciable personal property used in a trade or business and held for more than 1 year,
- 2) The sale or exchange of cattle or horses held for draft, breeding, dairy, or sporting purposes and held for 2 years or more,
- 3) The sale or exchange of livestock (other than cattle, horses, and poultry) held for draft, breeding, dairy, or sporting purposes and held for 1 year or more,
- 4) The sale, exchange, or involuntary conversion of unharvested crops on land used in farming if the crop and land are sold, exchanged, or involuntarily converted at the same time and to the same person and the land was held for more than 1 year,
- 5) The cutting of timber for sale or for use in your trade or business if:
 - a) You elect to treat the cutting as a sale or exchange, and
 - b) You either owned the timber for more than 1 year or held a contract right to cut the timber for more than 1 year.
- 6) The disposal of timber held for more than 1 year under a cutting contract if you treat the disposal as a sale or exchange and you retain an economic interest in the timber.
- 7) The disposal of coal (including lignite) or iron ore (mined in the United States) you owned for more than 1 year under a contract in which you retain an economic interest in the coal or iron ore.

For more information about section 1231 gains and losses, see Chapter 4 in Publication 544.

Two different taxable income limits. The section 179 deduction is subject to a taxable income limit. You also may have to figure another deduction that has a limit

based on taxable income. The limit for this other deduction may have to be figured taking into account the section 179 deduction. If so, complete the steps discussed next.

Step 1—Figure taxable income without either a section 179 deduction or the other deduction.

Step 2—Figure a hypothetical section 179 deduction using the taxable income figured in Step 1.

Step 3—Subtract the hypothetical section 179 deduction figured in Step 2 from the taxable income figured in Step 1.

Step 4—Figure a hypothetical amount for the other deduction using the amount figured in Step 3 as taxable income.

Step 5—Subtract the hypothetical other deduction figured in Step 4 from the taxable income figured in Step 1.

Step 6—Now figure your actual section 179 deduction using the taxable income figured in Step 5.

Step 7—Subtract your actual section 179 deduction figured in Step 6 from the taxable income figured in Step 1.

Step 8—Figure your actual other deduction using the taxable income figured in Step 7.

Example. XYZ is a corporation. During the tax year, the 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 tax year. A corporation's deduction for charitable contributions cannot be more than 10% of its taxable income, figured after subtracting any section 179 deduction. The taxable income limit for the section 179 deduction is figured after subtracting any allowable charitable contributions. XYZ's taxable income figured without taking into account either any section 179 deduction or any deduction for the 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, a hypothetical section 179 deduction of \$10,000 would be allowable.

Step 3—\$12,000 (from Step 1) minus \$10,000 (from Step 2) equals \$2,000.

Step 4—Using \$2,000 (from Step 3) as taxable income, a hypothetical charitable contribution (limited to 10% of taxable income) of \$200 is figured.

Step 5—\$12,000 (from Step 1) minus \$200 (from Step 5) equals \$11,800.

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

Step 7—\$12,000 (from Step 1) minus \$10,000 (from Step 6) equals \$2,000.

Step 8—Using \$2,000 (from Step 7) as taxable income, the actual charitable contribution (limited to 10% of taxable income) of \$200 is figured.

Carryover of disallowed deduction. The amount you carry over will be taken into account in determining the amount of your section 179 deduction in the next tax year. In the tax year you place property in service, you can select the properties for which costs will be carried forward and you can allocate the portion of the costs to these properties provided your decisions are shown in your books and records.

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

Basis adjustment. Generally upon a sale or other disposition of section 179 property, or a transfer of section 179 property involving a transaction whereby gain or loss is not recognized in whole or in part (including transfers at death), the adjusted basis of the property is increased before the sale or other disposition by the amount of disallowed section 179 deduction.

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

Partnerships and Partners

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

Each partner adds the amount allocated from the partnership as shown on Schedule K-1 to his or her other nonpartnership business section 179 costs and then applies the maximum dollar limit to this total to determine his or her section 179 deduction. To determine if a partner has exceeded the \$200,000 investment limit, the business cost of section 179 property placed in service by the partnership is not attributed to any partner. The total amount of each partner's (partnership and nonpartnership) section 179 deduction is subject to both the taxable income limit and the maximum dollar limit.

For more information on how the section 179 deduction limits apply to partnerships and partners, see Publication 534.

S Corporations

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

For more information on how the section 179 deduction limits apply to an S corporation and its shareholders, see Publication 534.

Other Corporations

The taxable income of a corporation (other than an S corporation) from the active conduct by the corporation of any trade or business is the corporation's taxable income before deducting its net operating loss deduction and special deductions (as reported on the corporation's income tax return) adjusted for items of income or deduction that were not derived from a trade or business actively conducted by the corporation during the tax year.

Passenger automobiles. For passenger automobiles placed in service in 1994, the total of the section 179 and depreciation deductions cannot exceed \$2,960 for 1994. For more information, see *Special Rule for Passenger Automobiles*, later.

Section 179 Worksheet

The following worksheet is designed to help you figure your section 179 deduction and carryover. It takes into account the limits discussed (except for the limit on passenger automobiles). However, to make the election to expense under section 179, you must complete and attach a Form 4562 to your return.

Section 179 Deduction Worksheet

Step 1:
Maximum dollar limitation \$ 17,500

Step 2:
Enter the total business cost of all
qualifying property placed in
service in the tax year \$ _____

Note: If Step 2 is \$217,500 or more, you cannot
elect section 179 for this year.

Step 3:
Threshold cost of your section
179 property \$ 200,000

Step 4:
Subtract Step 3 from Step 2. If
Step 2 is less than Step 3, enter
-0- \$ _____

Step 5:
Subtract Step 4 from Step 1. This
is your reduced maximum
dollar limitation. If Step 1 is less
than Step 4, enter -0- \$ _____

Step 6:
Enter amount you elect to
expense under section 179.
(Do not enter more than Step
2.) \$ _____

Step 7:
Enter the smaller of Step 5 or
Step 6. This is your tentative
deduction \$ _____

Step 8:
Enter any section 179 carryover
from prior years \$ _____

Step 9:
Enter the smaller of your 1994
taxable income limitation or the
Step 5 amount \$ _____

Step 10:
Add Step 7 and Step 8. Do not
enter more than your Step 9
amount. (No more than \$2,960
can be entered on this line for a
passenger automobile.) This is
your 1994 section 179
deduction \$ _____

Carryover to 1995:

Step 11:
Add Step 7 and Step 8 \$ _____

Step 12:
Enter Step 10 amount \$ _____

Step 13:
Subtract Step 12 from Step 11.
This is your carryover to 1995 \$ _____

**When To Recapture
the Deduction**

If you claim a section 179 deduction for the cost of prop-
erty and, in a year after you place it in service, you do not
use it predominantly for business, you may have to re-
capture part of the deduction. This can occur in any tax
year during the recovery period for the property. Recov-
ery periods for property are discussed later in *Property
Classes and Recovery Periods* under *How To Figure the
Deduction* in Chapter 3.

If you elect a section 179 deduction, the amount de-
ducted is treated as depreciation for purposes of the re-
capture rules. Thus, any gain you realize from a sale, ex-
change or other disposition of the property may have to
be treated as ordinary income to the extent of the section
179 and depreciation deductions you claimed. Ordinary
income means the income is all taxable. For a discussion
of the recapture rules including when they apply and how
to figure the amount to recapture, see Chapter 2 in Publi-
cation 534.

3.

**Modified Accelerated
Cost Recovery System
(MACRS)**

Topics

This chapter discusses:

- MACRS defined
- What can be depreciated under MACRS
- What cannot be depreciated under MACRS
- How to figure the deduction
- Dispositions

Useful Items

You may want to see:

Publication

- ❑ **225** Farmer's Tax Guide
- ❑ **534** Depreciation
- ❑ **544** Sales and Other Dispositions of Assets
- ❑ **551** Basis of Assets
- ❑ **587** Business Use of Your Home
- ❑ **917** Business Use of a Car

Form (and Instructions)

- ❑ **4562** Depreciation and Amortization

The Modified Accelerated Cost Recovery System (MACRS) is the name given to tax rules for getting back (recovering) through depreciation deductions the cost of property used in a trade or business or to produce income. These rules generally apply to tangible property placed in service after 1986. Exceptions to these rules may prevent certain individuals from using MACRS. These exceptions are discussed in *What Cannot Be Depreciated Under MACRS*, later.

MACRS Defined

Words you may need to know (see Glossary):

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

MACRS consists of two systems that determine how you depreciate your property. The main system is called the General Depreciation System (GDS) while the second system is called the Alternative Depreciation System (ADS). Unless ADS is specifically required by law or you elect it, GDS is generally used to figure your depreciation deduction. Property for which you are required by law to use ADS and how to elect ADS are discussed in *What*

Can Be Depreciated Under MACRS, later. The main **difference between the two systems** is that ADS generally provides for a longer recovery period and uses only the straight line method of depreciation to figure a deduction.

Both GDS and ADS have pre-established class lives for most property. Under GDS, most property is assigned to eight property classes based on these class lives. These property classes provide the recovery period to be used (that is, they establish the number of years over which the cost of an item in a class is recovered). Property classes and recovery periods are discussed in *How To Figure the Deduction*, later.

Both systems simplify the way you figure your deduction by providing three preset conventions. They determine how many months you can depreciate your property in the first year it is placed in service and in the year of disposition. These conventions are:

- 1) For all nonresidential real and residential rental property — the mid-month convention, and
- 2) For all other property,
 - a) Generally the half-year convention, or
 - b) If the basis of property placed in service during the last three months of the tax year (excluding residential rental, nonresidential real property and property placed in service and disposed of in the same year) exceeds 40% of the total bases of all property placed in service for the entire year — the mid-quarter convention.

These conventions are discussed in *How To Figure the Deduction*, later.

MACRS provides five ways to depreciate property. Under GDS, there are both the 200% and 150% declining balance methods over a GDS recovery period, the 150% declining balance method over an ADS recovery period (if elected), and the straight line method over a GDS recovery period. Under ADS, the straight line method is used over an ADS recovery period. You can elect to use ADS for property that qualified for GDS.

The IRS has established percentage tables to make it easier for you to figure your deduction for all MACRS methods. The various ways to depreciate property, elections you can make, and the percentage tables are discussed in *How To Figure the Deduction*, later.

In order to use GDS or ADS to figure your depreciation deduction, you must first know what property can be depreciated under each system. This is discussed next.

What Can Be Depreciated Under MACRS

MACRS applies to most tangible depreciable property placed in service after 1986. Property that you cannot

use MACRS for is discussed later in *What Cannot Be Depreciated Under MACRS*.

Use of real property changed. All real property acquired before 1987 that was changed from personal use to a business or income-producing use after 1986 must be depreciated under MACRS.

When To Use GDS

Words you may need to know (see Glossary):

Declining balance method
Recovery period
Revoke

Most tangible depreciable property falls within the general rule of MACRS, also called the General Depreciation System (GDS). As discussed earlier in *MACRS Defined*, the major differences between GDS and ADS are the recovery period and method of depreciation you use to figure the deduction. Because GDS permits use of the declining balance method over a shorter recovery period, the deduction is greater in the earlier years.

However, the law requires the use of ADS for certain property as discussed under *When To Use ADS*, next.

Although your property may qualify for GDS, you can elect to use ADS. If you make this election, however, you can never revoke it. How to make this election is discussed in *Election of ADS*, later.

When To Use ADS

Words you may need to know (see Glossary):

Placed in service
Recovery period
Straight line method
Tax-exempt

Under ADS, you determine your deduction by using the straight line method over a recovery period that generally is longer than the recovery period under GDS. This system is required for:

- 1) Any tangible property used predominantly outside the United States during the year,
- 2) Any tax-exempt use property,
- 3) Any tax-exempt bond-financed property,
- 4) Any imported property covered by an executive order of the President of the United States, and
- 5) Any property used predominantly in a farming business and placed in service during any tax year in which you make an election not to apply the uniform capitalization rules to certain farming costs.

What Cannot Be Depreciated Under MACRS

Words you may need to know (see Glossary):

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

You cannot use MACRS for certain property because of special rules that exclude it from MACRS. You can elect to exclude certain property from being depreciated under MACRS.

No depreciation deduction is allowed for property placed in service and disposed of during the same tax year.

Property that you cannot depreciate using MACRS includes:

- 1) Intangible property,
- 2) Any motion picture film or video tape,
- 3) Any sound recording,
- 4) Certain real and personal property placed in service before 1987, and
- 5) Property you elect to exclude from MACRS that is properly depreciated under a method of depreciation that is not based on a term of years.

Property placed in service before 1987. There are special rules that prevent you from using MACRS for certain property originally placed in service before 1987 (before August 1, 1986, if a special election was made). If you have depreciable property that was placed in service (by anyone and for any purpose) before 1987, see *What Cannot Be Depreciated Under MACRS* in Chapter 3 of Publication 534.

Election to exclude property from MACRS. If you properly depreciate any property under a method not based on a term of years, such as the unit-of-production method, you can elect to exclude that property from MACRS. You must make this election by the return due date (including extensions) for the tax year your property is placed in service. You make it by reporting your depreciation for the property on Line 17 of Part III of Form 4562 and attaching a statement as described in the Instructions for Form 4562.

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 917 for a discussion of the standard mileage rate.

How To Figure the Deduction

Once you determine that your property can be depreciated under MACRS and whether it falls under GDS or ADS, you are ready to figure your deduction. To figure your MACRS deduction each year, you need to know the following information about your property:

- 1) Its basis,
- 2) Its property class and recovery period,
- 3) Its placed-in-service date,
- 4) Which convention to use, and
- 5) Which depreciation method to use.

Basis

Words you may need to know (see Glossary):

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

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

Cost as Basis

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

Assumed debt. If you assume the seller's mortgage or other debt on the property, your cost includes the amount you assume.

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

Settlement fees and other costs. The basis of real property also includes certain fees and charges you pay

with the purchase. These fees are generally shown on your settlement statement.

If you buy real property and agree to pay taxes the seller owed on it, the taxes you pay are added to the basis of your property. Other fees or charges you pay that should be added to the basis of your property include:

- 1) Legal and recording fees,
- 2) Abstract fees,
- 3) Survey charges,
- 4) Transfer taxes,
- 5) Title insurance, and
- 6) Amounts the seller owed that you pay such as back taxes, interest, recording or mortgage fees, and sales commissions.

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

Adjusted Basis

After you determine your basis, you may have to make certain adjustments (increases and decreases) as needed to figure your adjusted basis. For a discussion of items that may increase or decrease basis, see *Adjusted Basis* in Publication 551.

Basis of Property Changed from Personal Use

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

- 1) The fair market value (FMV) on the date you change it from personal use, or
- 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, and
 - b) Decreased by any tax deductions you claimed for casualty losses and other charges to basis claimed on earlier years' income tax returns.

Example. Several years ago Nia paid \$60,000 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 changes its use is \$78,000 (\$60,000 + \$20,000 - \$2,000). On the date of change in use her property has an FMV of

\$80,000, of which \$15,000 is for the land and \$65,000 is for the house. The basis for depreciation on the house is the FMV on the date of change (\$65,000), because it is less than her adjusted basis (\$78,000).

Investment Use

If an item of property is used for more than one purpose, you must allocate the use among its various uses. That is, you must determine how much of your use of the property is for each of the following:

- Business use,
- Investment use, and
- Personal use.

Investment use is combined with business use to figure your depreciation deductions. Investment use, however, is not considered to determine if listed property is used predominantly in a qualified business use. Listed property is discussed later in Chapter 4.

Property Classes and Recovery Periods

Words you may need to know (see Glossary):

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

Under MACRS, property is assigned to one of several property classes. These property classes establish the recovery periods (number of years) over which you recover the basis of your property. The class your property is assigned to is generally determined by its class life. For example, property with a class life of 4 years or less is placed in the 3-year property class. The complete list of class lives and recovery periods for property is in the *Table of Class Lives and Recovery Periods* in Appendix B of Publication 534.

GDS

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

3-year property. This class includes tractor units for over-the-road use and any race horse over 2 years old when placed in service. It also includes any other horse over 12 years old when placed in service.

5-year property. This class includes automobiles, taxis, buses, trucks, computers and peripheral

equipment, office machinery (such as typewriters, calculators, copiers, etc.), and any property used in research and experimentation. It also includes breeding cattle and dairy cattle.

7-year property. This class includes office furniture and fixtures such as desks, files, safes, etc.

Any **property that does not have a class life** and that has not been designated by law as being in any other class is also 7-year property.

10-year property. This class includes vessels, barges, tugs, similar water transportation equipment, any single purpose agricultural or horticultural structure, and any tree or vine bearing fruits or nuts.

15-year property. This class includes certain depreciable improvements made directly to land or added to it, such as shrubbery, fences, roads, and bridges.

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

Nonresidential real property. This class includes section 1250 property that is not:

Residential rental property (defined next), or

Property with a class life of less than 27.5 years.

The recovery period for nonresidential real property is:

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

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

Residential rental property. This class includes real property such as a rental home or structure (including a mobile home) if 80% or more of its gross rental income for the tax year is from dwelling units. A dwelling unit is a house or apartment used to provide living accommodations in a building or structure. It does not include a unit in a hotel, motel, inn, or other establishment where more than half the units are used on a transient basis. If any part of the building or structure is occupied by you for personal use, its gross rental income includes the fair rental value of the part you occupy. The recovery period for this property is 27.5 years.

Office in the home. If you begin to use part of your home as an office after 1986, that part of your home is depreciated as nonresidential real property over 39 years (31.5 years for property you placed in service **before** May 13, 1993) under GDS. See Publication 587

for a discussion of the tests that must be met to claim expenses, including depreciation, for the business use of your home.

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

Additions or improvements to property. Additions or improvements you make to any property, including **leased property**, are treated as separate property items for depreciation purposes. The recovery period for an addition or improvement to property begins on the later of:

- 1) The date the addition or improvement is placed in service, or
- 2) The date the property to which the addition or improvement was made is placed in service.

The class and recovery period of the addition or improvement is the one that would apply to the underlying property if it were placed in service at the same time as the addition or improvement.

Example. You own a rental home which you have been renting out since 1980. If you put an addition on the home which you place in service on January 31, 1994, you use MACRS for it. 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 it was placed in service on January 31, 1994.

Shorter Recovery Period for Property Used on Indian Reservations

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

Qualified property. Property eligible for the shorter recovery periods is 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 eligible for the shorter recovery periods.

To be qualified property, the property must not be:

- 1) Used or located outside an Indian reservation on a regular basis,
- 2) Acquired directly or indirectly from a related person (discussed later), or
- 3) Placed in service for purposes of conducting or housing class I, II, or, III gaming (as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703)).

Qualified property does not include any property you are required to depreciate under the Alternative Depreciation System (ADS). Determine whether property is qualified without regarding the election to use ADS and after applying the special rules for listed property not used predominantly in a qualified business (discussed later).

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. To be qualified property, it must:

- 1) Meet the rules stated above under *Qualified property* (except that it can be outside the reservation),
- 2) Benefit the tribal infrastructure,
- 3) Be available to the general public, and
- 4) Be 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 persons. A related person is:

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

Indian reservation. The term “Indian reservation” means a reservation as defined in section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)) or section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)).

Recovery periods. The applicable recovery periods for Indian reservation property are as follows:

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

ADS

As discussed earlier in *What Can Be Depreciated Under MACRS*, you must use ADS for certain property. It was also pointed out that you can elect to use ADS even if property qualifies for GDS. This election is discussed later in *Election of ADS under Depreciation Methods*. If you use ADS, you will recover the cost of your property

using the straight line method of depreciation. The recovery periods for most property are generally longer under ADS than they are under GDS. Some of the ADS recovery periods are as follows:

<u>Property</u>	<u>Recovery Period</u>
Nonresidential real and residential rental property	40 years
Automobiles and light duty trucks	5 years
Computers and peripheral equipment	5 years
Furniture and fixtures	10 years
Single purpose agricultural and horticultural structures	15 years
Trees or vines bearing fruit or nuts	20 years

The ADS recovery period for most types of property can be found in the *Table of Class Lives and Recovery Periods*, in Appendix B of Publication 534.

Placed-in-Service Date

As discussed earlier in *Placed in Service in When Depreciation Begins and Ends*, depreciation begins when your property is placed in service in a trade or business or for the production of income. For example, if property is placed in service for personal use, depreciation is not allowable. If the property use changes to a business or income-producing activity, depreciation begins at the time of the change in use.

Example 1. On November 22, 1993, Donald Steep bought a machine for his business. It was delivered on December 7, 1993. However, it was not installed and operational until January 3, 1994. Because it was not operational until 1994, it is considered placed in service in 1994. If the machine had been ready for use when it was delivered in 1993, it would be considered placed in service in 1993 even if it was not actually used until 1994.

Example 2. On April 6, 1994, Sue Thorn bought a house to use as residential rental property. She made several repairs and had it ready for rent on July 5, 1994. At that time, she began to advertise it for rent in the local newspaper. The house is considered placed in service in July when it was ready and available for rent. She can begin to depreciate it in July.

Example 3. James Elm is a building contractor who specializes in constructing office buildings. He bought a truck on September 19, 1994. It was delivered by the dealer to Reinforcements, Inc., for installing heavy duty lifting equipment. The truck had to be modified to lift materials to second-story levels. The installation of the lifting equipment was completed on January 9, 1995. James accepted delivery of the modified truck on January 10. The truck was therefore placed in service on January 10, the date it was ready and available to perform the function for which it was bought.

Conventions

Words you may need to know (see Glossary):

Basis
 Disposed
 Nonresidential real property
 Placed in service
 Residential rental property

To figure your depreciation deduction for both GDS and ADS, you use one of three conventions:

- 1) The half-year convention,
- 2) The mid-month convention, or
- 3) The mid-quarter convention.

The Half-Year Convention

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

The Mid-Month Convention

This convention is used for:

- 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 no matter when during a month you place property in service or dispose of it, you treat it as being placed in service or disposed of in the middle of the month.

The Mid-Quarter Convention

This convention can apply to your property (other than nonresidential real property and residential rental property) in certain circumstances. These circumstances occur during any tax year when the total depreciable bases of your MACRS property placed in service during the last three months of that year are more than 40% of the total depreciable bases of all MACRS property placed in service during the entire year. When that happens, you must use this convention. To determine the total bases of property, do not include the basis of either:

- Nonresidential real property,
- Residential rental property, or

- Property placed in service and disposed of in the same year.

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

- 1) The amount of amortization taken on the property,
- 2) Any section 179 deduction claimed on the property, and
- 3) Any deduction claimed for clean-fuel vehicles or for clean-fuel vehicle refueling property.

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

Depreciation Methods

Words you may need to know (see Glossary):

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

The depreciation methods you use depend on whether you use GDS or ADS, which class your property is in, and what type of property it is.

Under MACRS, there are five methods to depreciate your property.

- 1) The 200% declining balance method over the GDS recovery period which switches to the straight line method when that method provides a greater deduction,
- 2) The 150% declining balance method over the GDS recovery period which switches to the straight line method when that method provides a greater deduction,
- 3) The straight line method over the GDS recovery period,
- 4) The 150% declining balance method over fixed ADS recovery periods, which switches to the straight line method when that method provides a greater deduction, or
- 5) The straight line method over fixed ADS recovery periods.

Note: If you use the MACRS percentage tables discussed later in *Percentage Tables*, you do not need to determine in what year your deduction is greater using the straight line method. The tables have the switch to the straight line method built into their rates.

Before choosing a method, you may wish to consider the following:

- 1) The declining balance methods provide greater deductions during the earlier recovery years with the deductions getting smaller each year,
- 2) The straight line method provides equal yearly deductions throughout the recovery period, and
- 3) The GDS recovery periods for most classes of property are generally shorter than ADS recovery periods.

GDS

GDS uses different declining balance rates and the straight line method depending on property classes, the way the property is used, and the election you can make. The methods are as follows:

- 1) The 200% declining balance rate (also called double declining balance) over a GDS recovery period is used for nonfarm property in the 3-, 5-, 7-, and 10-year property classes,
- 2) The 150% declining balance rate over a GDS recovery period is used for property in the 15- and 20-year property classes and property used in farming businesses,
- 3) The straight line method over a GDS recovery period is used for nonresidential real property and residential rental property, and if you elect it, property in the 3-, 5-, 7-, 10-, 15-, and 20-year classes, and
- 4) The 150% declining balance rate over an ADS recovery period is used, if you elect it, for property in the 3-, 5-, 7-, and 10-year property classes.

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 over the ADS recovery period. Some of the ADS recovery periods are provided earlier in *ADS* under *Property Classes and Recovery Periods*. For a list of ADS recovery periods, see the *Table of Class Lives and Recovery Periods* in Appendix B of Publication 534. If the property does not have an ADS recovery period specifically assigned to it, the recovery period is 12 years. If you elect this method, you change to the straight line method when it provides a larger deduction.

Make the election by entering “150 DB” in column (f) of Part II of Form 4562. The election must be made by the tax return due date (including extensions) for the year the property under the election is placed in service.

Note: The election to use the 150% declining balance method for one item in a property class applies to all property in that class placed in service in the tax year of the election. Once made, the election to use the 150% declining balance method cannot be changed.

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.

Note: The election to use the straight line method for one item in a property class applies to all property in that class placed in service in the tax year of the election. Once made, the election cannot be changed.

Election of ADS. Although your property may come under GDS, you can make an election to use ADS. ADS uses the straight line method of depreciation over fixed ADS recovery periods.

You make the election by completing line 15 of Part II of Form 4562. The election must be made by the tax return due date (including extensions) for the year the property is placed in service.

Note: The election to use ADS for one item in a property class generally applies to all property in that class placed in service in the tax year of the election. However, you can make the election on a property-by-property basis for nonresidential real and residential rental property. Once made, the election to use ADS cannot be changed.

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:

- 1) The 150% declining balance rate over an ADS recovery period,
- 2) The straight line method over a GDS recovery period, or
- 3) The straight line method over the ADS recovery period.

ADS

As discussed earlier in *When To Use ADS* under *What Can Be Depreciated Under MACRS*, ADS is required for certain property. However, if your property comes under GDS, you can elect to use ADS. ADS uses the straight line method of depreciation over generally longer recovery periods. Some of these recovery periods are listed under ADS under *Property Classes and Recovery Periods*, earlier.

The ADS recovery periods for most classes of property can be found in the *Table of Class Lives and Recovery Periods* in Appendix B of Publication 534. For personal property not listed in the table, the ADS recovery

period is 12 years. For section 1245 real property not covered by the table, the recovery period is 40 years.

The mandatory use of the straight line method for listed property, discussed later in *Predominant Use Test* in Chapter 4 does not have a binding effect on other depreciable property.

Special Rules

There are rules that require the use of a specific depreciation method for certain property.

Farm property. Property placed in service in a farming business after 1988 is depreciated under GDS using any method other than the 200% declining balance method. For a quick reference to the MACRS methods, see the *Depreciation Methods Chart*, later.

Farming business. A farming business is any trade or business involving cultivating land or raising or harvesting any agricultural or horticultural commodity. It includes operating a nursery or sod farm; raising or harvesting crops; raising or harvesting of trees bearing fruit, nuts, or other crops; raising ornamental trees; and raising, shearing, feeding, caring for, training, and managing animals.

An evergreen tree is not considered an ornamental tree if it is more than 6 years old when it is severed from its roots.

Farming does not include processing commodities or products if the processing is not normally part of growing, raising or harvesting such products. It does include processing activities which are normally part of growing, raising or harvesting agricultural products.

Fruit or nut trees and vines. Trees and vines bearing fruit or nuts are depreciated 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. The use of ADS applies to all property placed in service in any tax year the election is in effect. See Chapter 7 in Publication 225 for a discussion of the application of the uniform capitalization rules to farm property.

Depreciation Methods Chart

To help you determine the method to use for a specific property class, the following depreciation methods chart is provided. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.

Depreciation Methods Chart

Property Class	Method-Recovery Period
3, 5, 7, 10-Year (Nonfarm)	200% DB-GDS 150% DB-ADS* SL-GDS* SL-ADS*
15, 20-Year (Nonfarm)	150% DB-GDS SL-GDS* SL-ADS*
3, 5, 7, 10-Year (Farm)	150% DB-GDS 150% DB-ADS* SL-GDS* SL-ADS*
15, 20-Year (Farm)	150% DB-GDS SL-GDS* SL-ADS*
Nonresidential Real Property	SL-GDS SL-ADS*
Residential Rental Property	
Trees or Vines Bearing Fruit or Nuts	
Tax-Exempt Use Property	SL-ADS
Tax-Exempt Bond-Financed Property	
Imported Property	
Foreign Use Property (Used Outside U.S.)	

*Elective Method

MACRS Deduction in Short Tax Year

A short tax year is any tax year with less than 12 full months. If you place property in service in a short tax year or you have a short tax year during the recovery period of the property, see Chapter 3 in Publication 534.

Percentage Tables

Words you may need to know (see Glossary):

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

Later in the publication are percentage tables you can use to figure your depreciation under MACRS. The rates

for the first 11 years are provided for in most of the tables. Table 9 provides the rates for the entire life of non-residential real property placed in service on or after May 13, 1993.

Special Rules Governing Use of the Tables

Before using the percentage tables, you should know the special rules that govern their use:

- 1) The rates in the percentage tables must be applied to your property's **unadjusted basis**,
- 2) You cannot use the percentage tables for a short tax year, and
- 3) When using the percentage tables to figure your depreciation, you must continue to use them for the entire recovery period unless there are adjustments to the basis of your property for reasons 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.
- 4) You cannot continue to use the tables if there is an adjustment to the basis of your property other than for a reason listed above in (3).

Figuring MACRS deductions without the tables. If you are required or would prefer to figure depreciation without using the tables, see *Figuring MACRS Deductions Without Tables* in Chapter 3 of Publication 534.

Adjustment due to casualty loss. If the basis of your property is reduced because of a casualty, it is an adjustment to basis other than those listed above in (3). Therefore, you cannot continue to use the tables. For the year of adjustment and the remaining recovery period, figure the depreciation using the property's adjusted basis at the end of the year of adjustment and for the remaining recovery period.

Example. On October 26, 1993, Sandra Elm bought and placed in service in her business an item of 7-year property. She uses the calendar year as her tax year. This is the only item of property she placed in service in 1993. It cost \$27,500 and she elected a section 179 deduction of \$17,500. Her unadjusted basis after the section 179 deduction is \$10,000. Because it was placed in service during the last 3 months of her tax year, she was required to use the mid-quarter convention. Her property is in the 7-year class, and she figures her deduction using the percentages in Table 3. For 1993, her depreciation is \$357 ($\$10,000 \times 3.57\%$).

In July 1994, her property was vandalized and Sandra had a deductible casualty loss of \$3,000. She spent \$3,500 to put the property back in working order. Because her property's basis must be adjusted for the casualty loss, she can no longer use the percentage tables. Her adjusted basis at the end of 1994 before figuring her 1994 depreciation is \$10,143. This is figured by subtracting the 1993 depreciation of \$357 and the casualty

loss of \$3,000 from the unadjusted basis of \$10,000. To this amount, she adds the \$3,500 repair cost. She can now figure her depreciation without the percentage tables for 1994.

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

- 1) The amount of amortization taken on the property,
- 2) Any section 179 deduction claimed, and
- 3) Any deduction claimed for clean-fuel vehicles and clean-fuel vehicle refueling property.

Also, if the business property is a vehicle, you must reduce by any qualified electric vehicle credit.

For business property you purchase during the tax year, the unadjusted basis is its cost minus any amortization, section 179 deduction, any deduction claimed for clean-fuel vehicles or clean-fuel vehicle refueling property, and any electric vehicle credit.

If you trade property, your unadjusted basis in the property is cash paid plus the adjusted basis of the property traded minus amortization, any section 179 deduction, any deduction claimed for clean-fuel vehicles or for clean-fuel vehicle refueling property and any electric vehicle credit taken on the property.

The deductions for clean-fuel vehicles or clean-fuel vehicle refueling property and the electric vehicle credit are subject to recapture. Therefore, if the property is depreciable, and you are required to recapture part or all of the deduction or credit, you can increase the basis of the property by the amount of the deduction or credit recaptured. You can recover the additional basis over the remaining recovery period beginning with the tax year of recapture. However, if this occurs, you will no longer be able to use the percentage tables. Instead, for the year of adjustment and the remaining recovery period, you must figure the depreciation using the property's adjusted basis at the end of the year of adjustment and for the remaining recovery period. To determine your depreciation without the tables, see *Figuring MACRS Without Tables* in Chapter 3 of Publication 534. The clean-fuel vehicle and clean-fuel vehicle refueling property deductions and the credit for electric vehicles are discussed in Chapter 15 of Publication 535.

Which Table To Use

At the end of this chapter is a *Guide to the Percentage Tables*. This guide is designed to help you locate the correct percentage table to use for depreciating your property. The percentage tables immediately follow the guide.

MACRS Worksheet

Part I of the worksheet below is used to gather information you will need to figure your MACRS deduction in Part II. This worksheet is intended only to help you and does not replace Form 4562. Do not use this worksheet for automobiles. Use the *Worksheet for Passenger Automobiles* in Chapter 4. Use the information from this worksheet to prepare Form 4562. Use a separate worksheet for each item of property.

MACRS Worksheet

Part I

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

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

Part II

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

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

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

Example. You bought office furniture which is 7-year property for \$10,000 and placed it in service on August 11, 1994. You use the furniture only for business. You did not elect a section 179 deduction. You use GDS under MACRS to figure your depreciation. This is the only property you placed in service this year. You use the

half-year convention. You refer to the *Guide to the Percentage Tables* at the end of this chapter and find that you should use Table 3. 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 percentages for 7-year property given in Table 3. You figure your depreciation deduction for 1994 using the MACRS worksheet as follows:

MACRS Worksheet

Part I

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

1. Description of property	Office furniture
2. Date placed in service	8/11/94
3. MACRS method (GDS or ADS)	GDS
4. Property class and recovery period	7-Year
5. Convention	Half-Year
6. Depreciation rate (from tables)1429

Part II

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

*If real estate, do not include 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
1995	\$10,000	24.49%	\$2,449
1996	10,000	17.49%	1,749
1997	10,000	12.49%	1,249
1998	10,000	8.93%	893
1999	10,000	8.92%	892
2000	10,000	8.93%	893
2001	10,000	4.46%	446

Examples

The following examples are provided to help you use the percentage tables and show you how to apply the conventions.

Example 1. You bought a building and land for \$120,000. The sales contract showed the building cost \$100,000 and the land \$20,000. You placed this property in service in your business on March 8, 1994. It is non-residential real property. You use the calendar year as your tax year. You do not elect to use ADS. You refer to the *Guide to the Percentage Tables* at the end of this chapter and find that you should use Table 9. The building's unadjusted basis is its original cost, \$100,000. As discussed earlier, land is never depreciable.

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 9. Your depreciation deduction for each of the first 3 years is as follows:

Year	Basis	Percentage	Deduction
1994	\$100,000	2.033%	\$2,033
1995	100,000	2.564%	2,564
1996	100,000	2.564%	2,564

Example 2. During 1994, you bought a machine that is 7-year property for \$4,000, office furniture that is 7-year property for \$1,000, and a computer that is 5-year property for \$5,000. All the properties are used only for business. The machine was placed 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. You use the calendar year as your tax year. You decide to use GDS over the GDS recovery period for all of the properties. Because you placed property in service during the last three months of the year, you must first determine if you are required to use the mid-quarter convention. The total bases of all property placed in service in 1994 is \$10,000. Because the basis of the computer (\$5,000) which was placed in service during the last 3 months (the fourth quarter) of your tax year exceeds 40% of the total bases of all property (\$10,000) placed in service during 1994, you are required to use the mid-quarter convention for all three items.

You refer to the *Guide to the Percentage Tables* at the end of this chapter to determine which table you should use under the mid-quarter convention. Because the machine is 7-year property, it must be depreciated using Table 3. Because the furniture is also 7-year property, it must be depreciated using Table 3. Finally, because the computer is 5-year property, it must be depreciated using Table 2. Knowing what table to use for each property, you figure the depreciation for the first 2 years as follows:

Year	Property Item	Unadjusted Basis	%Used	Depreciation Deduction
1994	Machine	\$4,000	25.00%	\$1,000
1995	Machine	4,000	21.43%	857
1994	Furniture	1,000	10.71%	107
1995	Furniture	1,000	25.51%	255
1994	Computer	5,000	5.00%	250
1995	Computer	5,000	38.00%	1,900

Placed in service
Recovery period
Residential rental property

If you dispose of your property before the end of its recovery period, it is referred to as an early disposition. If you dispose of property depreciated under MACRS, you are allowed a depreciation deduction for the year of disposition. Determine your depreciation deduction for the year of disposition by using the applicable convention. As discussed earlier, always use a mid-month convention for residential rental and nonresidential real property. For all other property depreciated under MACRS, use either a half-year or mid-quarter convention depending on the convention used when the property was placed in service.

If you dispose of property before the end of its recovery period, see *Early Dispositions* in Publication 534.

Dispositions

Words you may need to know (see Glossary):

Exchange
Sale

A disposition is the permanent withdrawal of property from use in your trade or business or in the production of income. A withdrawal can be made by sale, exchange, retirement, abandonment, involuntary conversion, or destruction.

Early Dispositions

Words you may need to know (see Glossary):

Convention
Nonresidential real property

Depreciation Recapture

All gain on the disposition of property, other than residential rental and nonresidential real property, depreciated under MACRS is recaptured (included in income) as ordinary income to the extent of previously allowed depreciation deductions. For this rule, any section 179 deduction claimed on the property is treated as depreciation. Also, any deduction claimed for clean-fuel vehicles and clean-fuel vehicle refueling property is treated as depreciation. For more information, see Publication 544.

Guide to the MACRS Percentage Tables

Chart 1

Use this chart to find the correct percentage table to use for any property other than residential rental property or nonresidential real property.

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	200%	GDS	Half-Year or Mid-Quarter	3, 5, 7, or 10-Year	Any	1 2 3 4
GDS	150%	ADS	Half-Year	3, 5, 7, or 10-Year	Any	16
GDS	150%	ADS	Mid-Quarter	3, 5, 7, or 10-Year	1st Quarter 2nd Quarter 3rd Quarter 4th Quarter	17 18 19 20
GDS	150%	GDS	Half-Year or Mid-Quarter	15 Year 20 Year	Any Any	5 6
GDS or ADS	SL	GDS or ADS	Half-Year	Any	Any	10
GDS or ADS	SL	GDS or ADS	Mid-Quarter	Any	1st Quarter 2nd Quarter 3rd Quarter 4th Quarter	11 12 13 14

Chart 2

Use this chart to find the correct percentage table to use for residential rental or nonresidential real property.

MACRS System	Property Class	Table
GDS	Residential Rental Property	7
	Nonresidential Real Property	8
	Nonresidential Real Property*	9
ADS	Residential Rental or Nonresidential Real Property	15

*Applies to property placed in service on or after 5/13/93.

Exception: Does not apply to property placed in service by a taxpayer before 1/1/94, if:

- 1) The taxpayer or a qualified person entered into a binding contract to purchase or construct such property before 5/13/93, or
- 2) The construction of such property was commenced by, or for, a taxpayer or a qualified person before 5/13/93.

**Table 1. GDS–200% Declining Balance Method
3•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	33.33%	58.33%	41.67%	25.00%	8.33%
2	44.45	27.78	38.89	50.00	61.11
3	14.81	12.35	14.14	16.67	20.37
4	7.41	1.54	5.30	8.33	10.19

**Table 2. GDS–200% Declining Balance Method
5•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	20.00%	35.00%	25.00%	15.00%	5.00%
2	32.00	26.00	30.00	34.00	38.00
3	19.20	15.60	18.00	20.40	22.80
4	11.52	11.01	11.37	12.24	13.68
5	11.52	11.01	11.37	11.30	10.94
6	5.76	1.38	4.26	7.06	9.58

**Table 3. GDS–200% Declining Balance Method
7•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	14.29%	25.00%	17.85%	10.71%	3.57%
2	24.49	21.43	23.47	25.51	27.55
3	17.49	15.31	16.76	18.22	19.68
4	12.49	10.93	11.97	13.02	14.06
5	8.93	8.75	8.87	9.30	10.04
6	8.92	8.74	8.87	8.85	8.73
7	8.93	8.75	8.87	8.86	8.73
8	4.46	1.09	3.33	5.53	7.64

**Table 4. GDS–200% Declining Balance Method
10•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	10.00%	17.50%	12.50%	7.50%	2.50%
2	18.00	16.50	17.50	18.50	19.50
3	14.40	13.20	14.00	14.80	15.60
4	11.52	10.56	11.20	11.84	12.48
5	9.22	8.45	8.96	9.47	9.98
6	7.37	6.76	7.17	7.58	7.99
7	6.55	6.55	6.55	6.55	6.55
8	6.55	6.55	6.55	6.55	6.55
9	6.56	6.56	6.56	6.56	6.56
10	6.55	6.55	6.55	6.55	6.55
11	3.28	0.82	2.46	4.10	5.74

**Table 5. GDS–150% Declining Balance Method
15•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	5.00%	8.75%	6.25%	3.75%	1.25%
2	9.50	9.13	9.38	9.63	9.88
3	8.55	8.21	8.44	8.66	8.89
4	7.70	7.39	7.59	7.80	8.00
5	6.93	6.65	6.83	7.02	7.20
6	6.23	5.99	6.15	6.31	6.48
7	5.90	5.90	5.91	5.90	5.90
8	5.90	5.91	5.90	5.90	5.90
9	5.91	5.90	5.91	5.91	5.90
10	5.90	5.91	5.90	5.90	5.91
11	5.91	5.90	5.91	5.91	5.90

**Table 6. GDS–150% Declining Balance Method
20•Year Property**

Year	Half-year convention	Mid-quarter convention			
		First quarter	Second quarter	Third quarter	Fourth quarter
1	3.750%	6.563%	4.688%	2.813%	0.938%
2	7.219	7.000	7.148	7.289	7.430
3	6.677	6.482	6.612	6.742	6.872
4	6.177	5.996	6.116	6.237	6.357
5	5.713	5.546	5.658	5.769	5.880
6	5.285	5.130	5.233	5.336	5.439
7	4.888	4.746	4.841	4.936	5.031
8	4.522	4.459	4.478	4.566	4.654
9	4.462	4.459	4.463	4.460	4.458
10	4.461	4.459	4.463	4.460	4.458
11	4.462	4.459	4.463	4.460	4.458

**Table 7. Residential Rental Property
GDS—Straight Line Over 27.5 Years
Mid-Month Convention**

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

**Table 8. Nonresidential Real Property
GDS—Straight Line Over 31.5 Years
Mid-Month Convention**

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

**Table 9. Nonresidential Real Property*
GDS—Straight Line Over 39 Years
Mid-Month Convention**

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

*Applies to property placed in service on or after 5/13/93.

Exception: Does not apply to property placed in service by a taxpayer before 1/1/94, if:

- 1) The taxpayer or a qualified person entered into a binding contract to purchase or construct such property before 5/13/93, or
- 2) The construction of such property was commenced by, or for, a taxpayer or a qualified person before 5/13/93.

**Table 10. GDS Straight Line Election or ADS
Half-Year Convention**

Recovery Period In Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	20.0%	16.67%	14.29%	12.50%	10.0%	8.33%	7.69%	7.14%	6.67%	6.25%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50
3	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50
4		16.67	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50
5				12.50	20.0	16.66	15.38	14.29	13.34	12.50
6					10.0	16.67	15.39	14.28	13.33	12.50
7						8.33	15.38	14.29	13.34	12.50
8								7.14	13.33	12.50
9										6.25

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	5.88%	5.56%	5.26%	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%
2	11.77	11.11	10.53	10.0	9.52	9.09	8.70	8.33	8.0	7.69
3	11.76	11.11	10.53	10.0	9.52	9.09	8.70	8.33	8.0	7.69
4	11.77	11.11	10.53	10.0	9.53	9.09	8.69	8.33	8.0	7.69
5	11.76	11.11	10.52	10.0	9.52	9.09	8.70	8.33	8.0	7.69
6	11.77	11.11	10.53	10.0	9.53	9.09	8.69	8.33	8.0	7.69
7	11.76	11.11	10.52	10.0	9.52	9.09	8.70	8.34	8.0	7.69
8	11.77	11.11	10.53	10.0	9.53	9.09	8.69	8.33	8.0	7.69
9	11.76	11.11	10.52	10.0	9.52	9.09	8.70	8.34	8.0	7.69
10		5.56	10.53	10.0	9.53	9.09	8.69	8.33	8.0	7.70
11				5.0	9.52	9.09	8.70	8.34	8.0	7.69

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%	2.78%	2.63%	2.5%	2.273%
2	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.0	4.545
3	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.0	4.545
4	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.0	4.545
5	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.0	4.546
6	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.0	4.545
7	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.0	4.546
8	7.41	7.15	6.66	6.25	6.06	5.88	5.55	5.26	5.0	4.545
9	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.27	5.0	4.546
10	7.40	7.15	6.66	6.25	6.06	5.88	5.55	5.26	5.0	4.545
11	7.41	7.14	6.67	6.25	6.06	5.89	5.56	5.27	5.0	4.546

Year	24	25	26.5	28	30	35	40	45	50
1	2.083%	2.0%	1.887%	1.786%	1.667%	1.429%	1.25%	1.111%	1.0%
2	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
3	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
4	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
5	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
6	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
7	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
8	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
9	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
10	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
11	4.166	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0

**Table 11. GDS Straight Line Election or ADS
Mid-Quarter Convention
Placed in Service in 1st Quarter**

Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	35.0%	29.17%	25.00%	21.88%	17.5%	14.58%	13.46%	12.50%	11.67%	10.94%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50
3	25.0	33.33	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50
4		4.17	17.86	25.00	20.0	16.67	15.38	14.29	13.33	12.50
5				3.12	20.0	16.66	15.39	14.28	13.34	12.50
6					2.5	16.67	15.38	14.29	13.33	12.50
7						2.08	9.62	14.28	13.34	12.50
8								1.79	8.33	12.50
9										1.56

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	10.29%	9.72%	9.21%	8.75%	8.33%	7.95%	7.61%	7.29%	7.0%	6.73%
2	11.77	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
3	11.76	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
4	11.77	11.11	10.53	10.00	9.53	9.09	8.69	8.33	8.0	7.69
5	11.76	11.11	10.52	10.00	9.52	9.09	8.70	8.33	8.0	7.69
6	11.77	11.11	10.53	10.00	9.53	9.09	8.69	8.34	8.0	7.69
7	11.76	11.11	10.52	10.00	9.52	9.09	8.70	8.33	8.0	7.69
8	11.77	11.12	10.53	10.00	9.53	9.09	8.69	8.34	8.0	7.69
9	7.35	11.11	10.52	10.00	9.52	9.09	8.70	8.33	8.0	7.70
10		1.39	6.58	10.00	9.53	9.10	8.69	8.34	8.0	7.69
11				1.25	5.95	9.09	8.70	8.33	8.0	7.70

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	6.48%	6.25%	5.83%	5.47%	5.30%	5.15%	4.86%	4.61%	4.375%	3.977%
2	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
3	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
4	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.546
5	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
6	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.546
7	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
8	7.41	7.15	6.66	6.25	6.06	5.88	5.56	5.26	5.000	4.546
9	7.40	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
10	7.41	7.15	6.66	6.25	6.06	5.88	5.56	5.27	5.000	4.546
11	7.40	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545

Year	24	25	26.5	28	30	35	40	45	50
1	3.646%	3.5%	3.302%	3.125%	2.917%	2.500%	2.188%	1.944%	1.75%
2	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00

**Table 12. GDS Straight Line Election or ADS
Mid-Quarter Convention
Placed in Service in 2nd Quarter**

Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	25.0%	20.83%	17.86%	15.63%	12.5%	10.42%	9.62%	8.93%	8.33%	7.81%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50
3	35.0	33.34	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50
4		12.50	25.00	25.00	20.0	16.66	15.39	14.29	13.34	12.50
5				9.37	20.0	16.67	15.38	14.28	13.33	12.50
6					7.5	16.66	15.39	14.29	13.34	12.50
7						6.25	13.46	14.28	13.33	12.50
8								5.36	11.67	12.50
9										4.69

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	7.35%	6.94%	6.58%	6.25%	5.95%	5.68%	5.43%	5.21%	5.0%	4.81%
2	11.77	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
3	11.76	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
4	11.77	11.11	10.53	10.00	9.53	9.09	8.70	8.33	8.0	7.69
5	11.76	11.11	10.52	10.00	9.52	9.09	8.69	8.33	8.0	7.69
6	11.77	11.11	10.53	10.00	9.53	9.09	8.70	8.33	8.0	7.69
7	11.76	11.11	10.52	10.00	9.52	9.09	8.69	8.34	8.0	7.69
8	11.77	11.12	10.53	10.00	9.53	9.09	8.70	8.33	8.0	7.69
9	10.29	11.11	10.52	10.00	9.52	9.09	8.69	8.34	8.0	7.69
10		4.17	9.21	10.00	9.53	9.09	8.70	8.33	8.0	7.70
11				3.75	8.33	9.10	8.69	8.34	8.0	7.69

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	4.63%	4.46%	4.17%	3.91%	3.79%	3.68%	3.47%	3.29%	3.125%	2.841%
2	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
3	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
4	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
5	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.546
6	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
7	7.41	7.15	6.66	6.25	6.06	5.88	5.55	5.26	5.000	4.546
8	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
9	7.40	7.15	6.66	6.25	6.06	5.88	5.55	5.27	5.000	4.546
10	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
11	7.40	7.15	6.66	6.25	6.06	5.88	5.55	5.27	5.000	4.546

Year	24	25	26.5	28	30	35	40	45	50
1	2.604%	2.5%	2.358%	2.232%	2.083%	1.786%	1.563%	1.389%	1.25%
2	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00

**Table 13. GDS Straight Line Election or ADS
Mid-Quarter Convention
Placed in Service in 3rd Quarter**

Recovery Period In Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	15.0%	12.50%	10.71%	9.38%	7.5%	6.25%	5.77%	5.36%	5.00%	4.69%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50
3	40.0	33.34	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50
4	5.0	20.83	28.58	25.00	20.0	16.66	15.38	14.29	13.33	12.50
5			3.57	15.62	20.0	16.67	15.39	14.28	13.34	12.50
6					12.5	16.66	15.38	14.29	13.33	12.50
7						10.42	15.39	14.28	13.34	12.50
8							1.92	8.93	13.33	12.50
9									1.67	7.81

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	4.41%	4.17%	3.95%	3.75%	3.57%	3.41%	3.26%	3.13%	3.0%	2.88%
2	11.76	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
3	11.77	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
4	11.76	11.11	10.52	10.00	9.52	9.09	8.69	8.33	8.0	7.69
5	11.77	11.11	10.53	10.00	9.53	9.09	8.70	8.33	8.0	7.69
6	11.76	11.11	10.52	10.00	9.52	9.09	8.69	8.33	8.0	7.69
7	11.77	11.11	10.53	10.00	9.53	9.09	8.70	8.34	8.0	7.69
8	11.76	11.11	10.52	10.00	9.52	9.09	8.69	8.33	8.0	7.70
9	11.77	11.11	10.53	10.00	9.53	9.09	8.70	8.34	8.0	7.69
10	1.47	6.95	10.52	10.00	9.52	9.09	8.69	8.33	8.0	7.70
11			1.32	6.25	9.53	9.10	8.70	8.34	8.0	7.69

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	2.78%	2.68%	2.50%	2.34%	2.27%	2.21%	2.08%	1.97%	1.875%	1.705%
2	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
3	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
4	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
5	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.546
6	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
7	7.41	7.14	6.66	6.25	6.06	5.88	5.55	5.26	5.000	4.546
8	7.40	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
9	7.41	7.15	6.66	6.25	6.06	5.88	5.55	5.27	5.000	4.546
10	7.40	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
11	7.41	7.15	6.66	6.25	6.06	5.88	5.55	5.27	5.000	4.546

Year	24	25	26.5	28	30	35	40	45	50
1	1.563%	1.5%	1.415%	1.339%	1.250%	1.071%	0.938%	0.833%	0.75%
2	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00

**Table 14. GDS Straight Line Election or ADS
Mid-Quarter Convention
Placed in Service in 4th Quarter**

Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	5.0%	4.17%	3.57%	3.13%	2.5%	2.08%	1.92%	1.79%	1.67%	1.56%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50
3	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50
4	15.0	29.17	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50
5			10.72	21.87	20.0	16.66	15.38	14.28	13.33	12.50
6					17.5	16.67	15.39	14.29	13.34	12.50
7						14.58	15.38	14.28	13.33	12.50
8							5.77	12.50	13.34	12.50
9									5.00	10.94

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	1.47%	1.39%	1.32%	1.25%	1.19%	1.14%	1.09%	1.04%	1.0%	0.96%
2	11.76	11.11	10.53	10.00	9.52	9.09	8.70	8.33	8.0	7.69
3	11.77	11.11	10.53	10.00	9.52	9.09	8.69	8.33	8.0	7.69
4	11.76	11.11	10.52	10.00	9.52	9.09	8.70	8.33	8.0	7.69
5	11.77	11.11	10.53	10.00	9.53	9.09	8.69	8.33	8.0	7.69
6	11.76	11.11	10.52	10.00	9.52	9.09	8.70	8.34	8.0	7.69
7	11.77	11.11	10.53	10.00	9.53	9.09	8.69	8.33	8.0	7.69
8	11.76	11.11	10.52	10.00	9.52	9.09	8.70	8.34	8.0	7.69
9	11.77	11.11	10.53	10.00	9.53	9.09	8.69	8.33	8.0	7.70
10	4.41	9.73	10.52	10.00	9.52	9.09	8.70	8.34	8.0	7.69
11			3.95	8.75	9.53	9.09	8.69	8.33	8.0	7.70

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	0.93%	0.89%	0.83%	0.78%	0.76%	0.74%	0.69%	0.66%	0.625%	0.568%
2	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
3	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.545
4	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.546
5	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
6	7.41	7.14	6.67	6.25	6.06	5.88	5.56	5.26	5.000	4.546
7	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
8	7.40	7.15	6.66	6.25	6.06	5.88	5.56	5.26	5.000	4.546
9	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545
10	7.40	7.15	6.66	6.25	6.06	5.88	5.56	5.27	5.000	4.546
11	7.41	7.14	6.67	6.25	6.06	5.88	5.55	5.26	5.000	4.545

Year	24	25	26.5	28	30	35	40	45	50
1	0.521%	0.5%	0.472%	0.446%	0.417%	0.357%	0.313%	0.278%	0.25%
2	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
7	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00

**Table 15. Straight Line Over 40 Years
Residential Rental and Nonresidential Real Property
Mid-Month Convention**

Year	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%
2-11	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500

**Table 16. 150% Declining Balance Election
Half-Year Convention**

ADS Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	30.0%	25.0%	21.43%	18.75%	15.00%	12.50%	11.54%	10.71%	10.00%	9.38%
2	42.0	37.5	33.67	30.47	25.50	21.88	20.41	19.13	18.00	16.99
3	28.0	25.0	22.45	20.31	17.85	16.41	15.70	15.03	14.40	13.81
4		12.5	22.45	20.31	16.66	14.06	13.09	12.25	11.52	11.22
5				10.16	16.66	14.06	13.09	12.25	11.52	10.80
6					8.33	14.06	13.09	12.25	11.52	10.80
7						7.03	13.08	12.25	11.52	10.80
8								6.13	11.52	10.80
9										5.40

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	8.82%	8.33%	7.89%	7.50%	7.14%	6.82%	6.52%	6.25%	6.00%	5.77%
2	16.09	15.28	14.54	13.88	13.27	12.71	12.19	11.72	11.28	10.87
3	13.25	12.73	12.25	11.79	11.37	10.97	10.60	10.25	9.93	9.62
4	10.91	10.61	10.31	10.02	9.75	9.48	9.22	8.97	8.73	8.51
5	10.19	9.65	9.17	8.74	8.35	8.18	8.02	7.85	7.69	7.53
6	10.19	9.64	9.17	8.74	8.35	7.98	7.64	7.33	7.05	6.79
7	10.18	9.65	9.17	8.74	8.35	7.97	7.64	7.33	7.05	6.79
8	10.19	9.64	9.17	8.74	8.35	7.98	7.63	7.33	7.05	6.79
9	10.18	9.65	9.17	8.74	8.36	7.97	7.64	7.33	7.04	6.79
10		4.82	9.16	8.74	8.35	7.98	7.63	7.33	7.05	6.79
11				4.37	8.36	7.97	7.64	7.32	7.04	6.79

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	5.56%	5.36%	5.00%	4.69%	4.55%	4.41%	4.17%	3.95%	3.750%	3.409%
2	10.49	10.14	9.50	8.94	8.68	8.43	7.99	7.58	7.219	6.586
3	9.33	9.05	8.55	8.10	7.89	7.69	7.32	6.98	6.677	6.137
4	8.29	8.08	7.70	7.34	7.17	7.01	6.71	6.43	6.177	5.718
5	7.37	7.22	6.93	6.65	6.52	6.39	6.15	5.93	5.713	5.328
6	6.55	6.44	6.23	6.03	5.93	5.83	5.64	5.46	5.285	4.965
7	6.55	6.32	5.90	5.55	5.39	5.32	5.17	5.03	4.888	4.627
8	6.55	6.32	5.90	5.55	5.39	5.23	4.94	4.69	4.522	4.311
9	6.55	6.32	5.91	5.55	5.39	5.23	4.94	4.69	4.462	4.063
10	6.55	6.32	5.90	5.55	5.39	5.23	4.94	4.69	4.461	4.063
11	6.55	6.32	5.91	5.55	5.39	5.23	4.94	4.69	4.462	4.063

Year	24	25	26.5	28	30	35	40	45	50
1	3.125%	3.000%	2.830%	2.679%	2.500%	2.143%	1.875%	1.667%	1.500%
2	6.055	5.820	5.500	5.214	4.875	4.194	3.680	3.278	2.955
3	5.676	5.471	5.189	4.934	4.631	4.014	3.542	3.169	2.866
4	5.322	5.143	4.895	4.670	4.400	3.842	3.409	3.063	2.780
5	4.989	4.834	4.618	4.420	4.180	3.677	3.281	2.961	2.697
6	4.677	4.544	4.357	4.183	3.971	3.520	3.158	2.862	2.616
7	4.385	4.271	4.110	3.959	3.772	3.369	3.040	2.767	2.538
8	4.111	4.015	3.877	3.747	3.584	3.225	2.926	2.674	2.461
9	3.854	3.774	3.658	3.546	3.404	3.086	2.816	2.585	2.388
10	3.729	3.584	3.451	3.356	3.234	2.954	2.710	2.499	2.316
11	3.729	3.583	3.383	3.205	3.072	2.828	2.609	2.416	2.246

**Table 17. 150% Declining Balance Election
Mid-Quarter Convention
Placed in Service in 1st Quarter**

ADS Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	52.50%	43.75%	37.50%	32.81%	26.25%	21.88%	20.19%	18.75%	17.50%	16.41%
2	29.23	28.13	26.79	25.20	22.13	19.53	18.42	17.41	16.50	15.67
3	18.27	25.00	21.98	19.76	16.52	14.65	14.17	13.68	13.20	12.74
4		3.12	13.73	19.76	16.52	14.06	13.03	12.16	11.42	10.77
5				2.47	16.52	14.06	13.02	12.16	11.42	10.77
6					2.06	14.06	13.03	12.16	11.41	10.76
7						1.76	8.14	12.16	11.42	10.77
8								1.52	7.13	10.76
9										1.35

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	15.44%	14.58%	13.82%	13.13%	12.50%	11.93%	11.41%	10.94%	10.50%	10.10%
2	14.92	14.24	13.61	13.03	12.50	12.01	11.56	11.13	10.74	10.37
3	12.29	11.86	11.46	11.08	10.71	10.37	10.05	9.74	9.45	9.18
4	10.20	9.89	9.65	9.41	9.18	8.96	8.74	8.52	8.32	8.12
5	10.19	9.64	9.15	8.71	8.32	7.96	7.64	7.46	7.32	7.18
6	10.20	9.65	9.15	8.71	8.32	7.96	7.64	7.33	7.04	6.78
7	10.19	9.64	9.15	8.71	8.32	7.96	7.64	7.33	7.04	6.77
8	10.20	9.65	9.15	8.71	8.32	7.96	7.64	7.33	7.04	6.78
9	6.37	9.64	9.14	8.71	8.32	7.96	7.64	7.33	7.04	6.77
10		1.21	5.72	8.71	8.31	7.97	7.63	7.32	7.04	6.78
11				1.09	5.20	7.96	7.64	7.33	7.04	6.77

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	9.72%	9.38%	8.75%	8.20%	7.95%	7.72%	7.29%	6.91%	6.563%	5.966%
2	10.03	9.71	9.13	8.61	8.37	8.14	7.73	7.35	7.008	6.411
3	8.92	8.67	8.21	7.80	7.61	7.42	7.08	6.77	6.482	5.974
4	7.93	7.74	7.39	7.07	6.92	6.77	6.49	6.23	5.996	5.567
5	7.04	6.91	6.65	6.41	6.29	6.17	5.95	5.74	5.546	5.187
6	6.53	6.31	5.99	5.80	5.71	5.63	5.45	5.29	5.130	4.834
7	6.54	6.31	5.90	5.54	5.38	5.23	5.00	4.87	4.746	4.504
8	6.53	6.31	5.91	5.54	5.38	5.23	4.94	4.69	4.459	4.197
9	6.54	6.31	5.90	5.54	5.38	5.23	4.95	4.69	4.459	4.061
10	6.53	6.31	5.91	5.54	5.38	5.23	4.94	4.69	4.459	4.061
11	6.54	6.31	5.90	5.54	5.38	5.23	4.95	4.69	4.459	4.061

Year	24	25	26.5	28	30	35	40	45	50
1	5.469%	5.250%	4.953%	4.688%	4.375%	3.750%	3.281%	2.917%	2.625%
2	5.908	5.685	5.380	5.106	4.781	4.125	3.627	3.236	2.921
3	5.539	5.344	5.075	4.832	4.542	3.948	3.491	3.128	2.834
4	5.193	5.023	4.788	4.574	4.315	3.779	3.360	3.024	2.749
5	4.868	4.722	4.517	4.329	4.099	3.617	3.234	2.923	2.666
6	4.564	4.439	4.262	4.097	3.894	3.462	3.113	2.826	2.586
7	4.279	4.172	4.020	3.877	3.700	3.314	2.996	2.732	2.509
8	4.011	3.922	3.793	3.669	3.515	3.172	2.884	2.640	2.433
9	3.761	3.687	3.578	3.473	3.339	3.036	2.776	2.552	2.360
10	3.729	3.582	3.383	3.287	3.172	2.906	2.671	2.467	2.290
11	3.729	3.582	3.384	3.204	3.013	2.781	2.571	2.385	2.221

**Table 18. 150% Declining Balance Election
Mid-Quarter Convention
Placed in Service in 2nd Quarter**

ADS Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	37.5%	31.25%	26.79%	23.44%	18.75%	15.63%	14.42%	13.39%	12.50%	11.72%
2	37.5	34.38	31.38	28.71	24.38	21.09	19.75	18.56	17.50	16.55
3	25.0	25.00	22.31	20.15	17.06	15.82	15.19	14.58	14.00	13.45
4		9.37	19.52	20.15	16.76	14.06	13.07	12.22	11.49	10.93
5				7.55	16.76	14.06	13.07	12.22	11.49	10.82
6					6.29	14.07	13.07	12.22	11.49	10.82
7						5.27	11.43	12.23	11.48	10.83
8								4.58	10.05	10.82
9										4.06

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	11.03%	10.42%	9.87%	9.38%	8.93%	8.52%	8.15%	7.81%	7.50%	7.21%
2	15.70	14.93	14.23	13.59	13.01	12.47	11.98	11.52	11.10	10.71
3	12.93	12.44	11.98	11.55	11.15	10.77	10.42	10.08	9.77	9.47
4	10.65	10.37	10.09	9.82	9.56	9.31	9.06	8.82	8.60	8.38
5	10.19	9.64	9.16	8.73	8.34	8.04	7.88	7.72	7.56	7.41
6	10.19	9.65	9.16	8.73	8.34	7.98	7.64	7.33	7.04	6.78
7	10.19	9.64	9.16	8.73	8.34	7.98	7.64	7.33	7.04	6.79
8	10.20	9.65	9.17	8.73	8.34	7.98	7.64	7.33	7.05	6.78
9	8.92	9.64	9.16	8.73	8.34	7.99	7.64	7.33	7.04	6.79
10		3.62	8.02	8.73	8.35	7.98	7.63	7.33	7.05	6.78
11				3.28	7.30	7.99	7.64	7.33	7.04	6.79

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	6.94%	6.70%	6.25%	5.86%	5.68%	5.51%	5.21%	4.93%	4.688%	4.261%
2	10.34	10.00	9.38	8.83	8.57	8.34	7.90	7.51	7.148	6.528
3	9.19	8.92	8.44	8.00	7.80	7.60	7.24	6.91	6.612	6.083
4	8.17	7.97	7.59	7.25	7.09	6.93	6.64	6.37	6.116	5.668
5	7.26	7.12	6.83	6.57	6.44	6.32	6.08	5.86	5.658	5.281
6	6.55	6.35	6.15	5.95	5.86	5.76	5.58	5.40	5.233	4.921
7	6.55	6.32	5.91	5.55	5.38	5.25	5.11	4.98	4.841	4.586
8	6.55	6.32	5.90	5.55	5.39	5.23	4.94	4.69	4.478	4.273
9	6.54	6.32	5.91	5.55	5.38	5.23	4.94	4.69	4.463	4.063
10	6.55	6.32	5.90	5.54	5.39	5.23	4.95	4.69	4.463	4.063
11	6.54	6.32	5.91	5.55	5.38	5.23	4.94	4.69	4.463	4.062

Year	24	25	26.5	28	30	35	40	45	50
1	3.906%	3.750%	3.538%	3.348%	3.125%	2.679%	2.344%	2.083%	1.875%
2	6.006	5.775	5.460	5.178	4.844	4.171	3.662	3.264	2.944
3	5.631	5.429	5.151	4.900	4.602	3.992	3.525	3.155	2.855
4	5.279	5.103	4.859	4.638	4.371	3.821	3.393	3.050	2.770
5	4.949	4.797	4.584	4.389	4.153	3.657	3.265	2.948	2.687
6	4.639	4.509	4.325	4.154	3.945	3.501	3.143	2.850	2.606
7	4.349	4.238	4.080	3.932	3.748	3.351	3.025	2.755	2.528
8	4.078	3.984	3.849	3.721	3.561	3.207	2.912	2.663	2.452
9	3.823	3.745	3.631	3.522	3.383	3.069	2.802	2.574	2.378
10	3.729	3.583	3.426	3.333	3.213	2.938	2.697	2.489	2.307
11	3.729	3.583	3.384	3.205	3.053	2.812	2.596	2.406	2.238

**Table 19. 150% Declining Balance Election
Mid-Quarter Convention
Placed in Service in 3rd Quarter**

ADS Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	22.50%	18.75%	16.07%	14.06%	11.25%	9.380%	8.65%	8.04%	7.50%	7.03%
2	46.50	40.63	35.97	32.23	26.63	22.660	21.08	19.71	18.50	17.43
3	27.56	25.00	22.57	20.46	18.64	16.990	16.22	15.48	14.80	14.16
4	3.44	15.62	22.57	20.46	16.56	14.060	13.10	12.27	11.84	11.51
5			2.82	12.79	16.57	14.060	13.10	12.28	11.48	10.78
6					10.35	14.060	13.11	12.27	11.48	10.78
7						8.790	13.10	12.28	11.48	10.78
8							1.64	7.67	11.48	10.79
9									1.44	6.74

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	6.62%	6.25%	5.92%	5.63%	5.36%	5.11%	4.89%	4.69%	4.50%	4.33%
2	16.48	15.63	14.85	14.16	13.52	12.94	12.41	11.91	11.46	11.04
3	13.57	13.02	12.51	12.03	11.59	11.18	10.79	10.43	10.08	9.77
4	11.18	10.85	10.53	10.23	9.93	9.65	9.38	9.12	8.88	8.64
5	10.18	9.64	9.17	8.75	8.51	8.33	8.16	7.98	7.81	7.64
6	10.17	9.65	9.17	8.75	8.34	7.97	7.63	7.33	7.05	6.79
7	10.18	9.64	9.18	8.75	8.34	7.97	7.63	7.33	7.05	6.79
8	10.17	9.65	9.17	8.74	8.34	7.97	7.63	7.33	7.05	6.79
9	10.18	9.64	9.18	8.75	8.34	7.97	7.63	7.33	7.05	6.79
10	1.27	6.03	9.17	8.74	8.34	7.97	7.63	7.32	7.05	6.79
11			1.15	5.47	8.35	7.96	7.63	7.33	7.05	6.79

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	4.17%	4.02%	3.75%	3.52%	3.41%	3.31%	3.13%	2.96%	2.813%	2.557%
2	10.65	10.28	9.63	9.05	8.78	8.53	8.07	7.66	7.289	6.644
3	9.46	9.18	8.66	8.20	7.98	7.78	7.40	7.06	6.742	6.191
4	8.41	8.20	7.80	7.43	7.26	7.09	6.78	6.50	6.237	5.769
5	7.48	7.32	7.02	6.73	6.60	6.47	6.22	5.99	5.769	5.375
6	6.65	6.54	6.31	6.10	6.00	5.90	5.70	5.51	5.336	5.009
7	6.55	6.31	5.90	5.55	5.45	5.38	5.23	5.08	4.936	4.667
8	6.54	6.31	5.90	5.55	5.38	5.23	4.94	4.69	4.566	4.349
9	6.55	6.32	5.91	5.55	5.39	5.23	4.94	4.69	4.460	4.064
10	6.54	6.31	5.90	5.55	5.38	5.23	4.94	4.69	4.460	4.064
11	6.55	6.32	5.91	5.55	5.39	5.23	4.94	4.69	4.460	4.064

Year	24	25	26.5	28	30	35	40	45	50
1	2.344%	2.250%	2.123%	2.009%	1.875%	1.607%	1.406%	1.250%	1.125%
2	6.104	5.865	5.540	5.250	4.906	4.217	3.697	3.292	2.966
3	5.722	5.513	5.227	4.968	4.661	4.036	3.559	3.182	2.877
4	5.364	5.182	4.931	4.702	4.428	3.863	3.425	3.076	2.791
5	5.029	4.871	4.652	4.450	4.207	3.698	3.297	2.973	2.707
6	4.715	4.579	4.388	4.212	3.996	3.539	3.173	2.874	2.626
7	4.420	4.304	4.140	3.986	3.796	3.387	3.054	2.778	2.547
8	4.144	4.046	3.906	3.773	3.607	3.242	2.940	2.686	2.471
9	3.885	3.803	3.685	3.571	3.426	3.103	2.829	2.596	2.397
10	3.729	3.584	3.476	3.379	3.255	2.970	2.723	2.510	2.325
11	3.730	3.584	3.383	3.205	3.092	2.843	2.621	2.255	2.255

**Table 20. 150% Declining Balance Election
Mid-Quarter Convention
Placed in Service in 4th Quarter**

ADS Recovery Period in Years

Year	2.5	3	3.5	4	5	6	6.5	7	7.5	8
1	7.50%	6.25%	5.36%	4.69%	3.75%	3.13%	2.88%	2.68%	2.50%	2.34%
2	55.50	46.88	40.56	35.74	28.88	24.22	22.41	20.85	19.50	18.31
3	26.91	25.00	23.18	22.34	20.21	18.16	17.24	16.39	15.60	14.88
4	10.09	21.87	22.47	19.86	16.40	14.06	13.26	12.87	12.48	12.09
5			8.43	17.37	16.41	14.06	13.10	12.18	11.41	10.74
6					14.35	14.06	13.10	12.18	11.41	10.75
7						12.31	13.10	12.19	11.41	10.74
8							4.91	10.66	11.41	10.75
9									4.28	9.40

Year	8.5	9	9.5	10	10.5	11	11.5	12	12.5	13
1	2.21%	2.08%	1.97%	1.88%	1.79%	1.70%	1.63%	1.56%	1.50%	1.44%
2	17.26	16.32	15.48	14.72	14.03	13.40	12.83	12.31	11.82	11.37
3	14.21	13.60	13.03	12.51	12.03	11.58	11.16	10.77	10.40	10.06
4	11.70	11.33	10.98	10.63	10.31	10.00	9.70	9.42	9.15	8.90
5	10.16	9.65	9.24	9.04	8.83	8.63	8.44	8.24	8.06	7.87
6	10.16	9.65	9.17	8.72	8.32	7.95	7.63	7.33	7.09	6.96
7	10.16	9.64	9.17	8.72	8.31	7.96	7.63	7.33	7.05	6.78
8	10.16	9.65	9.17	8.72	8.32	7.95	7.62	7.33	7.05	6.78
9	10.17	9.64	9.17	8.72	8.31	7.96	7.63	7.33	7.05	6.78
10	3.81	8.44	9.18	8.71	8.32	7.95	7.62	7.32	7.05	6.78
11			3.44	7.63	8.31	7.96	7.63	7.33	7.05	6.78

Year	13.5	14	15	16	16.5	17	18	19	20	22
1	1.39%	1.34%	1.25%	1.17%	1.14%	1.10%	1.04%	0.99%	0.938%	0.852%
2	10.96	10.57	9.88	9.27	8.99	8.73	8.25	7.82	7.430	6.760
3	9.74	9.44	8.89	8.40	8.17	7.96	7.56	7.20	6.872	6.299
4	8.66	8.43	8.00	7.61	7.43	7.25	6.93	6.63	6.357	5.870
5	7.69	7.52	7.20	6.90	6.75	6.61	6.35	6.11	5.880	5.469
6	6.84	6.72	6.48	6.25	6.14	6.03	5.82	5.63	5.439	5.097
7	6.53	6.31	5.90	5.66	5.58	5.50	5.34	5.18	5.031	4.749
8	6.53	6.31	5.90	5.54	5.38	5.22	4.94	4.77	4.654	4.425
9	6.53	6.31	5.90	5.54	5.38	5.23	4.94	4.69	4.458	4.124
10	6.54	6.31	5.91	5.54	5.38	5.22	4.94	4.69	4.458	4.062
11	6.53	6.31	5.90	5.54	5.38	5.23	4.95	4.69	4.458	4.062

Year	24	25	26.5	28	30	35	40	45	50
1	0.781%	0.750%	0.708%	0.670%	0.625%	0.536%	0.469%	0.417%	0.375%
2	6.201	5.955	5.620	5.321	4.969	4.263	3.732	3.319	2.989
3	5.814	5.598	5.302	5.036	4.720	4.080	3.592	3.209	2.899
4	5.450	5.262	5.002	4.766	4.484	3.905	3.458	3.102	2.812
5	5.110	4.946	4.719	4.511	4.260	3.738	3.328	2.998	2.728
6	4.790	4.649	4.452	4.269	4.047	3.578	3.203	2.898	2.646
7	4.491	4.370	4.200	4.041	3.845	3.424	3.083	2.802	2.567
8	4.210	4.108	3.962	3.824	3.653	3.278	2.968	2.708	2.490
9	3.947	3.862	3.738	3.619	3.470	3.137	2.856	2.618	2.415
10	3.730	3.630	3.526	3.426	3.296	3.003	2.749	2.531	2.342
11	3.729	3.582	3.383	3.242	3.132	2.874	2.646	2.447	2.272

4.

Listed Property

Topics

This chapter discusses:

- Listed property defined
- The predominant use test
- What records must be kept

Useful Items

You may want to see:

Publication

- 463** Travel, Entertainment, and Gift Expenses
- 534** Depreciation
- 587** Business Use of Your Home
- 917** Business Use of a Car

Form (and Instructions)

- 2106–EZ** Unreimbursed Employee Business Expenses
- 2106** Employee Business Expenses
- 4562** Depreciation and Amortization

This chapter discusses special rules and the record-keeping requirements for listed property, including passenger automobiles.

If listed property is not used predominantly (more than 50%) in a qualified business use as discussed later in *Predominant Use Test*, the section 179 deduction is not allowed and the property must be depreciated using ADS (straight line method) over the ADS recovery period. A rule that applies only to passenger automobiles limits the amount of your section 179 and depreciation deductions. See *Special Rule for Passenger Automobiles*, later.

Listed Property Defined

Words you may need to know (see Glossary):

Capitalized
Recovery period

Straight line method

Listed property is any of the following:

- 1) Any passenger automobile (defined under *Special Rule for Passenger Automobiles*, later),
- 2) Any other property used for transportation,
- 3) Any property of a type generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment),
- 4) Any computer and related peripheral equipment, defined later, **unless** it is used only at a regular business establishment and owned or leased by the person operating the establishment. A regular business establishment includes a portion of a dwelling unit, if (and only if) that portion is used both regularly and exclusively for business as discussed in Publication 587. Dwelling units are defined earlier in Chapter 3 in *Residential rental property* under *Property Classes and Recovery Periods*.
- 5) Any cellular telephone (or similar telecommunication equipment) placed in service or leased in a tax year beginning after 1989.

Other Property Used for Transportation

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

It does **not** include:

- 1) Any vehicle which, by reason of its design, is not likely to be used more than a minimal amount for personal purposes, such as clearly marked police and fire vehicles, ambulances, or hearses used for those purposes,
- 2) Any vehicle that is designed to carry cargo and that has a loaded gross vehicle weight over 14,000 pounds, bucket trucks (cherry pickers), cement mixers, combines, cranes and derricks, delivery trucks with seating only for the driver (or only for the driver plus a folding jump seat), dump trucks (including garbage trucks), flatbed trucks, forklifts, qualified moving vans, qualified specialized utility repair trucks, and refrigerated trucks,
- 3) Any passenger bus used for that purpose with a capacity of at least 20 passengers and school buses,
- 4) Any tractor or other special purpose farm vehicle, and unmarked vehicles used by law enforcement officers if the use is officially authorized, and
- 5) Any vehicle, such as a taxicab, if substantially all its use is in the trade or business of providing services to transport persons or property for compensation or hire by unrelated persons.

Computers and Related Peripheral Equipment

A computer is a programmable electronically activated device that:

- 1) Is capable of accepting information, applying prescribed processes to the information, and supplying the results of those processes with or without human intervention, and
- 2) 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.

Computer or peripheral equipment does **not** include:

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

Improvements to Listed Property

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

Predominant Use Test

Words you may need to know (see Glossary):

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

If listed property is not used predominantly (more than 50%) in a qualified business use, the section 179 deduction is not allowable and the property must be depreciated using ADS (straight line method) over the ADS recovery period.

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

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

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

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

Qualified Business Use

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

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

5% owner. A 5% owner of a business, other than a corporation, 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:

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

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

Entertainment Use

The use of listed property for entertainment, recreation, or amusement purposes is treated as a qualified business use only to the extent that expenses (other than interest and property tax expenses) attributable to its use are deductible as ordinary and necessary business expenses.

Leasing or Compensatory Use of Aircraft

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

Commuting

The use of a vehicle 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 trip from personal to business. The fact that an automobile is used to display material that advertises the owner or user's trade or business does not convert an otherwise personal use into business use.

Use of Your Passenger Automobile by Another Person

If someone else uses your automobile, that use is not business use unless:

- 1) That use is directly connected with your business,
- 2) The value of the use is properly reported by you as income to the other person and tax is withheld on the income where required, or
- 3) The value of the use results in a payment of fair market rent.

Any payment to you for the use of the automobile is treated as a rent payment for (3) above.

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 compensation, he is allowed to use one of the company automobiles for personal use. The company includes the value of the personal use of the automobile in Richard's gross income and properly withholds tax on it. Because the use of the property is compensation for the performance of services by a related party, the use of the company automobile is not a qualified business use.

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

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

Employees

Any use by an employee of his or her own listed property (or listed property rented by an employee) in performing services as an employee is not business use unless:

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

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

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

Example 1. Virginia Sycamore is employed as a courier with We Deliver which provides local courier services. She owns and uses a motorcycle to deliver packages to downtown offices. We Deliver explicitly requires

all delivery persons to own a small car or motorcycle for use in their employment. The company reimburses delivery persons for their costs. 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 reimburses 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 reimbursement. 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. David's computer is listed property because it is not used at a regular business establishment. His use of the computer is neither for the convenience of his employer nor a required condition of employment.

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

Method of Allocating Use

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

Applying the Predominant Use Test

You must apply the predominant use test for an item of listed property each year of the recovery period. For example, if you place an item of listed property in service in 1994, you must apply the predominant use test for that property item each year of the ADS recovery period.

First Recovery Year

If any item of listed property is not used predominantly in a qualified business use in the year it is placed in service:

- 1) The property is not eligible for a section 179 deduction, and
- 2) The depreciation deduction must be figured using ADS.

As discussed earlier in *When To Use ADS under What Can Be Depreciated Under MACRS*, using ADS means that you must figure your depreciation deduction with the straight line method over the ADS recovery period.

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

Example. On July 1, 1994, James Wand bought and placed in service a computer, which is 5-year property, costing \$4,000. In 1994, he uses the computer 40% in a qualified business use, 30% for investment purposes (to produce income), and 30% for personal use. James's computer is listed property because it is not used at a regular business establishment. Because the qualified business use is only 40%, he cannot elect any section 179 deduction and must use ADS to figure depreciation. Under ADS, he figures his depreciation deduction for 1994 using the straight line method over the ADS 5-year recovery period. To determine his deduction, he must first determine the business/investment portion of his property cost. He does this by multiplying the total cost by the combined business/investment use percentage ($\$4,000 \times 70\%$). He then figures his 1994 depreciation deduction. He refers to Table 10 and obtains the first-year rate of 10% using the half-year convention. He then multiplies the combined business/investment portion of the cost by the first-year straight line rate ($\$2,800 \times 10\%$). The result is his depreciation deduction for 1994, \$280.

Years After the First Recovery Year

If, in a year after you place an item of listed property in service, you fail to meet the predominant use test for that item of property, you may be required to recapture part of the section 179 and depreciation deductions claimed. You will also be required to figure your depreciation in a different way. For information on how to figure the recapture and your depreciation for that year and for all later years in the recovery period, see Chapter 4 in Publication 534.

Leased Property

The predominant use rules generally apply to the rental of listed property. If you are either the lessor (the owner of the property) or the lessee (the person who rents the property), see *Leased Property* in Chapter 4 of Publication 534. For information on applying the predominant use rules to passenger automobiles, see *Leasing a Car* in Publication 917.

Special Rule for Passenger Automobiles

Words you may need to know (see Glossary):

Placed in service
Recovery period

In addition to the rules for all listed property, a passenger automobile is also subject to other special limits. For passenger automobiles, the total depreciation deduction (including the section 179 deduction) that can be claimed is limited.

Deduction Limits

The maximum depreciation deduction you can claim for a passenger automobile is determined by the date you place the automobile in service. For passenger automobiles first placed in service during 1994, the depreciation deduction, including the section 179 deduction, cannot be more than \$2,960 for 1994 (the first tax year of the recovery period). The depreciation deduction will be limited to \$4,700 and \$2,850 for 1995 and 1996 (second

and third years), respectively. The maximum deduction will be \$1,675 for each tax year after 1996.

These limits are further reduced if your business use is less than 100%.

You cannot take any depreciation or section 179 deduction for the use of listed property (including passenger automobiles) regardless of the date the property is placed in service, unless you can prove business/investment use with adequate records or sufficient evidence to support your own statements. See *What Records Must Be Kept*, later.

Passenger Automobile Defined

A passenger automobile is any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (6,000 pounds or less of gross vehicle weight for trucks and vans). It includes any part, component, or other item physically attached to the automobile or usually included in the purchase price of an automobile.

The following vehicles are *not* considered passenger automobiles for these purposes:

- 1) An ambulance, hearse, or combination ambulance-hearse used directly in a trade or business, and
- 2) A vehicle used directly in the trade or business of transporting persons or property for compensation or hire.

Example. On April 15, 1994, Virginia Hart buys a car for \$10,000. She uses the car only in her business. She files her tax return based on the calendar year. Under MACRS, a car is 5-year property. Because the car was placed in service on April 15 and used only for business, she finds the percentage in Table 2 to figure her depreciation deduction. She multiplies the unadjusted basis of her car (\$10,000) by the percentage in Table 2 (0.20) to get her tentative depreciation deduction of \$2,000 for 1994. This is below the special limit amount of \$2,960 for passenger automobiles placed in service in 1994. Therefore, she can deduct the full \$2,000.

Listed Property Worksheet for Passenger Automobiles

To assist you in computing your maximum depreciation deduction, the following worksheet is provided.

**Worksheet for Passenger Automobiles
(Subject to Special Limits)**

Part I

1. Description of property
2. Date placed in service
3. MACRS method (GDS or ADS)
4. Property class and recovery period
5. Convention
6. Depreciation rate (from tables)
7. Passenger automobile deduction limit \$ 2,960
8. Business/investment use
9. Multiply line 7 by line 8. This is your adjusted deduction limit
10. Section 179 deduction claimed this year (not more than line 9)

Note:

- 1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction is limited to line 9.
- 2) If line 10 is less than line 9, complete Part II.

Part II

11. Subtract line 10 from line 9. This is the maximum amount you can deduct for depreciation
12. Cost or other basis (*reduced by any section 179A deduction or by any amount claimed as credit for electric vehicles)
13. Multiply line 12 by line 8. This is your business/investment cost
14. Section 179 deduction claimed this year
15. Subtract line 14 from line 13. This is your unadjusted basis for depreciation
16. Depreciation rate (from tables)
17. Multiply line 16 by line 15. This is your maximum depreciation deduction
18. Enter the lesser of line 11 or line 17. This is your depreciation deduction

*Note: Section 179A-Deduction for clean-fuel vehicles or clean-fuel vehicle refueling property.

The following example shows how to figure your maximum deduction using the worksheet.

Example. On September 26, 1994, Donald Banks bought a car for \$15,000. He used the car 60% for business during 1994. 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. He uses the Table 2 rates to figure his depreciation. The unadjusted basis of his car is \$8,000 ($60\% \times \$15,000 - \$1,000$ section 179) for 1994. He multiplies his unadjusted basis (\$8,000) by the Table 2 rate (0.20) to get his tentative depreciation deduction of \$1,600. Because he used the passenger automobile only 60% for business, his depreciation deduction (including the section 179 deduction) is limited to \$1,776 ($60\% \times \$2,960$). Because Donald is claiming a section 179 deduction of \$1,000 in 1994, his depreciation is limited to \$776.

**Worksheet for Passenger Automobiles
(Subject to Special Limits)**

Part I

1. Description of property	Automobile
2. Date placed in service	9/26/94
3. MACRS method (GDS or ADS)	GDS
4. Property class and recovery period	5-Year
5. Convention	Half-Year
6. Depreciation rate (from tables)20
7. Passenger automobile deduction limit	\$ 2,960
8. Business/investment use	60%
9. Multiply line 7 by line 8. This is your adjusted deduction limit	1,776
10. Section 179 deduction claimed this year (not more than line 9)	1,000

Note:

- 1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction is limited to line 9.
- 2) If line 10 is less than line 9, complete Part II.

Part II

11. Subtract line 10 from line 9. This is the maximum amount you can deduct for depreciation	\$ 776
12. Cost or other basis (*reduced by any section 179A deduction or by any amount claimed as credit for electric vehicles)	\$ 15,000
13. Multiply line 12 by line 8. This is your business/investment cost	\$ 9,000
14. Section 179 deduction claimed this year	1,000
15. Subtract line 14 from line 13. This is your unadjusted basis for depreciation	\$ 8,000
16. Depreciation rate (from tables)20
17. Multiply line 16 by line 15. This is your maximum depreciation deduction	\$ 1,600
18. Enter the lesser of line 11 or line 17. This is your depreciation deduction	\$ 776

*Note: Section 179A-Deduction for clean-fuel vehicles or clean-fuel vehicle refueling property.

For a detailed discussion of passenger automobiles, including leased passenger automobiles, see Publication 917.

What Records Must Be Kept

Words you may need to know (see Glossary):

- Business/investment use
- Circumstantial evidence
- Documentary evidence

You cannot take any depreciation or section 179 deduction for the use of listed property (including passenger automobiles) unless you can prove your business and investment use with adequate records or sufficient evidence to support your own statements. The period of time you must keep these records is discussed later in *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. It is not necessary 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

The records or other documentary evidence must support:

- 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, and
- 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 prepared at or near the time of the expenditure or use has greater value as proof of the expenditure or use. A daily log is not required. However, some type of record containing the elements of an expenditure or the business use of listed property made at or near the time and backed up by other documents is preferable to a statement prepared later.

Timeliness

The elements of an expenditure or use must be recorded 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:

- 1) The statement is submitted by an employee to the employer, or
- 2) The statement is submitted 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

An adequate record of business purpose must generally 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/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 an adequate record generally must be written, a record of the business use of listed property, such as a computer or automobile, can be prepared in a computer memory device using a logging program.

Separate or Combined Expenditures or Uses

Each use by you is normally considered a separate use. However, repeated uses can be combined as a single item.

Each expenditure is recorded as a separate item and not combined with other expenditures. If you choose, however, amounts spent for the use of listed property during a tax year, such as for gasoline or automobile repairs, can be combined. If these expenses are combined, you do not need to support the business purpose of each expense. Instead, you can allocate the expenses based on the total business use of the listed property.

Uses which can be considered part of a single use, such as a round trip or uninterrupted business use, can be accounted for by a single record. For example, use of

a truck to make deliveries at several locations which begin and end at the business premises and can include a stop at the business in between deliveries can be accounted for by a single record of miles driven. Use of a passenger automobile by a salesperson for a business trip away from home over a period of time can be accounted for 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, it does not need to be in the account book or similar record provided it is recorded at or near the time of the expenditure or use. It must be kept elsewhere and made available as support to the district director 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 district director's satisfaction, you can establish this element by any evidence the district director deems adequate.

If you fail to establish that you have substantially complied with the adequate records requirement for an element of an expenditure or use to the district director's satisfaction, you must establish the element:

- 1) By your own oral or written statement containing detailed information as to the element, and
- 2) By other evidence sufficient to establish the element.

If the element is the cost or amount, time, place, or date of an expenditure or use, its supporting evidence must be direct, such as oral testimony by witnesses or a written statement setting forth detailed information about the element or the documentary evidence. If the element is the business purpose of an expenditure, its supporting evidence can be circumstantial evidence.

Sampling

You can maintain an adequate record for portions of a tax year and use that record to support your business and investment use for the entire tax year if it can be shown by other evidence that the periods for which an adequate record is maintained 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, 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 1994 showing

that 75% of the automobile use was for business. Sub-contractor invoices and paid bills show that her business continued at approximately the same rate for the remainder of 1994. 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. Therefore, the determination that her business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

Example 3. Bill Baker, a sole proprietor and calendar year taxpayer, is a salesman in a large metropolitan area for a company that manufactures household products. For the first three weeks of each month, he occasionally uses his own automobile for business travel within the metropolitan area. During these weeks, his business use of the automobile does not follow a consistent pattern. During the fourth week of each month, he delivers all business orders taken during the previous month. The business use of his automobile, as supported by adequate records, is 70% of its total use during that fourth week. The determination based on the record maintained during the fourth week of the month that his business/investment use of the automobile for the tax year is 70% does not rest on sufficient supporting evidence because his use during that week is not representative of use during other periods.

Loss of Records

When you establish that failure to produce adequate records is due to loss of the records through circumstances beyond your control, such as through fire, flood, earthquake, or other casualty, you have the right to support a deduction by reasonable reconstruction of your expenditures and use.

Reporting Information on Form 4562

If you claim a deduction for any listed property, you must provide the requested information on page 2, Section B of Form 4562. If you claim a deduction for any vehicle, you must answer certain questions on page 2 of Form 4562 to provide information about the vehicle use.

Employees. Employees claiming the standard mileage rate or actual expenses (including depreciation) must use Form 2106 instead of Part V of Form 4562. Employees claiming the standard mileage rate may be able to use Form 2106-EZ.

Employer who provides vehicles to employees. An employer who provides vehicles to employees must obtain enough information from those employees to provide this information on his or her tax return.

An employer who provides more than five vehicles to employees need not include any information on his or her tax return. Instead, the employer must obtain the information from his or her employees and indicate on his or her return that the information was obtained and is being retained.

You do not need to provide the information requested on page 2 of Form 4562 if, as an employer:

- 1) You can satisfy the requirements of a written policy statement for vehicles either not used for personal purposes, or not used for personal purposes other than commuting, or
- 2) You treat all vehicle use by employees as personal use.

See the instructions for Form 4562.

How Long To Keep Records

For listed property, records must be kept for as long as any excess depreciation can be recaptured (included in income).

For property placed in service after 1986, recapture can occur in any tax year of the ADS recovery period.

Deductions in Later Years

When listed property is used for business, investment, and personal purposes, no deduction is allowable for its personal use either in the current year or any later tax year. In later years, you must determine if there is any remaining unadjusted or unrecovered basis before you compute the depreciation deduction for that tax year. In making this determination, figure the depreciation deductions for earlier tax years as if the listed property were used 100% for business or investment purposes in those years, beginning with the first tax year in which some or all of the property use is for business or investment.

For more information about deductions after the recovery period for automobiles, see Publication 917.

5.

Comprehensive Example

Sunshine Greetings is a retail card shop. It is a sole proprietorship owned and operated by J. O. Sunshine. The business began operations January 4, 1994, and uses a calendar year. Mr. Sunshine completes Schedule C (Form 1040) for Sunshine Greetings and attaches it to his Form 1040 return (not shown in this example).

Mr. Sunshine bought the building used by Sunshine Greetings on January 1, 1994 for a total cost of \$75,000. The cost was allocated in the contract as \$65,000 for the building and \$10,000 for the land. He depreciated it under GDS as nonresidential real property using percentages from Table 9. Opening inventory was delivered to the building January 3, 1994.

On January 3, 1994, Mr. Sunshine also purchased six card racks with shelves for \$4,500, a cash register for \$1,200, and two file cabinets for \$600. He began using these items when the business began operations.

On January 2, 1994, Mr. Sunshine bought a passenger automobile for \$15,500. He kept a log to record its business, investment, and nonbusiness use. For 1994, his records show 22,600 total miles, 10,170 business miles, 2,100 investment miles, 4,640 commuting miles, and 5,690 other personal miles.

On March 15, 1994, Mr. Sunshine also purchased for use in his business an office desk and chair for \$800 and two desk lamps for \$475. On April 12, 1994, he bought five additional card racks with shelves for \$3,800 and a computer system for \$6,400. These items were delivered and placed in service on the dates purchased. All of the property is used 100% for business except the passenger automobile. His taxable income for 1994 without the deductions for section 179 or one-half of self-employment tax is \$27,480.

Because the computer is used 100% for business at the business location, Mr. Sunshine knows it is not treated as listed property. However, the automobile is listed property and he must first determine how to depreciate it. He knows that to qualify for the section 179 deduction and to depreciate it under GDS, it must be used more than 50% for business.

Using his record of miles, Mr. Sunshine figures his business use is 45%. Although he drove the automobile 2,100 miles in connection with his investments and can include these miles for figuring his depreciation deduction, he cannot include investment miles to meet the predominant use test. Because he does not meet this test, the automobile does not qualify for the section 179 deduction and must be depreciated under ADS. Under ADS, the automobile is depreciated using the straight line method over the ADS 5-year recovery period.

Completion of Worksheets and Form 4562

In order to apply the other special limits for a passenger automobile that is listed property, Mr. Sunshine completes the *Worksheet for Passenger Automobiles (Subject to Special Limits)* and determines his maximum depreciation deduction is \$837. He completes Part V of Form 4562. Since his automobile was used only 45% in a qualified business use, he cannot claim a section 179 deduction and he enters the information about the automobile on Line 24, columns (a) through (h). The figure on line 24 shows a combined business/investment use of 54% for the automobile. To determine this figure, Mr. Sunshine adds the business miles (10,170) to the investment miles (2,100). He divides their sum (12,270) by the total miles (22,600). Sunshine Greetings did not meet the predominant use test for the automobile. However, for depreciation purposes, it is entitled to depreciate the investment use miles (9%) and the business use miles (45%). This gives a combined business/investment use percentage of 54%.

Mr. Sunshine then totals the column (h) items of Line 24 on Line 25 and carries the total to Line 19, on page 1. He enters the information for Section B, Lines 27–33 of Form 4562.

Next, Mr. Sunshine completes the *Section 179 Worksheet*. He elects to deduct \$8,875. He elects a total section 179 deduction of \$8,875 consisting of \$800 for the office desk and chair, \$475 for the lamps, \$1,200 for the cash register, and \$6,400 for the computer system. He now completes Part I, Form 4562.

Using the *MACRS Worksheets*, Mr. Sunshine figures his MACRS deduction for his card racks, file cabinets, and for the building. The card racks and file cabinets are 7-year property and are depreciated using percentages from Table 3. The card racks and file cabinets are depreciated under GDS applying the half-year convention. As shown on the worksheets, the depreciation deduction for the file cabinets is \$86 [$(\$600 \times 100\% \text{ business use}) \times 14.29\%$]. For the six card racks bought in January, the depreciation deduction is \$643 [$(\$4,500 \times 100\% \text{ business use}) \times 14.29\%$]. And, for the five card racks bought in April, it is \$543 [$(\$3,800 \times 100\% \text{ business use}) \times 14.29\%$]. The depreciation deduction for the building is \$1,600 [$(\$65,000 \times 100\% \text{ business use}) \times 2.461\%$]. He now enters the depreciation information in Part II of Form 4562.

He completes Form 4562 by summarizing the totals in Part IV. His section 179 deduction and the business portion of the depreciation deduction are entered on Schedule C. The investment portion of his depreciation deduction is entered on Schedule E.

Mr. Sunshine records all information on his property on a depreciation worksheet (not shown in this example). A blank depreciation worksheet is contained in the instructions to Form 4562.

**Worksheet for Passenger Automobiles
(Subject to Special Limits)**

Part I

1. Description of property	Automobile
2. Date placed in service	1/4/94
3. MACRS method (GDS or ADS)	ADS
4. Property class and recovery period	5-Year
5. Convention	Half-Year
6. Depreciation rate (from tables)10
7. Passenger automobile deduction limit	\$ 2,960
8. Business/investment use	54%
9. Multiply line 7 by line 8. This is your adjusted deduction limit ...	\$ 1,598
10. Section 179 deduction claimed this year (not more than line 9)	-0-

Note:

- 1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction is limited to line 9.
- 2) If line 10 is less than line 9, complete Part II.

Part II

11. Subtract line 10 from line 9. This is the maximum amount you can deduct for depreciation	\$ 1,598
12. Cost or other basis (*reduced by any section 179A deduction or by any amount claimed as credit for electric vehicles)	\$ 15,500
13. Multiply line 12 by line 8. This is your business/investment cost	\$ 8,370
14. Section 179 deduction claimed this year	-0-
15. Subtract line 14 from line 13. This is your unadjusted basis for depreciation	\$ 8,370
16. Depreciation rate (from tables)	.10
17. Multiply line 16 by line 15. This is your maximum depreciation deduction	\$ 837
18. Enter the lesser of line 11 or line 17. This is your depreciation deduction	\$ 837

Note: *Section 179A-Deduction for clean-fuel vehicles or clean-fuel vehicle refueling property.

Section 179 Deduction Worksheet

Step 1:
Maximum dollar limitation \$ 17,500

Step 2:
Enter the total business cost of all
qualifying property placed in
service in the tax year \$ 17,775

Note: If Step 2 is \$217,500 or more, you cannot
elect section 179 for this year.

Step 3:
Threshold cost of your section
179 property \$ 200,000

Step 4:
Subtract Step 3 from Step 2. If
Step 2 is less than Step 3, enter
-0- \$ -0-

Step 5:
Subtract Step 4 from Step 1. This
is your reduced maximum
dollar limitation. If Step 1 is less
than Step 4, enter -0- \$ 17,500

Step 6:
Enter amount you elect to
expense under section 179.
(Do not enter more than Step
2.) \$ 8,875

Step 7:
Enter the smaller of Step 5 or
Step 6. This is your tentative
deduction \$ 8,875

Step 8:
Enter any section 179 carryover
from prior years \$ -0-

Step 9:
Enter the smaller of your 1994
taxable income limitation or the
Step 5 amount \$ 17,500

Step 10:
Add Step 7 and Step 8. Do not
enter more than your Step 9
amount (No more than \$2,960
can be entered on this line for a
passenger automobile). This is
your 1994 section 179
deduction \$ 8,875

Carryover to 1995:

Step 11:
Add Step 7 and Step 8 \$ 8,875

Step 12:
Enter Step 10 amount \$ 8,875

Step 13:
Subtract Step 12 from Step 11.
This is your carryover to 1995 \$ -0-

MACRS Worksheet

Part I

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

- 1. Description of property File cabinets
- 2. Date placed in service 1/4/94
- 3. MACRS method (GDS or
ADS) GDS
- 4. Property class and recovery
period 7-Year
- 5. Convention Half-Year
- 6. Depreciation rate (from ta-
bles)1429

Part II

- 7. Cost or other basis* \$ 600
- 8. Business/investment use 100%
- 9. Multiply line 7 by line 8 \$ 600
- 10. Total claimed for section 179
deduction and clean-fuel ve-
hicle refueling property de-
duction -0-
- 11. Subtract line 10 from line 9.
This is your depreciable (un-
adjusted) basis \$ 600
- 12. Depreciation rate (from ta-
bles)1429
- 13. Multiply line 11 by line 12.
This is your depreciation de-
duction \$ 86

*If real estate, do not include the basis of land.

MACRS Worksheet**Part I**

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

1. Description of property	<u>Card racks</u>
2. Date placed in service	<u>1/4/94</u>
3. MACRS method (GDS or ADS)	<u>GDS</u>
4. Property class and recovery period	<u>7-Year</u>
5. Convention	<u>Half-Year</u>
6. Depreciation rate (from tables)	<u>.1429</u>

Part II

7. Cost or other basis*	<u>\$ 4,500</u>
8. Business/investment use	<u>100%</u>
9. Multiply line 7 by line 8	<u>\$ 4,500</u>
10. Total claimed for section 179 deduction and clean-fuel vehicle refueling property deduction	<u>-0-</u>
11. Subtract line 10 from line 9. This is your depreciable (unadjusted) basis	<u>\$ 4,500</u>
12. Depreciation rate (from tables)	<u>.1429</u>
13. Multiply line 11 by line 12. This is your depreciation deduction	<u>\$ 643</u>

*If real estate, do not include the basis of land.

MACRS Worksheet**Part I**

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

1. Description of property	<u>Card racks</u>
2. Date placed in service	<u>4/12/94</u>
3. MACRS method (GDS or ADS)	<u>GDS</u>
4. Property class and recovery period	<u>7-Year</u>
5. Convention	<u>Half-Year</u>
6. Depreciation rate (from tables)	<u>.1429</u>

Part II

7. Cost or other basis*	<u>\$ 3,800</u>
8. Business/investment use	<u>100%</u>
9. Multiply line 7 by line 8	<u>\$ 3,800</u>
10. Total claimed for section 179 deduction and clean-fuel vehicle refueling property deduction	<u>-0-</u>
11. Subtract line 10 from line 9. This is your depreciable (unadjusted) basis	<u>\$ 3,800</u>
12. Depreciation rate (from tables)	<u>.1429</u>
13. Multiply line 11 by line 12. This is your depreciation deduction	<u>\$ 543</u>

*If real estate, do not include the basis of land.

MACRS Worksheet

Part I

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

1. Description of property	<u>Building</u>
2. Date placed in service	<u>1/4/94</u>
3. MACRS method (GDS or ADS)	<u>GDS</u>
4. Property class and recovery period	<u>Nonresidential real</u>
5. Convention	<u>Mid-Month</u>
6. Depreciation rate (from tables)	<u>.02461</u>

Part II

7. Cost or other basis*	<u>\$ 65,000</u>
8. Business/investment use	<u>100%</u>
9. Multiply line 7 by line 8	<u>\$ 65,000</u>
10. Total claimed for section 179 deduction and clean-fuel vehicle refueling property deduction	<u>-0-</u>
11. Subtract line 10 from line 9. This is your depreciable (unadjusted) basis	<u>\$ 65,000</u>
12. Depreciation rate (from tables)	<u>.02461</u>
13. Multiply line 11 by line 12. This is your depreciation deduction	<u>\$ 1,600</u>

*If real estate, do not include the basis of land.

**Depreciation and Amortization
(Including Information on Listed Property)**

1994

Department of the Treasury
Internal Revenue Service (7)

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

Attachment
Sequence No. 67

Name(s) shown on return

J. O. Sunshine

Identifying number
10-2000122

Business or activity to which this form relates

Sunshine Creelings

Part I Election To Expense Certain Tangible Property (Section 179) (Note: If you have any "Listed Property," complete Part V before you complete Part I.)

1	Maximum dollar limitation (If an enterprise zone business, see instructions.)	1	\$17,500
2	Total cost of section 179 property placed in service during the tax year (see instructions)	2	<i>17,725</i>
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	<i>-0-</i>
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. (If married filing separately, see instructions.)	5	<i>17,500</i>
(a) Description of property		(b) Cost	(c) Elected cost
6	<i>Office desk, chair, and lamps</i>	<i>\$1,275</i>	<i>\$1,275</i>
	<i>Cash register and computer</i>	<i>7,600</i>	<i>7,600</i>
7	Listed property. Enter amount from line 26.	7	<i>-0-</i>
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	<i>8,875</i>
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	<i>8,875</i>
10	Carryover of disallowed deduction from 1993 (see instructions)	10	<i>-0-</i>
11	Taxable income limitation. Enter the smaller of taxable income (not less than zero) or line 5 (see instructions)	11	<i>17,500</i>
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	<i>8,875</i>
13	Carryover of disallowed deduction to 1995. Add lines 9 and 10, less line 12 ▶	13	<i>-0-</i>

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 1994 Tax Year (Do Not Include Listed Property)

(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
Section A—General Depreciation System (GDS) (see instructions)						
14a	3-year property					
b	5-year property					
c	7-year property	<i>\$8,900</i>	<i>7 YRS</i>	<i>HY</i>	<i>200% DB</i>	<i>\$1,272</i>
d	10-year property					
e	15-year property					
f	20-year property					
g	Residential rental property		<i>27.5 yrs.</i>	<i>MM</i>	<i>S/L</i>	
			<i>27.5 yrs.</i>	<i>MM</i>	<i>S/L</i>	
h	Nonresidential real property	<i>1/94</i>	<i>\$65,000</i>	<i>39 yrs.</i>	<i>MM</i>	<i>S/L</i>
				<i>MM</i>	<i>S/L</i>	<i>1,600</i>
Section B—Alternative Depreciation System (ADS) (see instructions)						
15a	Class life				<i>S/L</i>	
b	12-year		<i>12 yrs.</i>		<i>S/L</i>	
c	40-year		<i>40 yrs.</i>	<i>MM</i>	<i>S/L</i>	

Part III Other Depreciation (Do Not Include Listed Property)

16	GDS and ADS deductions for assets placed in service in tax years beginning before 1994 (see instructions)	16	
17	Property subject to section 168(f)(1) election (see instructions)	17	
18	ACRS and other depreciation (see instructions)	18	

Part IV Summary

19	Listed property. Enter amount from line 25.	19	<i>837</i>
20	Total. Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	<i>12,584</i>
21	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

For Paperwork Reduction Act Notice, see page 1 of the separate instructions.

Part V Listed Property—Automobiles, Certain Other Vehicles, Cellular Telephones, Certain Computers, and Property Used for Entertainment, Recreation, or Amusement

For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 22a, 22b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See instructions for limitations for automobiles.)

22a Do you have evidence to support the business/investment use claimed? Yes No 22b 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
23 Property used more than 50% in a qualified business use (see instructions):								
		%						
		%						
		%						

24 Property used 50% or less in a qualified business use (see instructions):

94 Automobile	1/2/94	54%	\$15,500	\$8,370	5YR	S/L - H1	837	
		%				S/L -		
		%				S/L -		

25 Add amounts in column (h). Enter the total here and on line 19, page 1.

25 837

26 Add amounts in column (i). Enter the total here and on line 7, page 1

26

Section B—Information on Use of Vehicles—If you deduct expenses for vehicles:

- Always 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										
27 Total business/investment miles driven during the year (DO NOT include commuting miles)	12,270											
28 Total commuting miles driven during the year	4,640											
29 Total other personal (noncommuting) miles driven	5,690											
30 Total miles driven during the year. Add lines 27 through 29.	22,600											
31 Was the vehicle available for personal use during off-duty hours?	✓											
32 Was the vehicle used primarily by a more than 5% owner or related person?	✓											
33 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. Note: Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.

	Yes	No
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: If your answer to 34, 35, 36, 37, or 38 is "Yes," you need 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
39 Amortization of costs that begins during your 1994 tax year:					
40 Amortization of costs that began before 1994				40	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				41	

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/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.

Agreement not to compete: An intangible property which is an agreement made by the seller of a business who consents not to be in competition with the buyer.

Amortization: A ratable deduction for the cost of intangible property over its useful life.

Basis: A way of measuring an individual's investment in property for tax purposes.

Business/investment use: Usually, a percentage showing how much an item of property, such as an automobile, is used for business and investment purposes.

Capitalized: Expended or treated as an item of a capital nature. A capitalized amount is not deductible as a current expense and must be included in the basis of property.

Circumstantial evidence: Details or facts which indirectly point to other facts.

Class life/lives: A number of years that establishes the property class and recovery period for most types of property under the General Depreciation System (GDS) and Alternative Depreciation System (ADS).

Commuting: Travel between a personal residence and work or job site in 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.

Copyright: An intangible property such as the ownership of literary or artistic property granted by law.

Declining balance method: An accelerated method to depreciate property. The General Depreciation System (GDS) of MACRS uses the 150% and 200% declining

balance methods for certain types of property. A depreciation rate (percentage) is determined by dividing the declining balance percentage by the recovery period for the property.

Disposed of: Having sold or exchanged property after its permanent withdrawal from use in a trade or business or for the production of income.

Documentary evidence: Written records which establish certain facts.

Exchange: To barter, swap, part with, give, or transfer property, for other property or services.

Fair market value (FMV): The price which property brings when it is offered for sale by one who is willing but not obligated to sell, and is bought by one who is willing or desires to buy but is not compelled to do so.

Fiduciary: The one who acts on behalf of another as a guardian, trustee, executor, administrator, receiver, or conservator.

Franchise: An intangible property such as an agreement or contract that gives one of the parties the right to distribute, sell, or provide goods, services, or facilities in a specified area.

Fungible commodity: A fungible commodity is 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.

Idle: The status of property not currently used.

Inheritance: Property received through law of descent usually on the death of the property owner.

Listed property: Property that includes passenger automobiles, other transportation vehicles, property of a type used for entertainment, recreation or amusement, computers and their peripheral equipment (except if used exclusively at a regular business establishment), and cellular telephones or similar telecommunications equipment.

Nonresidential real property: Most real property other than residential rental property.

Nontaxable exchange: An exchange of property in which any gain or loss realized is not recognized (included in or deducted from income) for tax purposes. This usually involves exchanges of like-kind property.

Patent: A legal written instrument issued by the government, and conveying a right, authority, or grant to an individual, as a patent for a tract of land, or for the exclusive right to make and sell a new invention.

Placed in service: The time that property is ready and available for a specified use whether in business, an activity to produce income, a tax-exempt activity, or a personal activity.

Property class: A category for property under MACRS. It generally determines the depreciation method, recovery period, and convention.

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

Remainder interest: A remainder interest is that part of an estate which is left after all of 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.

Revoke: To reverse the selection of one of two tax alternatives.

Sale: A transaction usually shown in a written contract between a buyer and a seller in which property or services are exchanged.

Salvage value: An estimated value of property at the end of its useful life. Not used under MACRS.

Section 1245 property: The term section 1245 property is a tax term and 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: The term section 1250 property is a tax term and means any real property (other than section 1245 property) which is or has been subject to the allowance for depreciation provided in section 167 of the Internal Revenue Code.

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 such parts of a building as walls, partitions, floors, and ceilings, as well as any permanent coverings such as paneling or tiling, windows and doors, and all components of a central air conditioning or heating system including motors, compressors, pipes and ducts. It also includes plumbing fixtures such as sinks, bathtubs, electrical wiring and lighting fixtures, and other parts that form the structure.

Taxable exchange: An exchange of property in which the gain or loss is recognized (included in or deducted from income) for tax purposes.

Tax-exempt: Not subject to payment of 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.

Trademark and trade name: Trademark is a symbol(s) or word(s) used to identify a particular product. A trade name is used to designate a particular business, business location, or class of goods.

Unit-of-production method: A way to figure depreciation for certain property. It is determined by estimating the number of units that can be produced before the property is worn out. For example, if it is estimated that a machine will produce 1000 units before its useful life ends, and actually produces 100 units in a year, the percentage to figure depreciation for that year is 10% of the machine's cost less its salvage value.

Useful life: An estimate of how long an item of property can be expected to be usable in trade or business or to produce income. Under MACRS, you recover the cost of property over a set recovery period. The recovery period is based on the property class to which your property is assigned. The class your property is assigned to is generally determined by its class life. The class life for most property is established and listed in Appendix B of Publication 534.

