

Chapter 7: Depreciation

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Note. Corrections were made to this workbook through January of 2024. No subsequent modifications were made. For terms used in this chapter, see the **Acronyms and Abbreviations** section following the index.

For your convenience, in-text website links are also provided as short URLs. Anywhere you see **uofi.tax/xxx**, the link points to the address immediately following in brackets.

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Depreciation of income-producing property affects not only current-year returns but also future returns. When an asset is first placed in service, a tax practitioner faces a complex set of determinations and decisions. While the proper treatment is sometimes obvious, oftentimes, situations require practitioners to research available treatments to accurately report the expense.

This chapter covers the following eight steps that a taxpayer and their practitioner use to evaluate available depreciation options.

1. Determine whether the asset's cost can be recovered through depreciation
2. Calculate the asset's **basis**, including the impact of tax credits on an asset's depreciable basis
3. Determine if the asset is subject to special rules for **listed** property
4. Evaluate electing the IRC §179 deduction to expense all or part of the cost on the current return
5. Determine if **bonus depreciation applies and evaluate the option to elect out** for the class of the asset
6. Decide which depreciation system and **method** to use for any basis remaining after any §179 and bonus depreciation elections
7. Determine the proper **recovery period for any remaining basis**
8. Apply the correct **convention** for depreciating the assets placed in service in the current year

These steps represent the typical sequence of decisions a tax practitioner must make concerning depreciation of assets newly placed in service during the year. In addition, this chapter discusses two other significant depreciation issues.

- Changes in business use of assets
- Correcting prior-year depreciation errors

STEP 1 — DETERMINE WHETHER THE ASSET'S COST CAN BE RECOVERED THROUGH DEPRECIATION

The first decision faced by a taxpayer and their practitioner is whether the asset's cost can be recovered through depreciation. Property can only be depreciated if it is either:¹

- Used in the taxpayer's trade or business, or
- Held for the production of income.

In addition, certain assets are not depreciable. For example, land is not a depreciable asset.² With very narrow exceptions,³ its cost can only be recovered when the taxpayer disposes of it. Similarly, inventory cannot be depreciated,⁴ even though an expenditure for inventory may seem like an investment.

Note. For more information on property that may not be depreciated, see IRS Pub. 946, *How to Depreciate Property*.

¹ IRC §167(a).

² Treas. Reg. §1.167(a)-2.

³ For example, IRC §612 allows depletion of natural resources acquired with land.

⁴ Treas. Reg. §1.167(a)-2.

Only the **business portion** of property that is used for multiple purposes can be used to calculate the depreciation deduction for the property.⁵

Example 1. QRP Landscaping, LLC, is a single-member limited liability company (LLC) owned by Ed. In 2023, QRP purchases a \$4,000 lawnmower. Ed uses it 85% of the time to mow the yards of commercial and residential customers. The other 15% of the time, Ed uses it to mow property owned by his church. Only \$3,400 ($\$4,000 \times 85\%$) of the cost qualifies to be depreciated.

PLACED-IN-SERVICE DATE

A taxpayer may not claim depreciation on an asset until the property is placed in service for use either in a trade or business or in the production of income.⁶ The placed-in-service date is the date the property is **ready and available** for a specific use. This is **not necessarily** the date it is first used. If the property was held for personal use and is then converted to business use, the property becomes depreciable on the conversion date.⁷

The placed-in-service requirement is met if the property is ready to be placed in service, even though it is not actually used.⁸

Example 2. Heather is a professional speaker, working as a sole proprietor. In preparing for a January 2023 speaking engagement, she pays \$2,000 for a portable sound system. She purchases and receives the system in December 2022. She may begin depreciating the system on her 2022 return even though she has not yet used the system. It is in her possession and could have been used if she had a December engagement.

STEP 2 — CALCULATE THE ASSET'S BASIS

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Generally, for business property purchased during the year, the basis is the cost of the property.⁹ Certain adjustments must be made to the unadjusted basis before calculating allowable depreciation. The result of these adjustments is the **adjusted basis** of the property.

Although not an exhaustive list, the following items increase the basis of the property.¹⁰

- Installation costs
- Legal fees paid to defend or perfect a title
- Impact fees
- Capital improvements
- Assessments for local improvements
- Restoring damaged property as a result of casualty losses
- Zoning costs
- Sales tax paid

⁵. IRC §167(a).

⁶. IRC §168(i)(6)(B).

⁷. IRS Pub. 946, *How to Depreciate Property*.

⁸. Treas. Reg. §1.167(a)-11(e)(1).

⁹. IRC §263A.

¹⁰. IRS Pub. 551, *Basis of Assets*.

BASIS REDUCED FOR CERTAIN CREDITS

When a tax credit is based on a taxpayer's investment in depreciable property, the asset's basis must be reduced by the credit before calculating any related depreciation deduction.¹¹ This is true even if the taxpayer cannot benefit from the full amount of the credit in the current year.

COST SEGREGATION AND RENTAL PROPERTY CONSISTENCY

Cost segregation may result in shorter depreciation recovery periods for some assets, and in most cases, better aligns the period over which assets are depreciated with their economic usefulness. For example, if a cost segregation study is not performed on a residential rental property, the entire dwelling unit with all its components is generally depreciated over 27.5 years.¹²

Although that period is accurate for the carpentry work in constructing the house, a landlord who replaces the refrigerator after 10 years and the garbage disposer after three years will not receive 27.5 years of benefit from those replacements. The capitalization and repair regulations that went into effect in 2014 can correct that disparity to some extent.

Note. For more information about the capitalization and repair regulations, see the 2023 *University of Illinois Federal Tax Workbook*, Chapter 2: Capitalization & Repair Review.

Note. If a taxpayer owns multiple properties, similar assets should be consistently placed in the same asset classes, regardless of the buildings in which they are located. For example, a refrigerator should not be classified as 5-year property when located in one building but 7-year property when located in another. There may be extenuating circumstances that create exceptions, but the reasons for those exceptions should be clearly documented.

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BASIS OF REAL PROPERTY ACQUIRED THROUGH LIKE-KIND EXCHANGES

Currently, only real estate qualifies for deferred recognition of gains or losses from a like-kind exchange.¹³ However, these basis rules also apply to property acquired because of casualties and other special circumstances.¹⁴

When qualified like-kind property is exchanged, and all other requirements are met, no gain or loss is recognized in that year.¹⁵ The taxpayer's adjusted basis in the new property is dependent on their adjusted basis in the old property.¹⁶

General Rule¹⁷

Generally, the adjusted basis of the exchanged property is depreciated over its remaining life. Any boot or other consideration¹⁸ given to obtain the acquired property is separately depreciated as the new asset. **Boot** is also called excess basis;¹⁹ it is the amount of any cash or non-like-kind property given in the exchange. However, a taxpayer can elect to add the remaining basis of the exchanged property to any basis of newly acquired property and depreciate the total over the recovery period of the new asset.²⁰

¹¹ IRC §50(c)(1).

¹² IRC §168(c).

¹³ *Tax Cuts and Jobs Act*, PL 115-97.

¹⁴ IRC §1033.

¹⁵ IRC §1031(a).

¹⁶ IRC §1031(d).

¹⁷ IRS Pub. 946, *How to Depreciate Property*; TD 9314, 2007-14 IRB 845; Treas. Reg. §1.168(i)-6(c)(3).

¹⁸ Treas. Reg. §1.168(i)-6(b)(8).

¹⁹ *Ibid.*

²⁰ IRS Pub. 946, *How to Depreciate Property*; Treas. Reg. §1.168(i)-6(i).

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Example 3. Willdor Partnership exchanges an office building for a warehouse in a like-kind exchange in 2023. The partnership pays \$100,000 in closing costs as part of the exchange. Both properties are commercial buildings depreciated over 39 years using the straight-line method.

The office building was originally placed in service in 2016. Its adjusted basis at the time of the exchange is \$3.84 million (after depreciation of \$840,000). There are 32 years remaining on its depreciable life.

Under the general rule, the warehouse basis has two components placed in service.

	Cost	Recovery Life
Warehouse component 1: unrecovered basis of office building	\$3,840,000	32 years
Warehouse component 2: exchange costs	100,000	39 years
Total depreciable basis	\$3,940,000	

If the new property has a longer recovery period or slower method²¹ than the old property, the remaining adjusted basis must be recovered over the period applicable to the new property.

Example 4. Use the same facts as **Example 3**, except the building that Willdor exchanged was previously used as a farm building (20-year property) instead of an office building. The partnership must depreciate the newly acquired warehouse over a 39-year period that began when the exchanged property, the farm building, was placed in service.



Practitioner Planning Tip

Tax practitioners must determine how to link the different components of the same asset after a trade in their depreciation software. It may be helpful to rename, relabel, renumber, or reorder the old asset on the depreciation schedule.

Electing Out

Taxpayers can elect not to apply the like-kind exchange rules, but this election must be made for each like-kind exchange.²²

Example 5. Use the same facts as **Example 4**, except instead of leaving building costs in two components, Willdor combines the costs into one \$3.94 million basis depreciated over 39 years beginning on the exchange date. This election reduces the annual depreciation deduction for the partnership from this building.

A taxpayer makes the election not to apply the like-kind exchange rules by attaching a statement to a timely filed return (including extensions) for the year of replacement. The statement should state, “Election made under section 1.168(i)-6(i).”²³ The election statement should indicate that the election is being made for each asset. For a partnership, S corporation, or consolidated group, the election is made at the entity level. This election is irrevocable without IRS consent, which the IRS grants only in extraordinary circumstances.²⁴

²¹ IRS Pub. 946, *How to Depreciate Property*; Treas. Reg. §1.168(i)-6(c)(4).

²² Treas. Reg. §1.168(i)-6(j)(1).

²³ Instructions for Form 4562.

²⁴ Treas. Reg. §1.168(i)-6(j)(4).

Bonus Depreciation²⁵

If a taxpayer acquires property qualified for bonus depreciation in a like-kind exchange, and the qualified property is **new** property, the old basis and any new basis are eligible for bonus depreciation.

If the qualified property is **used** property, only the excess basis of the acquired property is eligible for bonus depreciation. After calculating the bonus depreciation, the taxpayer can take regular depreciation on the remaining carryover basis.

IRC §179 Election²⁶

When applying the §179 election to a like-kind exchange, only the boot paid for the replacement property is eligible.

Debt Included in Like-Kind Exchange²⁷

Taxpayers entering like-kind exchanges with eligible real estate must evaluate debt assumed as part of the exchange. The taxpayer is considered to have received boot to the extent of any debt reduction. The only exception is the situation where the additional cash paid on acquiring the replacement property equals or exceeds the debt reduction.

Note. Taxable boot can play a role in a well-planned exchange depending on the taxpayer's goals. For example, if the taxpayer wants to receive some cash or debt reduction and is willing to pay some tax, having taxable boot may be appropriate. Otherwise, boot should be avoided so the exchange is entirely tax-deferred.

STEP 3 — DETERMINE IF ASSET IS SUBJECT TO SPECIAL RULES FOR LISTED PROPERTY

Special depreciation rules apply to listed property. Listed property falls into one of the following classifications.²⁸

1. Passenger automobiles weighing 6,000 pounds or less **unloaded** gross vehicle weight (GVW)
2. Any other property used for transportation, **unless** it is one of the following excepted vehicles²⁹
 - a. Clearly marked police and fire vehicles
 - b. Unmarked vehicles used by law enforcement officers if the use is officially authorized
 - c. Ambulances and hearses, provided they are used as such
 - d. Any vehicle with a **loaded** GVW of more than 14,000 pounds that is designed to carry cargo
 - e. Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks), flatbed trucks, and refrigerated trucks
 - f. Combines, cranes and derricks, and forklifts
 - g. Delivery trucks with seating only for the driver or only for the driver plus a folding jump seat
 - h. Qualified moving vans
 - i. Qualified specialized utility repair trucks
 - j. School buses used in transporting students and employees of schools

²⁵ IRS Pub. 946, *How to Depreciate Property*; Treas. Reg. §1.168(k)-2(g)(5)(iii).

²⁶ Treas. Reg. §1.168(i)-6(g).

²⁷ Treas. Reg. §1.1031(b)-1.

²⁸ IRC §280F(d).

²⁹ Treas. Reg. §1.274-5(k)(2). See also IRS Pub. 946, *How to Depreciate Property*.

- k. Other buses with a capacity of at least 20 passengers that are used as passenger buses
- l. Tractors and other special-purpose farm vehicles

Note. Vehicles between 6,000 and 14,000 pounds GVW are **not** subject to the special rules for **passenger automobiles**.³⁰ However, they are “property used for transportation” subject to the rules for **listed property**. In addition, vehicles in this weight range that are classified as **sports utility vehicles (SUVs)**³¹ are subject to additional §179 limitations. This limit is \$28,900 for 2023.³²

- 3. Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment)

Listed property must be used predominantly (**more than 50%**)³³ for **qualified business use**³⁴ to qualify for any of the following.

- §179 deduction³⁵
- Bonus depreciation
- Depreciation using the general depreciation system (GDS) (discussed later)
- Declining balance method of calculating depreciation

Qualified business use of listed property is any use of the property in the taxpayer’s trade or business. The following uses are **not** included.³⁶

- The leasing of property to any 5% owner or related person (to the extent the property is used by a 5% owner or person related to the owner or lessee of the property)
- The use of the property as payment for the services of a 5% owner or related person
- The use of the property as payment for services of any person (other than a 5% owner or related person), unless the value of the use is included in that person’s gross income and income tax is withheld on that amount when required

If the taxpayer does **not** use the property predominantly for qualified business use, the following three rules apply.

- 1. Any depreciation deduction under the modified accelerated cost recovery system (MACRS) must be calculated using the **straight-line method** over the alternative depreciation system (ADS) recovery period. This rule applies each year of the recovery period.
- 2. Excess depreciation on property previously used predominantly for qualified business use must be recaptured in the first year in which it is no longer used predominantly for qualified business use.³⁷
- 3. A lessee must add an inclusion amount to income in the first year in which the leased property is not used predominantly for qualified business purposes.³⁸

³⁰ IRS Pub. 946, *How to Depreciate Property*.

³¹ IRC §179(b)(5).

³² Rev. Proc. 2022-38, 2022-45 IRB 1.

³³ IRC §280F(b)(3).

³⁴ IRC §§280F(d)(6)(B) and (C).

³⁵ IRC §179(d)(10).

³⁶ Treas. Reg. §1.280F-6(d); IRS Pub. 946, *How to Depreciate Property*.

³⁷ IRC §280F(b)(2)(B).

³⁸ See IRS Pub. 463, *Travel, Entertainment, Gift, and Car Expenses*, and IRS Pub. 946, *How to Depreciate Property*, for calculating the inclusion amount.

PASSENGER AUTOMOBILES

The Code limits the depreciation deduction that a taxpayer can claim for a passenger automobile in any one year. This limit includes the §179 expense deduction. The limit is increased by \$8,000 if the vehicle qualifies for bonus depreciation and the taxpayer does not elect out of bonus depreciation for this class of assets.³⁹ For vehicles placed in service during 2023, the inflation-adjusted limits by vehicle type are shown in the following chart.⁴⁰

Vehicle Type	§179 Expense Deduction	Bonus Depreciation	Total First-Year Maximum Cost Recovery Excluding Regular Depreciation
GVW 6,000 pounds or less	\$12,200	\$8,000	\$20,200
GVW over 6,000 pounds and 14,000 pounds or less	28,900 ⁴¹	No limit	No limit
GVW over 14,000 pounds	No limit	No limit	No limit

LISTED PROPERTY WITH BUSINESS-USE OF 50% OR LESS

When the business use of listed property declines to 50% or less after the year it was placed in service, some amount of its depreciation must be recaptured. However, the depreciation to be recovered is not the full amount but rather the amount in **excess of straight-line depreciation**. Excess depreciation is calculated as follows.⁴²

1. The depreciation allowable for the property (including any §179 deduction and special depreciation allowance claimed) for years before the first year the taxpayer does not use the property predominantly for qualified business use, **less**
2. The depreciation that would have been allowable for those years if the taxpayer had not used the property predominantly for qualified business use in the year it was placed in service.

To determine the amount in item 2, depreciation must be refigured using the straight-line method and the ADS recovery period.

Example 6. Elizabeth purchased and placed in service a pickup truck for \$18,000 in June 2018. She used it exclusively for her plumbing business between 2018 and 2021. Elizabeth claimed §179 deduction of \$10,000 in 2018. She depreciated the truck using the double-declining method over five years. The pickup truck had a GVW in excess of 6,000 and was not subject to passenger automobile limits.

During 2022, Elizabeth used the truck 50% in her plumbing business and 50% for personal use. She includes \$4,018 of excess depreciation in her 2022 gross income as shown in the following calculation. Elizabeth uses table A-8 in IRS Pub. 946, as shown next, to determine the applicable depreciation rates.

³⁹ IRC §168(k)(2)(F)(i).

⁴⁰ Rev. Proc. 2023-14, 2023-6 IRB 466.

⁴¹ IRC §179(b)(5)(A); Rev. Proc. 2022-38, 2022-39 IRB 239.

⁴² IRS Pub. 946, *How to Depreciate Property*.

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Table A-8. **Straight Line Method
Half-Year Convention**

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	20.0%	16.67%	14.29%	12.5%	10.0%	8.33%	7.69%	7.14%	6.67%	6.25%	5.88%	5.56%	5.26%
2	40.0	33.33	28.57	25.0	20.0	16.67	15.39	14.29	13.33	12.50	11.77	11.11	10.53
3	40.0	33.33	28.57	25.0	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
4		16.67	28.57	25.0	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
5				12.5	20.0	16.66	15.38	14.29	13.34	12.50	11.76	11.11	10.52
6					10.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
7						8.33	15.38	14.29	13.34	12.50	11.76	11.11	10.52
8								7.14	13.33	12.50	11.77	11.11	10.53
9										6.25	11.76	11.11	10.52
10												5.56	10.53

\$179 deduction	\$10,000	
Depreciation claimed for 2018 through 2021	6,618	
Total depreciation claimed	\$16,618	\$16,618
Less: depreciation allowable		
2018 (10% × \$18,000)	\$ 1,800	
2019 (20% × \$18,000)	3,600	
2020 (20% × \$18,000)	3,600	
2021 (20% × \$18,000)	3,600	
Total allowable depreciation	\$12,600	(12,600)
Excess depreciation		\$ 4,018

If Elizabeth's use of the truck does not change to 50% for business and 50% for personal purposes until 2024, there is no excess depreciation. Because the pickup truck is a 5-year asset, the total depreciation allowable through 2024 will be \$18,000, which equals the total of the §179 deduction and depreciation Elizabeth will have claimed.

SPECIAL SUBSTANTIATION REQUIREMENTS

Business use of listed assets must be properly documented.⁴³ Although a taxpayer may calculate their vehicle expenses, for example, with the standard mileage rate, they are still required to document the business use of the listed property and personal use of the property, along with its date and time.⁴⁴ This information must be recorded at the time of the expenditure or near that time.⁴⁵

The taxpayer must maintain this practice even when the asset's recovery period has ended.⁴⁶ For example, if a taxpayer acquires a vehicle in 2023, they generally depreciate it over a 5-year period ending in 2028. However, the taxpayer must continue to maintain records to support their business use of the vehicle even after the vehicle is fully depreciated.

⁴³ IRC §274(d)(3).

⁴⁴ Treas. Regs. §§1.274-5(c) and (j).

⁴⁵ Ibid.

⁴⁶ Temp. Treas. Reg. §1.280F-3T(d)(3).

STEP 4 — EVALUATE ELECTING §179 DEDUCTION ON ALL OR PART OF THE COST

Property eligible for the §179 expense deduction must satisfy the following three criteria.⁴⁷

1. Tangible, depreciable property or computer software
2. Either IRC §1245 property or qualified real property
3. Used in a trade or business

IRC §1245 property is tangible and intangible personal property that can be depreciated or amortized. In simpler terms, it refers to assets that are subject to depreciation and are not classified as real property, although some buildings qualify in narrow cases. Examples of §1245 property include machinery, equipment, and furniture, but also single-purpose agricultural or horticultural buildings and other items. The tax treatment of §1245 property requires that the depreciation deductions taken over the years are recaptured as ordinary income when the property is sold.

Qualified real property must satisfy both of the following criteria.⁴⁸

- Improvement made to the **interior** of an **existing nonresidential** building that does not enlarge it, provide for an elevator or escalator, or alter the building's internal framework⁴⁹
- Adding a roof, heating, ventilation, air conditioning, fire protection and alarm systems, or security systems to an existing **nonresidential** building⁵⁰

In general, businesses cannot claim a §179 expense deduction for property that they lease to other taxpayers unless the lessor is a corporation, or the lease term is shorter than half the class life of the property (class life is discussed later).⁵¹

Not all taxpayers can benefit from the §179 expense deduction. In fact, **estates and trusts are explicitly excluded** as eligible taxpayers for the deduction. Even if an estate or a trust operates a business having assets, it is not eligible to benefit from the §179 deduction.⁵²

IRC §179 PROPERTY MUST BE PURCHASED

The §179 expense deduction is only available for property that has been **purchased** by a taxpayer. Property acquired by inheritance or gift may be depreciated, but it is ineligible for §179 expense deduction.⁵³

Property acquired by purchase from a **related person** is generally not eligible for the §179 deduction. The definition of a related person for these purposes is based on IRC §§267 and 707(b). Family for these purposes only includes spouses, ancestors, and lineal descendants.⁵⁴ Thus, property purchased from one's father is not eligible for the §179 expense deduction. Under the §179 rules, siblings are **not** considered related persons.⁵⁵

⁴⁷. IRC §179(d)(1).

⁴⁸. IRC §179(e).

⁴⁹. IRC §168(e)(6). This paragraph defines qualified improvement property.

⁵⁰. IRC §179(e)(2).

⁵¹. IRC §179(d)(5).

⁵². IRC §179(d)(4).

⁵³. IRC §179(d)(2)(C).

⁵⁴. IRC §179(d)(2)(A).

⁵⁵. Ibid.

Example 7. Mary owns and manages a restaurant located in a building constructed in 1950. She wishes to replace her antiquated air conditioning with a new energy-efficient one from a major manufacturer. Her father owns a heating, ventilation, and air conditioning (HVAC) contracting firm and has offered to sell her a unit at his cost plus installation. She can acquire the same unit at the manufacturer's suggested price from another HVAC contractor but must pay an additional 25%.

If Mary buys the unit from her father's business, the unit is not eligible for the §179 expense deduction because he is a member of her family. However, the purchase of the air conditioning unit from an unrelated HVAC supplier would be eligible for §179 treatment. Mary has a choice between a lower-priced improvement with a longer cost recovery or a higher-priced air conditioning unit that she could expense when placed in service.

In addition to immediate family members, related parties are the following.⁵⁶

- Ancestors and lineal descendants
- Corporations and partnerships in which the individual has more than half the value of the equity
- Two corporations that are both members of a controlled group
- An organization exempt under IRC §501 and a person controlling the organization
- The fiduciary of a trust of which one was a beneficiary⁵⁷

ACTIVE TRADE OR BUSINESS

To qualify for the §179 expense deduction, the property must have been acquired for use in an active trade or business.⁵⁸ In addition, the taxpayer must have been actively involved in the business to claim the deduction. The regulations state directly that the purpose of the active trade or business requirement is to prevent **passive investors** from using the §179 expense deduction.⁵⁹

To satisfy the active conduct requirement, the treasury regulations require that the taxpayer participates **meaningfully** in the management or operation of the business.⁶⁰ This may include creating or reviewing budgets and conducting financial reviews, or it may include regular involvement in the income-generating activities of the business.

Note. Neither the Code nor the underlying treasury regulations distinguish **meaningful** participation from **material** participation. The standard for meaningful participation is not defined in the Code, although it may be lower than the standard for material participation under the passive activity regulations.⁶¹ There is no bright-line test to determine if a taxpayer's involvement is regular and continuous. Instead, the determination is based on the facts and circumstances of the taxpayer.

⁵⁶ IRC §179(d)(2)(A), referencing IRC §§267 and 707(b).

⁵⁷ IRC §179(d)(4).

⁵⁸ IRC §179(d)(1)(C).

⁵⁹ Treas. Reg. §1.179-2(c)(6).

⁶⁰ Treas. Reg. §1.179-2(c)(6)(ii).

⁶¹ Temp. Treas. Reg. §1.469-5T.

Example 8. Abby owns a salon as a sole proprietorship and employs Betty to operate it.⁶² Abby periodically meets with Betty to review the business's performance and discuss trends in the salon business. Abby reviews and approves the annual budget that Betty creates. Betty hires all beauticians, purchases any supplies needed, and pays bills on a weekly basis, which Abby signs. Abby does not work in the operations of the business, only in its management. Because of her involvement with the finances of the salon, Abby meets the threshold of meaningful participation in its management.

Note. The IRS created a safe harbor to determine if a rental activity qualifies as a trade or business for purposes of the qualified business income deduction (QBID).⁶³ Although the safe harbor applies only to QBID, a taxpayer who meets this safe harbor's requirements is likely also in a trade or business for §179 purposes.

Note. For a thorough discussion on real estate professionals, see the 2019 *University of Illinois Federal Tax Workbook*, Volume B, Chapter 4: Selected Real Estate Topics. This can be found at **uofi.tax/arc** [taxschool.illinois.edu/taxbookarchive].

Partial Business Use

When a property is used for both business and nonbusiness purposes, the taxpayer can elect the §179 deduction only if they use the property **more than 50%** for business in the year they place it in service.⁶⁴ The business cost of the property is determined by multiplying the cost of the property by the percentage of business use. The resulting business cost is used to calculate the §179 deduction.

Example 9. Jason purchases §179 property primarily used in his sole proprietor business. He pays \$10,000 for the equipment in January 2023. Jason used the property in his business 80% of the time, and the rest of the time, he uses it in conjunction with an exempt §501(c)(3) organization for which he sits on the board of directors. Of the \$10,000 cost, Jason may elect to deduct up to \$8,000 ($\$10,000 \times 80\%$) of the cost for 2023.

INCOME LIMITATION⁶⁵

The §179 expense deduction may not exceed a taxpayer's income from their trades or businesses (i.e., may not create a loss). Taxable business income is calculated differently depending on the form of the business.⁶⁶

For individuals, the business income limit includes the taxable income from the active conduct of all trades and businesses during the year. **Net income from a trade or business also includes all the following.**

- Wages, salaries, tips, or other pay earned as an employee
- IRC §1231 gains or losses
- Interest from working capital of trades or businesses

⁶² Based on example in Treas. Reg. §1.179-2(c)(6)(iii).

⁶³ Rev. Proc. 2019-38, 2019-42 IRB 942.

⁶⁴ Treas. Reg. §1.179-1(d)(1).

⁶⁵ IRC §179(b); Treas. Reg. §1.179-2.

⁶⁶ IRC §179(b)(3).

At the individual level, business income **does not include** any of the following.

- §179 deductions
- Self-employment (SE) tax deduction
- Net operating loss (NOL) deduction
- Unreimbursed employee business expenses

Example 10. In 2023, Clara earns \$7,000 as an employee, and she operates a sole proprietorship. Her business has net profit of \$20,000 before depreciation deductions. Her only depreciable asset is a piece of equipment purchased in 2023 for \$25,000. Clara's trade or business income for 2023 is \$27,000 (\$20,000 net profit + \$7,000 wages). Thus, she may deduct the entire \$25,000 using the §179 election on her 2023 return.

Carryover of Disallowed Deduction⁶⁷

Taxpayers can carry over for an unlimited number of years the cost of any §179 property they elected to expense but were unable to deduct because of the business income limit.

If the taxpayer places more than one property in service in a year, they can select the properties for which all or a part of the costs are carried forward. The selections must be shown in their books and records. For this purpose, §179 costs allocated from a partnership or an S corporation are treated as one item of §179 property. If the taxpayer does not make a selection, the total carryover is allocated equally among the properties they elected to expense for the year.

If costs from more than one year are carried forward to a subsequent year in which only part of the total carryover can be deducted, the taxpayer must deduct the costs being carried forward from the earliest year first.

If there is a sale or other disposition of the property (including a transfer at death) before the taxpayer can use the full amount of any outstanding carryover of the disallowed §179 deduction, neither the taxpayer nor the new owner can deduct any of the unused amount. Instead, the taxpayer must add the unused carryforward back to the property's basis.⁶⁸



Practitioner Planning Tip

Electing §179 in excess of current year business income results in a carryover that is immediately available to offset business income in the following year. This will likely result in a faster cost recovery of the deduction than the default class life duration. Due to the complexity and various options available, this election needs to be considered on a case-by-case basis.

⁶⁷ IRC §179(b)(3)(B); Treas. Reg. §1.179-3.

⁶⁸ Treas. Reg. §1.179-3(f)(1).

RECAPTURE RULES UNDER §179

The §179 expense deduction must be recaptured in the tax year during which the percentage of business use drops to 50% or less during the property's recovery period.⁶⁹ These rules do not apply if the property is sold, exchanged, or otherwise disposed of.⁷⁰ Separate rules apply to listed property as described previously. A taxpayer recognizes the recapture amount as **ordinary** income in the year the business use first declines to 50% or less.⁷¹

Caution. The recapture of §179 and bonus depreciation deductions are different types of recapture than the depreciation recapture used to determine the portion of a gain taxed as ordinary income versus qualified capital gain. Thus, if business use of property for which §179 and bonus deductions were **not** claimed drops to 50% or less, no depreciation recapture occurs until the taxpayer disposes of the property.

STEP 5 — DETERMINE IF BONUS DEPRECIATION APPLIES⁷²

If a taxpayer does not make a §179 election to write off the entire basis of a specific asset, they next must decide whether to claim bonus depreciation. For eligible assets, the default position is to claim bonus depreciation;⁷³ however, taxpayers can elect out of bonus depreciation by specific classes of assets.⁷⁴ This election out applies to all assets in that class of property that were placed in service during the tax year. This is in contrast to the §179 election, which is made on an asset-by-asset basis.

When originally added to the Code by the Job Creation and Worker Assistance Act of 2002,⁷⁵ IRC §168(k) allowed taxpayers to claim an additional depreciation deduction equal to 30% of the adjusted basis of qualified property placed in service after September 10, 2001, and before September 11, 2004. This additional deduction is often referred to as bonus depreciation or special depreciation. Over the years, amendments to §168(k) have changed the bonus depreciation rate numerous times, extended the placed-in-service date, and made other changes.⁷⁶ The following table shows how the bonus depreciation rate has changed since the provision was revived by the Economic Stimulus Act of 2008.⁷⁷

Placed in Service Date	Bonus Depreciation Rate
After December 31, 2007 and before September 9, 2010	50%
After September 8, 2010 and before January 1, 2011	100% or 50% ^a
After December 31, 2010 and before January 1, 2012	100%
After December 31, 2011 and before September 28, 2017	50%
After September 27, 2017 and before January 1, 2023	100%
After December 31, 2022 and before January 1, 2024	80%^b
After December 31, 2023 and before January 1, 2025	60%
After December 31, 2024 and before January 1, 2026	40%
After December 31, 2025 and before January 1, 2027	20%
After December 31, 2026	0%

^a Using the election under Rev. Proc. 2011-26.

^b The rate shown applies to property **other than** property with longer production periods and certain aircraft.

⁶⁹ Treas. Reg. §1.179-1(c).

⁷⁰ Treas. Reg. §1.179-1(c)(2).

⁷¹ Treas. Reg. §1.179-1(c).

⁷² IRC §168(k).

⁷³ IRC §168(k)(1).

⁷⁴ IRC §168(k)(7).

⁷⁵ *Job Creation and Worker Assistance Act of 2002*, PL 107-147.

⁷⁶ TD 9874, 2019-41 IRB 809.

⁷⁷ *Economic Stimulus Act of 2008*, PL 110-185.

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The amount of bonus depreciation is calculated by multiplying the percentage shown in the previous table times the adjusted basis of the property.⁷⁸ The proper percentage is determined by the date the asset was placed in service.

Example 11. JoJo purchases a copier for \$5,000 on February 1, 2023, for use in her tax preparation business. When preparing her 2023 return, she decides not to take the \$179 deduction for the purchase. Instead, she claims bonus depreciation of \$4,000 ($\$5,000 \times 80\%$) and depreciates the remaining \$1,000 cost using MACRS.

For calendar year **2023** taxpayers, the bonus depreciation deduction has **dropped to 80%** of the asset's basis for **most** assets. However, for specified types of properties, the percentages shown previously are increased by 20% the year they are placed in service.⁷⁹ Thus for specified assets placed in service in calendar year 2023, the applicable percentage is 100%.

After December 31, 2026, most assets will not qualify for bonus depreciation. However, specified assets qualify for 20% bonus depreciation if placed in service between then and January 1, 2028. The specified assets are certain aircraft and property that meet the long-production-period qualifications. To be treated as having a longer production period, the property must:⁸⁰

1. Have a recovery period of at least 10 years (or be used to transport people or property),
2. Be subject to the capitalization and inclusion in inventory rules,⁸¹
3. Have an estimated production period exceeding one year,⁸²
4. Have a cost exceeding \$1 million,⁸³ **and**
5. Have a long useful life.⁸⁴

The following types of property may qualify for bonus depreciation.⁸⁵

- Tangible property with a MACRS recovery period of 20 years or less
- Computer software defined in and depreciated under IRC §167(f)(1)(B)
- Water utility property
- Qualified film, television, and live theatrical productions, as defined in IRC §§181(d) and (e)
- Specified plants for which the taxpayer made the election to apply §168(k)(5) for the tax year in which the plant is planted or grafted⁸⁶

The property can be either **new property** or certain types of **used property**.

^{78.} IRC §§168(k)(1)(A) and (k)(5).

^{79.} IRC §168(k)(6)(B).

^{80.} IRC §168(k)(2)(B)(i).

^{81.} Under IRC §263A.

^{82.} IRC §168(k)(2)(B)(i)(VI), referencing IRC §263A(f)(1)(B)(iii).

^{83.} Ibid.

^{84.} Ibid.

^{85.} IRC §168(k)(2).

^{86.} Under IRC §168(k)(5)(C), this election can only be revoked with IRS consent.

Used property qualifies for bonus depreciation if, in addition to the other requirements,⁸⁷ it was not used by the taxpayer **or a predecessor** at any time before acquiring it. Use is defined as having a **depreciable interest** in the property at any time during the five calendar years immediately prior to the taxpayer's current placed-in-service year.⁸⁸

A predecessor for this purpose includes the following.⁸⁹

- A transferor of an asset to a transferee in a carryover transaction among entities subject to corporate acquisition rules⁹⁰
- A transferor of a gift (that is, an asset for which the transferee's basis in the asset is determined, in whole or in part, by reference to the basis of the asset in the hands of the transferor)
- A partnership that is considered as continuing under rules providing for the merger, consolidation, or division of a partnership⁹¹
- A decedent, in the case of an asset acquired by the estate
- A transferor of an asset to a trust

Example 12. On August 1, 2020, Anna bought a new machine for \$35,000 from an unrelated party for use in her trade or business. On July 1, 2022, she sold it to Bill, another unrelated party, for its fair market value (FMV) of \$20,000. Anne is not a predecessor because Bill's basis is not determined in reference to hers.

Bill puts the machine into service in his business in 2023. If all the other requirements are met, the \$20,000 purchase qualifies for the bonus depreciation deduction.

The property must be used for business purposes **or** be held for the production of income.⁹² Thus, unlike §179, bonus depreciation can be claimed for assets used in a rental activity even if the activity does not rise to the level of a trade or business.

Note. Listed property must be used **predominately** for **business** purposes to qualify for bonus depreciation.⁹³ If the business use of **listed property** declines to 50% or less, some amount of the property's special depreciation must be recaptured.⁹⁴ This was discussed previously in the chapter.

A taxpayer's election not to apply the bonus depreciation rules to any class of property can only be revoked with IRS consent.⁹⁵

⁸⁷ IRC §168(k)(2)(E)(ii); Treas. Reg. §1.168(k)-2(b)(3)(iii).

⁸⁸ Treas. Reg. §1.168(k)-2(b)(3)(iii).

⁸⁹ Treas. Reg. §1.168(k)-2(b)(3)(iv).

⁹⁰ IRC §381(a).

⁹¹ IRC §708(b)(2) and Treas. Reg. §1.708-1.

⁹² IRC §168(k)(1)(A) referencing IRC §167(a).

⁹³ IRS Pub. 946, *How to Depreciate Property*; IRC §280F(b)(1).

⁹⁴ IRC §280F(b)(2).

⁹⁵ IRC §168(k)(7).

20 YEARS OR LESS MACRS PROPERTY

Properties that may qualify for bonus depreciation because they have recovery periods of 20 years or less currently include the following.⁹⁶

- Vehicles
- Appliances used in residential rental activities
- Tools, machinery, equipment, and other general business assets
- Land improvements
- Farm buildings
- Qualified improvement property (QIP)
- Many others

Qualified Improvement Property

The definition of **QIP** has undergone many transformations since the concept was first introduced into the Code. Currently, there is only one type of QIP⁹⁷ for depreciation purposes. In general, the term means any qualified improvement made by the taxpayer to **nonresidential** real property.

To be qualified, the improvements must be to the **interior** portion of a building that was placed in service before the improvements were made.

The following are certain types of improvements that are specifically **excluded** from QIP.⁹⁸

- Exterior building improvements
- Enlargement of the building
- Any elevator or escalator
- Changes to the internal structural framework of the building

QIP is eligible for §179,⁹⁹ bonus depreciation, or straight-line depreciation over 15 years.¹⁰⁰

Example 13. GHI, LLC, is a partnership that owns a small office building, built in 1990, that it rents to commercial tenants, typically with 3-year leases. In negotiating a 5-year lease with a new tenant, GHI agrees to make \$80,000 in improvements to the property.

The improvements are specifically for the new tenant and consist of interior work to create individual offices. The improvements do not enlarge the building, alter its structural framework, or modify the building's elevator. Thus, they satisfy the definition of QIP, making them eligible for bonus depreciation or straight-line depreciation over 15 years.

⁹⁶ IRS Pub. 946, *How to Depreciate Property*.

⁹⁷ IRC §168(e)(6)

⁹⁸ IRC §168(e)(6)(B).

⁹⁹ IRC §179(d)(1)(B).

¹⁰⁰ IRC §§168(b)(3)(G) and (e)(3)(E)(vii).

EXCLUDED PROPERTY

Property that **does not** qualify for bonus depreciation includes property:¹⁰¹

- For which the taxpayer **elects** not to claim any bonus depreciation;
- Placed in service or planted or grafted, and disposed of during the same tax year;
- Converted from business use to personal use in the same tax year it is acquired;
- **Required** to be depreciated under the ADS;
- Primarily used in a trade or business involving furnishing or sale of certain energy sector services;¹⁰²
- Used in a trade or business that has had floor plan financing indebtedness;¹⁰³
- That the taxpayer acquires by gift or inheritance;
- Used by the taxpayer before purchasing it; or
- Acquired from a related person¹⁰⁴ or from another member of a controlled group.

IRC §179 EXPENSE VS. BONUS DEPRECIATION

Both §179 and bonus depreciation enable taxpayers to deduct the cost of newly acquired property the year they put the property into service. For assets placed in service **in 2023, §179 allows up to 100%** of the cost as a current-year deduction, while **bonus depreciation only includes 80%** of the cost of the property. Deductions for certain kinds of **leased** property are restricted under §179 but not bonus depreciation.

The following table highlights additional ways the two provisions compare.

	Bonus Depreciation	IRC §179
Maximum amount (2023)	Unlimited, but bonus depreciation limited to 80% of the property's basis	\$1,160,000
Maximum qualifying property (2023)	Unlimited	\$2,890,000
Provision end date	100% through 2022 (one year longer for certain property types), then reduced by 20% annually	None; amounts adjusted annually for inflation
Qualifying property	• Tangible property with a recovery period of 20 years or less • Water utility property • Computer software (depreciable) • Qualified film, television, and live theatrical productions • Specified plants	• Tangible personal property • Other tangible property • Single-purpose agricultural or horticultural structures • Storage facilities used for petroleum • Computer software • Qualified real property
Allowable for used property	Yes	Yes
Election required	No; can elect out for any class of property; otherwise, bonus depreciation is automatic	Yes; can elect specific items of property
Effect on mid-quarter convention, discussed later	Amounts depreciated do not reduce basis for purposes of determining if convention applies	Amounts expensed reduce basis for purposes of determining if convention applies

¹⁰¹. IRS Pub. 946, *How to Depreciate Property*.

¹⁰². IRC §168(k)(9)(A), referencing IRC §163(j)(7)(A)(iv). See also IRC §168.

¹⁰³. IRC §168(k)(9)(B), referencing §163(j)(9)(B).

¹⁰⁴. As defined by IRC §§267 or 707(b).

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Phaseouts and Limitations Based on Purchases

For assets placed in service during calendar year 2023, the following provisions apply.

- The §179 deduction is limited to \$1,160,000,¹⁰⁵ while bonus depreciation is unlimited.
- The §179 deduction is subject to phaseouts when taxpayers place too much eligible property into service during the tax year. The phaseout begins after the total cost of qualified assets exceeds \$2,890,000,¹⁰⁶ at which point a dollar-for-dollar reduction goes into effect. Thus §179 is completely phased out after purchases exceed \$4,050,000 (\$2,890,000 + \$1,160,000).

Example 14. Ms. McFlugelheimer purchases and places in service \$1 million worth of 5-year property in 2023. The property qualifies for both §179 and bonus depreciation. **Her maximum §179 deduction is \$1 million.** Her maximum deduction using only bonus depreciation and MACRS is \$840,000, calculated as follows.

Cost basis	\$1,000,000	\$1,000,000	
	<u>× 80%</u>		
Bonus depreciation	\$ 800,000	(800,000)	\$800,000
Remaining cost basis		\$ 200,000	
		<u>× 20%</u>	
MACRS deduction		\$ 40,000	40,000
Total 2023 depreciation deduction without §179			<u>\$840,000</u>

Example 15. Use the same facts as **Example 14**, except the cost is \$5 million. At this level of investment, the §179 deduction is completely phased out. However, her MACRS depreciation deduction with bonus depreciation is \$4,200,000.

Cost basis	\$5,000,000	\$5,000,000	
	<u>× 80%</u>		
Bonus depreciation	\$4,000,000	(4,000,000)	\$4,000,000
Remaining cost basis		\$1,000,000	
		<u>× 20%</u>	
MACRS deduction		\$ 200,000	200,000
Total 2023 depreciation deduction without §179			<u>\$4,200,000</u>

Business Income Limitations¹⁰⁷

The §179 deduction is capped by the taxpayer's business income. If the taxpayer qualifies for and elects to deduct more under §179 than the business income limit allows, the excess is carried forward to the next year. **There is no business income limitation on property qualifying for bonus depreciation** (i.e., bonus depreciation can create a loss). Thus, the bonus depreciation deduction can be used to offset income from other sources.

¹⁰⁵. Rev. Proc. 2022-38, 2022-45 IRB 1.

¹⁰⁶. Ibid.

¹⁰⁷. IRC §168(k) contains no provision to limit bonus depreciation to the taxpayer's business income; Treas. Reg. §1.179-2(c).

Pass-throughs from Partnerships and S Corporations

The §179 expense deduction passes to the owners as a separately stated item subject to limitations at both the corporate and recipient levels. The amount allowed at the entity levels is shown on a separate line of the Schedule K-1 (Form 1065), *Partner's Share of Income, Deductions, Credits, etc.*, or Schedule K-1 (Form 1120-S), *Shareholder's Share of Income, Deductions, Credits, etc.*, received by the partners and shareholders.¹⁰⁸ The deduction is then subject to the same limitations applied at the recipient level based on their individual tax situations.

Example 16. Buzz is the 100% shareholder in an S corporation with net ordinary business income of \$20,000 in 2023 before considering depreciation. He materially participates in the business and has sufficient basis and risk to recognize any losses. In 2023, the S corporation purchases an asset for \$45,000, which is eligible for both §179 and bonus depreciation.

If Buzz elects the §179 deduction for the full \$45,000, the §179 deduction that passes through on his Schedule K-1 (Form 1120-S), is limited to \$20,000 (§179 deductions cannot create a loss). The remaining §179 deduction of \$25,000 (\$45,000 – \$20,000) carries forward to 2024. Thus, the net income attributable to the S corporation on his 2023 return is **\$0** (\$20,000 ordinary net income – \$20,000 §179 deduction).

Example 17. Use the same facts as **Example 16**, except Buzz chooses not to elect §179 treatment. The asset still qualifies for 80% **bonus** depreciation. Thus, bonus depreciation of \$36,000 (\$45,000 × 80%) is deducted from income of \$20,000 which creates a **loss of \$16,000 (\$20,000 – \$36,000)**. This loss passes through to Buzz's personal return, along with the MACRS depreciation deduction arising from the 20% portion of the asset that did not qualify for bonus depreciation in 2023.

Note. If Buzz elects out of bonus depreciation **and** does not elect the §179 deduction, the depreciation deduction for the asset is calculated using MACRS, as explained later. The ordinary income passed through to him would be \$20,000 minus the MACRS deduction.

Observations

- Property acquired from a related party is not eligible for §179, but new property acquired from a related party is eligible for bonus depreciation.
- Property having a business use of 50% or less is not eligible for §179, but it is eligible for bonus depreciation for the percentage of business use.
- Property for which a §179 expense deduction has been taken is subject to the recapture requirements if the business use drops to 50% or less. However, bonus depreciation is not subject to recapture unless it is listed property.
- Both §179 and bonus depreciation can be applied to QIP.¹⁰⁹
- The §179 deduction cannot create an NOL¹¹⁰ but instead must be carried forward.¹¹¹ Bonus depreciation can create an NOL, which may be eligible to be carried back under IRC §172.

¹⁰⁸. Treas. Reg. §1.702-1(a)(8) and 1.1366-1(a)(2).

¹⁰⁹. IRC §168(e)(3)(E)(vii).

¹¹⁰. IRC §179(b)(3)(A).

¹¹¹. IRC §179(b)(3)(B).

Impact of Depreciation Elections on Other Tax Provisions

A multitude of other deductions and credits are contingent upon the net income determined after applying these provisions. Both §179 and bonus depreciation are important tools for achieving the best result for taxpayers, but they may affect other tax provisions differently. The following two common tax situations show how using these tools can have additional tax consequences.

Roth Individual Retirement Arrangement Contributions. Simply stated, a Roth individual retirement arrangement (IRA) is an individual retirement plan that taxpayers cannot deduct their contributions, but distributions are tax-free. Generally, a taxpayer can contribute to their Roth IRA if they have taxable compensation and a modified adjusted gross income (MAGI) that is less than the following thresholds for 2023.¹¹²

- \$218,000 for married filing jointly or qualifying surviving spouse
- \$138,000 for single, head of household, or married filing separately and the taxpayer did not live with their spouse at any time during the year
- \$10,000 for married filing separately and the taxpayer lived with their spouse at any time during the year

Note. Roth IRAs are covered in detail in the 2023 *University of Illinois Federal Tax Workbook*, Chapter 8: Retirement Plan Issues for Individuals.

Because both the §179 deduction and bonus depreciation reduce the income available to make contributions to retirement plans, taxpayers can use them as tools to increase their direct contributions to Roth accounts. For taxpayers wishing to contribute larger amounts to their retirement savings, both deductions generally work contrary to this objective.

Due to the order in which the two deductions are applied, the way they are applied to either individual assets or to classes, and other limitations, it may be possible to use the related elections to avoid contribution limits affected by total income.

Example 18. Use the same facts as **Example 16**, except that Buzz also has a part-time job with employee wages. In 2023, his total wages from Form W-2, *Wage and Tax Statement*, are \$153,000. He has no other income or deductions. Before Buzz finalizes his S corporation return, he wants to know how the depreciation elections affect his ability to contribute directly to a Roth IRA.

If Buzz elects to write off 100% of the cost under §179, the net effect to his personal return is zero. Thus, if he chooses this option, his MAGI¹¹³ of \$153,000 is too high to contribute to a Roth IRA for the year.

If Buzz applies bonus depreciation, an ordinary loss of \$16,000 passes through to Buzz's personal return. This lowers his MAGI to \$137,000 (\$153,000 – \$16,000), which is below the phase-out amount for Roth IRA contributions.

Earned Income Credit.¹¹⁴ The earned income credit (EIC) is a refundable credit for individual taxpayers meeting certain qualifications. The amount of the credit phases in and out based on the taxpayer's earned income and other income-related factors. Elections regarding depreciation deductions may have a significant effect on this credit.

¹¹² IRS Pub. 590-A, *Contributions to Individual Retirement Arrangements (IRAs): Amount of Roth IRA Contributions That You Can Make For 2023*. Oct. 26, 2022. IRS. [www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2023] Accessed on Jul. 16, 2023.

¹¹³ IRC §408A(c)(3)(B)(i).

¹¹⁴ IRC §32.

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The Code establishes limits for taxpayers' earned income amounts,¹¹⁵ although these amounts are indexed for inflation.¹¹⁶ The IRS publishes updated limits late in the previous year.¹¹⁷ Taxpayers must have earned income at least as much as the **earned income amount** to receive any EIC. However, if their earned income exceeds a **threshold phaseout amount**, the credit decreases before phasing out entirely when the taxpayer's income reaches the **completed phaseout amount**. The table showing the various EIC amounts based on the taxpayer's income, filing status, and number of dependent children with valid social security numbers is published in the instructions for Form 1040.

Example 19. Samantha is self-employed, files a Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, and meets the qualifications for the EIC. In 2022, she realizes \$50,000 in profit from her business before she considers depreciation options. She has no children and uses the single filing status.

During the summer, she purchases an asset for \$60,000 that she places in service in the fall. The asset qualifies for both §179 and bonus depreciation. She does not purchase any other depreciable property this year.

She **elects to use §179** for the entire \$60,000. As a result, her earned income is \$0 (\$50,000 profits – \$50,000 §179 limited to income), and she receives no EIC.

Example 20. Use the same facts as **Example 19**. If Samantha **elects out** of bonus depreciation, she will take regular depreciation on the asset, which equals \$12,000 for the year. Her business income is therefore \$38,000 (\$50,000 income – \$12,000 depreciation). After taking a deduction for her 50% of SE tax (calculated as \$2,685 for the year), Samantha has total earned income of \$35,315 (\$38,000 business income – \$2,685 SE tax deduction).

Samantha looks up her earned income amount on the Earned Income Credit (EIC) Table, and finds that she is ineligible for the EIC.

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2022 Earned Income Credit (EIC) Table

Caution. This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, go to the column that includes your filing status and the number of qualifying children you have who have valid SSNs as defined earlier. Enter the credit from that column on your EIC Worksheet.

Example. If your filing status is single, you have one qualifying child who has a valid SSN, and the amount you are looking up from your EIC Worksheet is \$2,455, you would enter \$842.

If the amount you are looking up from the worksheet is—		And your filing status is— Single, head of household, or qualifying surviving spouse and the number of children you have is—			
At least	But less than	0	1	2	3
2,400	2,450	186	825	970	1,091
2,450	2,500	189	842	990	1,114

If the amount you are looking up from the worksheet is—		And your filing status is—							
		Single, head of household, or qualifying surviving spouse* and you have—				Married filing jointly and you have—			
At least	But less than	0	1	2	3	0	1	2	3
1	50	2	9	10	11	2	9	10	11
50	100	6	26	30	34	6	26	30	34
400	150	10	43	50	56	10	43	50	56
		13	60	70	79	13	60	70	79
2,800	2,850	216	961	1,130	1,271	216	961	1,130	1,271
2,850	2,900	220	978	1,150	1,294	220	978	1,150	1,294
2,900	2,950	224	995	1,170	1,316	224	995	1,170	1,316
	3,000	228	1,012	1,190	1,340	228	1,012	1,190	1,340
31,900	31,950	0	1,840	3,669	4,440	0	2,020	4,960	5,731
31,950	32,000	0	1,840	3,669	4,440	0	2,020	4,960	5,731
32,000	32,050	0	1,832	3,659	4,429	0	2,012	4,950	5,720
32,050	32,100	0	1,824	3,648	4,419	0	2,004	4,939	5,710
32,100	32,150	0	1,816	3,638	4,408	0	2,796	4,929	5,699
32,150	32,200	0	1,808	3,627	4,398	0	2,788	4,918	5,689
32,200	32,250	0	1,800	3,617	4,387	0	2,780	4,908	5,678
		0	1,792	3,607	4,377	0	2,772	4,897	5,668
35,150	35,200	0	1,329	2,996	3,766	0	2,317	4,267	5,038
35,200	35,250	0	1,321	2,985	3,755	0	2,301	4,276	5,046
35,250	35,300	0	1,313	2,974	3,745	0	2,293	4,265	5,036
35,300	35,350	0	1,305	2,964	3,734	0	2,285	4,255	5,025
35,350	35,400	0	1,297	2,953	3,724	0	2,277	4,244	5,015
35,400	35,450	0	1,289	2,943	3,713	0	2,269	4,234	5,004
	35,500	0	1,281	2,932	3,702	0	2,261	4,223	5,000

¹¹⁵ IRC §32(b)(2).

¹¹⁶ IRC §32(j).

¹¹⁷ Rev. Proc. 2022-38, 2022-45 IRB 1. See §3.06 for 2023 information.

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Example 21. Use the same facts as **Example 19**. Samantha's goal is to maximize her EIC in 2022, so she elects out of bonus depreciation (which is an all or nothing election) and needs to elect the appropriate amount of §179 deduction so that the sum of §179 plus regular depreciation on the remaining basis reduces her earned income to an ideal amount.

Samantha looks up the maximum EIC for a single taxpayer with no dependents (\$560). According to the EIC table, earned income between \$7,300 and \$9,200 qualifies her for an EIC of \$560.

Samantha works backwards to end up with earned income between \$7,300 and \$9,200. Her tax software calculates that if she elects §179 of \$37,500, the depreciation on the remaining \$22,500 of the asset's basis (\$60,000 cost – \$37,500 §179 deduction) is \$4,500. This results in business income of \$8,000 (\$50,000 income – \$37,500 §179 deduction – \$4,500 regular depreciation). After taking a deduction for her 50% of SE tax (calculated as \$565 for the year), Samantha has total earned income of \$7,435 (\$8,000 business income – \$565 SE tax deduction).

Samantha looks up earned income of \$7,435 for a single taxpayer with no dependents on the EIC Table, and is entitled to an EIC of \$560.

2022 Earned Income Credit (EIC) Table

Caution. This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, go to the column that includes your filing status and the number of qualifying children you have who have valid SSNs as defined earlier. Enter the credit from that column on your EIC Worksheet.

Example. If your filing status is single, you have one qualifying child who has a valid SSN, and the amount you are looking up from your EIC Worksheet is \$2,455, you would enter \$842.

If the amount you are looking up from the worksheet is—		And your filing status is— Single, head of household, or qualifying surviving spouse and the number of children you have is—			
At least	But less than	0	1	2	3
2,400	2,450	186	825	970	1,091
2,450	2,500	189	842	990	1,114

If the amount you are looking up from the worksheet is—		And your filing status is—								If the amount you are looking up from the worksheet is—		And your filing status is—							
		Single, head of household, or qualifying surviving spouse* and you have—				Married filing jointly and you have—						Single, head of household, or qualifying surviving spouse* and you have—				Married filing jointly and you have—			
		0	1	2	3	0	1	2	3			0	1	2	3	0	1	2	3
At least	But less than	Your credit is—				Your credit is—				At least	But less than	Your credit is—				Your credit is—			
1	50	2	9	10	11	2	9	10	11	2,800	2,850	216	961	1,130	1,271	216	961	1,130	1,271
50	100	6	26	30	34	6	26	30	34	2,850	2,900	220	978	1,150	1,294	220	978	1,150	1,294
100	150	10	43	50	56	10	43	50	56	2,900	2,950	224	995	1,170	1,316	224	995	1,170	1,316
		13	60	70	76	13	60	70	76	2,950	3,000	228	1,012	1,190	1,338	228	1,012	1,190	1,338
7,200	7,250	560	2,491	2,910	3,274	560	2,491	2,910	3,274	10,450	10,500	459	3,562	4,190	4,714	560	3,562	4,190	4,714
7,250	7,300	560	2,542	2,990	3,364	560	2,542	2,990	3,364	10,500	10,550	456	3,579	4,210	4,736	560	3,579	4,210	4,736
7,300	7,350	560	2,593	3,041	3,415	560	2,593	3,041	3,415	10,550	10,600	452	3,596	4,230	4,759	560	3,596	4,230	4,759
7,350	7,400	560	2,644	3,092	3,466	560	2,644	3,092	3,466	10,600	10,650	448	3,613	4,250	4,781	560	3,613	4,250	4,781
7,400	7,450	560	2,695	3,143	3,517	560	2,695	3,143	3,517	10,650	10,700	444	3,630	4,270	4,804	560	3,630	4,270	4,804
7,450	7,500	560	2,746	3,194	3,568	560	2,746	3,194	3,568	10,700	10,750	440	3,647	4,290	4,826	560	3,647	4,290	4,826
7,500	7,550	560	2,797	3,245	3,619	560	2,797	3,245	3,619	10,750	10,800	436	3,664	4,310	4,849	560	3,664	4,310	4,849
7,550	7,600	560	2,848	3,296	3,670	560	2,848	3,296	3,670	10,800	10,850	432	3,681	4,330	4,871	560	3,681	4,330	4,871

Observation. In **Example 20** and **Example 21**, Samantha's net earned income is subject to SE tax. Any further reduction in earned income reduces the EIC more than it reduces SE tax. Therefore, the ideal depreciation deduction for the remaining basis is the lowest current-year deduction for these purposes. (These options are discussed in detail later in the chapter.) Maximizing the current-year refund may not be the most prudent long-term strategy. However, the timing of the options matter for EIC purposes due to the phase-in and phase-out ranges applicable each year.

STEP 6 — DECIDE WHICH DEPRECIATION SYSTEM AND METHOD TO USE

Any basis remaining after a taxpayer makes the elections for §179 and bonus depreciation is depreciated under the depreciation system known as MACRS. This system modified the previous system in effect in 1986, which was known as the accelerated cost recovery system (ACRS).

As discussed previously, there are two primary sets of rules for calculating the depreciation deduction under MACRS: the GDS and the ADS.¹¹⁸

Under MACRS, there are four depreciation methods available.

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

Note. See IRS Pub. 946, Table 4-1 (shown in the appendix to this chapter), for a list of the types of property that can be depreciated under each method. It also gives a brief explanation of how the method affects the deduction.

The primary difference between the GDS and ADS is that ADS has a longer recovery life for most depreciable assets. GDS is the default system, except in some specific circumstances where ADS is required, as discussed later.

An asset's **salvage value** is the amount that a taxpayer expects to realize when they dispose of it.¹¹⁹ Under all methods, the salvage value of assets is treated as \$0.¹²⁰

Taxpayers may elect to use any of the four methods **for any class** of property placed in service each year, so long as the taxpayer is electing a method that produces a lower current-year deduction than the default.¹²¹ An election may be made on a **property-by-property** basis for non-residential real estate and residential rental property. Under all methods, such an election must be made by the due date of the return (including extensions) for the year the property is placed in service. On amended returns, the election is only available if the original return was filed timely and the amended return is filed by the extended due date. Once an election is made to use a method other than default, **it is irrevocable**.¹²²

200% DECLINING BALANCE METHOD UNDER GDS

The 200% declining balance method is generally used to depreciate 3-, 5-, 7-, or 10-year property under MACRS.¹²³ It is the default in most cases for assets in these classes.¹²⁴ Under this method, the deduction is higher in earlier years than in later years. The applicable percentage tables are found in Appendix A of IRS Pub. 946. Most tax preparation software performs the actual computation of the allowable depreciation using this method.

¹¹⁸. IRC §168(g).

¹¹⁹. Treas. Reg. §1.167(a)-1(c)(1).

¹²⁰. IRC §168(b)(4).

¹²¹. IRS Pub. 946, *How to Depreciate Property*.

¹²². IRC §168(b)(5).

¹²³. IRC §168(b), noting how these recovery periods are excluded from §§168(b)(2) and (3).

¹²⁴. IRC §168(b)(1). For exceptions see IRC §§168(b)(2)(B), (b)(3), and (e)(6).

150% DECLINING BALANCE METHOD UNDER GDS

The 150% declining balance method is the default method for most assets belonging to the 15- and 20-year classes. In addition, taxpayers may elect this method instead of the 200% method for 3-, 5-, 7-, and 10-year properties. Taxpayers might make this election if they want to claim less depreciation in earlier years and more in later years than the default allows.

The following are common examples of assets that default to this method and their recovery periods.¹²⁵

Land improvements, including shrubbery, fences, and roads	15 years
Retail motor fuels outlets, including convenience stores	15 years
Certain general-purpose farm buildings	20 years

Note. Prior to 2018, general-purpose farm assets were **required** to be depreciated under this method. However, this requirement was eliminated for farm assets placed in service after 2017.¹²⁶

STRAIGHT-LINE METHOD UNDER GDS

The use of straight-line depreciation provides a steady annual depreciation deduction over the asset's recovery period. This method is required for the following types of assets, which must be depreciated over the stated recovery period.¹²⁷

Nonresidential real property	39 years
Residential real property	27.5 years
QIP ¹²⁷	15 years
Certain general-purpose farm buildings	20 years
Fruit- or nut-bearing trees or vines ¹²⁸	10 years
Water utility property	25 years

STRAIGHT-LINE METHOD UNDER ADS

The difference between straight-line under GDS and under ADS is that the recovery periods for most properties are longer under ADS, as shown in the following table.¹³⁰

Description of Property	Recovery Period	
	GDS	ADS
Personal property with no class life	7 years	12 years
Residential rental property	27.5 years	30 years
Nonresidential real estate	39 years	40 years
Railroad grading, tunnel bore, or water utility property	50 years	50 years
All other property	The class life	The class life

¹²⁵ IRS Pub. 946, *How to Depreciate Property*; Rev. Proc. 87-56, 1987-2 CB 687.

¹²⁶ IRC §168(b)(2) as amended by *Tax Cuts and Jobs Act*, PL 115-97, §13203(b).

¹²⁷ IRC §168(b)(3).

¹²⁸ IRC §§168(b)(3)(G) and 168(e)(6).

¹²⁹ IRC §§168(b)(3)(E) and 168(e)(3)(D)(ii).

¹³⁰ IRC §168(g)(2)(C).

Property required to be depreciated using ADS includes the following.¹³¹

1. Tangible property used predominantly outside the United States
2. Tax-exempt use property
3. Tax-exempt bond-financed property
4. Property imported from a foreign country identified by U.S. presidential executive order
5. Property for which an alternative MACRS election has been made
6. Residential rental property, nonresidential real property, and QIP owned by a real property trade or business that elects out of the rules in IRC §163(j)
7. Any property with a recovery period of 10 years or greater which is held by an electing farming business that elects out of the 30% interest deduction limitation (50% in tax years beginning in 2019 and 2020)
8. Farmers electing to deduct preproductive period expenses

Note. Bonus depreciation is **not** allowed for property required to be depreciated using ADS.¹³²

Electing Real Property Trade or Business and Electing Farm Business¹³³

Taxpayers with over \$25 million in gross receipts may be subject to business interest deduction limits imposed by IRC §163(j). Certain types of real property businesses¹³⁴ and farming businesses¹³⁵ may elect out of these limitations even if their gross income exceeds the gross receipts threshold. Taxpayers who elect out **must use the slower ADS depreciation system** for the following types of property.¹³⁶

- Nonresidential real property
- Residential rental property
- QIP owned by an electing real property trade or business
- Assets with recovery periods of 10 years or more used in farming operations¹³⁷

Note. For more information on the business interest deduction limits, see the 2020 *University of Illinois Federal Tax Workbook*, Volume A, Chapter 1: New Developments. This can be found at uofi.tax/arc [taxschool.illinois.edu/taxbookarchive].

¹³¹. IRC §168(g)(1).

¹³². IRC §168(k)(2)(D).

¹³³. IRC §168(g)(1).

¹³⁴. IRC §168(g)(1)(F) referencing IRC §168(g)(8) referencing §163(j)(7)(B) defined by IRC §469(c)(7)(C).

¹³⁵. IRC §168(g)(1)(G) referencing IRC §163(j)(7)(C).

¹³⁶. IRC §168(g)(8).

¹³⁷. IRC §168(g)(1)(G) referencing IRC §163(j)(7)(C) defined by IRC §263A(e)(4).

STEP 7 — DETERMINE THE PROPER RECOVERY PERIOD FOR ANY REMAINING BASIS

Once a tax practitioner decides on the depreciation system and the method of depreciation, they must determine the asset's class life and consider the asset's recovery period. This determination is governed not just by the nature of the **asset** but also by the nature of the **business activity** to which it is being used.

GDS PROPERTY CLASSES

The following table of class lives is excerpted from IRS Pub. 946. Not all property has been assigned a class life. Under GDS, personal property that has not specifically been assigned a class life qualifies as **7-year** property.¹³⁸ Under ADS, such property has a **12-year** recovery period.¹³⁹

Property Classification	Examples of Property Types
3-year property	a) Tractor units for over-the-road use b) Any race horse over two years old when placed in service c) Any other horse (other than a race horse) over 12 years old when placed in service d) Qualified rent-to-own property
5-year property	a) Automobiles, taxis, buses, and trucks b) Any qualified technological equipment c) Office machinery (such as typewriters, calculators, and copiers) d) Any property used in research and experimentation e) Breeding cattle and dairy cattle f) Appliances, carpets, furniture, etc., used in a residential rental real estate activity g) Certain geothermal, solar, and wind energy property h) Any machinery equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business and placed in service after 2017, in tax years ending after 2017. The original use of the property must begin with the taxpayer after 2017
7-year property	a) Office furniture and fixtures (such as desks, files, and safes) b) Used agricultural machinery and equipment placed in service after 2017, grain bins, cotton ginning assets, or fences used in a farming business (but no other land improvements) c) Railroad track d) Any property that does not have a class life and has not been designated by law as being in any other class e) Certain motorsports entertainment property f) Any natural gas gathering line placed in service after April 11, 2005
10-year property	a) Vessels, barges, tugs, and similar water transportation equipment b) Any single purpose agricultural or horticultural structure c) Any tree or vine bearing fruits or nuts d) Qualified small electric meter and qualified smart electric grid system placed in service after October 2, 2008

¹³⁸ Rev. Proc. 87-56, 1987-2 CB 674. See Table in §6, following asset class 80.0. See also IRS Pub. 946, *How to Depreciate Property*, p. 106 (2022).

¹³⁹ IRC §168(g)(2).

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Property Classification	Examples of Property Types
15-year property	a) Certain improvements made directly to land or added to it, such as shrubbery, fences, roads, and bridges b) Any retail motor fuels outlet, such as a convenience store c) Any municipal wastewater treatment plant d) Initial clearing and grading land improvements for gas utility property e) Electric transmission property that is §1245 property used in the transmission of 69 or more kilovolts of electricity placed in service after April 11, 2005. f) Any natural gas distribution line placed in service after April 11, 2005, and before January 1, 2011 g) Any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications h) QIP placed in service after 2017
20-year property	a) Farm buildings (other than single purpose agricultural or horticultural structures) b) Municipal sewers not classified as 25-year property c) Initial clearing and grading land improvements for electric utility transmission and distribution plants
25-year property	Limited to water utility property
Residential rental property	Any building or structure, such as a rental home (including a mobile home), if 80% or more of its gross rental income for the tax year is from dwelling units. It does not include a unit in a hotel, motel, or other establishment in which more than half the units are used on a transient basis.
Nonresidential real property	Real estate such as an office building, store, or warehouse that is neither residential rental property nor property with a class life of less than 27.5 years.

At first glance, many assets may seem to belong to a particular class, but because of the type of activity in which the property is used, the property is in a different class.

- **Table B-2** of IRS Pub. 946 includes an exhaustive list of activities and related property that have classes and recovery periods specified by law.
- **Table B-1** lists class lives and recovery periods for assets not used in covered industries based on general categories, such as office furniture or vehicles.

Tables B-1 and B-2 must be used in conjunction with one another in determining the proper class life. The table most applicable to each situation must be used. Both tables are provided in their entirety as an appendix to this chapter.

The following examples demonstrate the proper use of these tables.

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Example 22. LTD Papers, Inc. is a small paper manufacturer that, in 2023, makes improvements to the land on which its U.S. paper plant is located.¹⁴⁰ Table B-1 states that land improvements belong to asset class 00.3, which has a class life of 20 years, a GDS recovery period of 15 years, and an ADS recovery period of 20 years.

However, Table B-2 shows that because LTD is involved in paper manufacturing, the land improvements are asset class 26.1, which has a class life of 13 years, a GDS recovery period of 7 years, and an ADS recovery period of 13 years.

Had the tax preparer consulted only Table B-1, they would have depreciated the land improvements using the straight-line method over 15 years, an incorrect and unnecessarily long recovery period for these land improvements. Instead, LTD depreciated the land improvements using straight-line depreciation over 7 years. If LTD wanted to recover the costs of the improvements over a longer period, they could elect to use the straight-line depreciation with an ADS recovery period of 13 years.

Table B-1. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:				
	Furniture, Fixtures, and Equipment:			
	00.20 In marine			
00.3	Land Improvements: Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in class 51), wharves and docks, bridges, fences, landscaping shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations. Excludes public utility initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102.	20	15	20
	Steam and Electric Generation and/or Distribution Systems:			

Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:				
	Manufacture:			
	other wood products, including the manufacture of poles and timber.			
26.1	Manufacture of Pulp and Paper: Includes assets for pulp materials handling and storage, pulp mill processing, bleach processing, paper and paperboard manufacturing, and on-line finishing. Includes pollution control assets and all land improvements associated with the factory site or production process such as effluent ponds and canals, provided such improvements are depreciable but does not include buildings and structural components as defined in section 1.48-1(e)(1) of the regulations. Includes steam and chemical recovery boiler systems, with any rated capacity, used for the recovery and regeneration of chemicals used in manufacturing. Does not include assets used either in pulpwood logging, or in the manufacture of hardboard.	13	7	13

¹⁴⁰ Example based on Example 1 appearing in IRS Pub. 946, *How to Depreciate Property*, p. 96 (2022).

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Example 23. FITS, LLC, is a tax-preparation service. It purchases a hydraulic hand dolly for \$2,600, which it uses to distribute boxes of printer paper to each preparer's office. Hand dollies are not specifically listed in Table B-1. By default, the appropriate class appears to be *Office Furniture, Fixtures, and Equipment*. This asset class has a 7-year recovery period under the GDS.

However, professional services are specifically included under *Distributive Trades and Services* in Table B-2. Assets used in this *Distributive Trades and Services* classification have a 5-year recovery period. Consequently, the dolly qualifies to be depreciated over five years under GDS.

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			GDS (MACRS)	ADS
DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:				
50.0	Municipal Sewer	50	20***	50
57.0	Distributive Trades and Services: Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.	9	5	9*
57.1	Distributive Trades and Services—Billboard, Service Station Buildings, and Petroleum Land Improvements:			

Note. The IRS has provided no guidance defining distributive trades and services. Wholesale and retail trade involves supplying goods without any intermediate physical transformation of the products.

Example 24. Steve's small business provides charter passenger flights. Table B-1 includes airplanes but excludes those used in carrying passengers. Therefore, he must use Table B-2, which lists airplanes used to carry passengers as 7-year assets. (Asset Class 45.0, not shown)

Steve also owns a helicopter. Table B-1 specifically mentions "all helicopters." Steve can depreciate the helicopter over five years, even though it is used to carry passengers.

The following table lists recovery periods and class lives for some industries and assets used in those industries that are covered by Table B-2.

Observation. This list is intended to alert practitioners to some of the less obvious classifications; the actual table should be reviewed for detailed information on the assets specifically included within each category.

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Excerpts from Table B-2

Asset Class	GDS Recovery Period and Property Class
Agriculture Property	
01.1 Grain bins	7
01.1 Fences used in agricultural activities	7
01.221 Breeding/work horse age $\leq$ 12 yrs when placed in service	7
Construction	
15.0 Assets used by construction businesses (except railroad construction)	5
24.1 Cutting of timber	5
Distributive Trades and Services	
57.0 Assets used in wholesale and resale trade, and personal and professional services	5
Manufacturing of:	
20.1 Grain and grain mill products	10
20.2 Sugar and sugar products	10
20.3 Vegetable oils and related products	10
20.5 Food and beverage special handling devices	3
22.1 Knitted and netted fabrics and lace	5
22.2 Yarn, thread, and woven fabrics	7
22.3 Carpets	5
22.3 Textile products	5
22.3 Medical and dental supplies	5
22.5 Textile yarns — certain assets	5
25.0 Apparel and other finished products	5
28.0 Chemicals and allied products	5
30.11 Rubber products — special tools only	3
30.21 Finished plastic products — special tools only	3
32.11 Glass products — special tools only	3
32.3 Cement (not concrete)	15
33.21 Nonferrous metals — special tools only	5
34.01 Fabricated metals — special tools only	3
36.0 Electronic components, products, and systems	5
36.1 Semiconductors	5
37.12 Motor vehicles — special tools only	3
Sawmills	
24.2 Machinery and equipment installed in permanent sawmills	7
24.3 Machinery and equipment installed in temporary sawmills	5
Ship and Boat Building and Repairs	
37.31 Machinery and equipment	7
37.32 Dry docks and land improvements	10
37.33 Special tools only	5
Transportation	
44.0 Assets used to ferry freight or passengers on water	15
45.0 Assets used to carry freight or passengers by air, except helicopters	7

Even within this step, taxpayers may make decisions on multiple levels that they may later wish to change. These modifications may require changes in accounting method to be filed with the IRS, as discussed later.

STEP 8 — APPLY CORRECT CONVENTION

The tax practitioner's final determination when calculating depreciation for a return is if the taxpayer must use the mid-month convention for certain assets placed in service in the current year. Under MACRS, the conventions establish when the recovery period begins and ends. The conventions also determine the depreciation percentages applied each year during the recovery period. There are three conventions used for calculating depreciation deductions for tax purposes which are applied in the following order.

1. **Mid-month convention** — Required to be used for **nonresidential real property, residential rental property**, and any railroad grading or tunnel bore¹⁴¹
2. **Mid-quarter convention** — Used if the mid-month convention does not apply and the total depreciable bases of MACRS property placed in service during the last three months of the tax year are more than 40% of the total depreciable bases of all MACRS property placed in service during the entire year¹⁴²
3. **Half-year convention** — Used for all other assets placed in service during the year¹⁴³

Assets subject to the mid-month convention are **not** included in the test to determine if the mid-quarter convention must be used. Assets for which neither the mid-month nor the mid-quarter conventions must be used are subject to the half-year convention.

MID-MONTH CONVENTION

Under the mid-month convention, all property placed in service during a month is treated as placed in service at the midpoint of the month. Later, when the property is removed from service, the mid-month convention provides for a half-month of depreciation in the final month.¹⁴⁴

Consequently, each asset subject to the mid-month convention is allowed one-half month of depreciation in its first and last months and a flat amount of depreciation for the intervening months. The mid-month convention is only applicable when required.

Although assets depreciated under the mid-month convention are required to use longer periods to recover their costs, the mid-month convention permits them to have a steady amount of depreciation over the life of the asset. This convention also matches the beginning of cost recovery more closely to an asset's placement into service. Depreciation under this method may also more closely match the taxpayer's cash flow if the property was purchased with debt financing.

On Form 4562, *Depreciation and Amortization*, the mid-month convention is identified as "MM" under column E in part III.¹⁴⁵

MID-QUARTER CONVENTION¹⁴⁶

Congress added a requirement to apply the mid-quarter convention to discourage taxpayers from delaying the tax impact of their purchases until the end of the year. This requirement applies when over 40% of the cost of applicable property is associated with assets placed in service during the final three months of the tax year.

¹⁴¹. IRC §168(d)(2).

¹⁴². IRC §168(d)(4)(C); Treas. Reg. §1.168(d)-1(b).

¹⁴³. IRC §168(d)(4)(A); Treas. Reg. §1.168(d)-1(a).

¹⁴⁴. IRC §168(d)(4).

¹⁴⁵. See Instructions for Form 4562.

¹⁴⁶. IRC §168(d)(3); Treas. Regs. §§1.168(d)-1(a) and (b).

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Applicable property includes all assets not subject to the mid-month convention which are placed in service during the tax year. The percentage placed in service during the last 3 months is calculated by dividing the depreciable basis of assets placed in service during the final quarter of the year by the total depreciable basis of assets placed in service during the entire year.

When the 40% threshold is crossed, **all assets** placed in service during the year are treated as having been put in service at the midpoint of the quarter in which they were first used. Thus, an asset first used in the first quarter applies the mid-quarter convention beginning within the first quarter.

When it comes time to dispose of the property, depreciation is considered to stop at the mid-point of the quarter in which it is disposed of.¹⁴⁷

Caution. For purposes of determining whether the mid-quarter convention applies, the depreciable basis of property placed in service during the tax year reflects the reduction in basis for amounts expensed under §179 and the part of the basis of property attributable to personal use.¹⁴⁸ However, it does not reflect any reduction in the basis for any special depreciation allowance.

Example 25. TUV Corporation, a C corporation with a tax year ending on December 31, puts the following purchases into service in 2023.

Date	Purchase	Cost	Percentage of Total Costs
Jan. 15	Laser printers	\$20,000	33%
Oct. 6	Office furniture	40,000	67%

TUV does not elect §179 expense deduction for these purchases, and elects out of bonus depreciation for all classes of property. Because 67% of TUV's assets are put in service during the last 3 months of 2023, it must use the mid-quarter convention for both assets.

Depreciation under the mid-quarter convention for the two assets totals \$8,428 calculated as follows.

Property	Recovery Period	Applicable Percentage ^a	Depreciation
Laser printers	5-year	35.00%	\$7,000
Office furniture	7-year	3.57%	1,428
Total			\$8,428

^a The applicable percentage for depreciation is found in IRS Pub. 946.

Example 26. Use the same facts as **Example 25**. TUV sells the laser printers in July 2025. Because of the rule covering the disposition of mid-quarter property, TUV will be allowed to calculate the depreciation deduction for the printers as if the property were held through the middle of the third quarter of 2025, or on August 15.

¹⁴⁷. IRC §168(d)(4)(C).

¹⁴⁸. IRC §168(d)(3)(A). IRC §179 property is not included in the calculation because the language of §168(d)(3)(A) restricts it to property covered by that section, thereby excluding §179 property and personal use property.

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Short-Year Considerations¹⁴⁹

Taxpayers must apply the mid quarter **test** even if they have a short tax year. In such cases, the last three months¹⁵⁰ of the year are still used to perform the 40% mid-quarter test, regardless of the length of the tax year.¹⁵¹

Example 27. EFG Restaurants, Inc. is formed on September 1, 2023, and immediately elects to be taxed as an S corporation with a calendar tax year. During the same month, it places in service two laptop computers having a total basis of \$5,000. It also issues purchase orders for \$200,000 of restaurant equipment, which is placed in service when it is installed on October 25. Because more than 40% of EFG's purchases are made in the last three months of its tax year, the computers and the restaurant equipment are subject to the mid-quarter convention.

Note. If a short year consists of three months or less, the mid-quarter **convention** applies regardless of when the depreciable property is placed in service during the taxable year.

Although the last three months are used to determine **if** the convention applies, **when applying** the convention, the length of each quarter is $\frac{1}{4}$ of the short year. The result is then prorated over 12 months based on the number of months in the short year.

Strategy for Using §179 to Avoid the Mid-Quarter Convention

Electing the §179 deduction for property placed in service during the last three months removes the amount of the election from the basis used for the 40% mid-quarter test.¹⁵²

Example 28. HIJ Testing, Inc. uses expensive electronic equipment in its customer service business. HIJ is an S corporation with a calendar tax year. In 2023, HIJ purchases and places into service three pieces of business equipment.

Date	Purchase Cost	Percentage of Total Costs
Feb. 15	\$ 50,000	42%
Oct. 15	20,000	16%
Dec. 15	50,000	42%
Total	\$120,000	100%

In 2023, 58% (16% + 42%) of HIJ's property is placed in service during the last 3 months of the year. HIJ wants to use §179 to write off \$45,000 of the costs. It also wants to maximize its remaining depreciation deduction without using bonus depreciation.

To avoid the requirement to use the mid-quarter convention, it applies the §179 election to the asset purchased in December. As shown below, after the §179 election, only 33% (27% + 6%) of the property is considered placed in service during the last three months.

Date	Purchase Cost	§179	Remaining Basis	Percentage of Total Basis
Feb. 15	\$ 50,000	\$ 0	\$50,000	67%
Oct. 15	20,000	0	20,000	27%
Dec. 15	50,000	(45,000)	5,000	6%
Total	\$120,000		\$75,000	100%

¹⁴⁹. Rev. Proc. 89-15, 1989-1 CB 816.

¹⁵⁰. IRC §168(d)(3).

¹⁵¹. Rev. Proc. 89-15, 1989-1 CB 816.

¹⁵². IRC §168(d)(3)(A)(ii).

HALF-YEAR CONVENTION

All property not subject to mid-month or mid-quarter conventions is subject to the half-year convention.¹⁵³ As such, depreciation is calculated as if the property is placed in service or disposed of at the year's midpoint. Properties subject to the half-year convention when placed in service are treated as having been disposed of mid-year during their last year in service.

The half-year convention creates a small disincentive to acquire depreciable property during the first half of the year, assuming the property belongs to a class requiring the use of the half-year convention. Property acquired in January is effectively not depreciated for 5.5 months. Instead, property acquired late in the year is treated more favorably, as it is effectively depreciated before it was placed in service.

Example 29. On September 29, 2023, the PQR Corporation, a C corporation with a calendar tax year, puts into service new office furniture having a delivered price of \$40,000. It does not elect the §179 expense deduction for this property, and it elects out of bonus depreciation for the applicable property class. Under the half-year convention, PQR is entitled to a depreciation deduction of \$5,716 ($\$40,000 \times 14.29\%$ ¹⁵⁴). This is the same amount of depreciation to which it would have been entitled if it had put the new office furniture into service on January 1, even though the payment is presumably made nine months later.

CHANGES IN BUSINESS USE OF ASSETS

After a taxpayer makes the initial determination of how to depreciate the asset, they may change the business use of the asset. Depending on whether the change is from business use to personal use, from personal use to business use, or from one business use to another, the taxpayer must account for the change on their depreciation schedule.

ASSETS SHIFTING FROM BUSINESS USE TO PERSONAL USE

It is not uncommon for owners of closely held businesses to start using business property for personal purposes. Depending on the depreciation decisions made when the property was initially placed in service, there can be significant adverse consequences when business use drops below 50%. If the taxpayer previously elected §179 for the property **or** if the property is listed property for which bonus depreciation was taken, some of the previous depreciation must be recaptured using Form 4797, *Sales of Business Property*, part IV, as discussed later. If neither situation applies, no depreciation recapture occurs until the taxpayer disposes of the property.¹⁵⁵

At that time, the recapture amount is calculated and reported differently than the recapture amount applicable to changes in use. For example, consider the disposition of §179 property that would have been fully depreciated by the time it is sold. If the amount realized is equal to or less than the original basis of the asset, the entire amount is realized as ordinary income on Form 4797, part II.¹⁵⁶ If the asset is sold for more than its original basis, the amount greater than the basis is §1245 capital gain, which is reported on Form 4797, part I.¹⁵⁷

¹⁵³. IRC §168(d)(1).

¹⁵⁴. IRS Pub. 946, *How to Depreciate Property*, Table A-1.

¹⁵⁵. IRC §§1245(a) and 1250(a)(1).

¹⁵⁶. Treas. Reg. §1.179-1(e)(1).

¹⁵⁷. Treas. Reg. §1.179-1(e)(3).

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IRC §179 Property

As mentioned previously, if the business usage of §179 property drops below 50% at any time before the end of the property's recovery period, the taxpayer must recapture any benefit derived from the §179 deduction.¹⁵⁸ This recapture is calculated on Form 4797, in part IV, in the tax year in which the usage of the property drops below 50%. The recapture amount is then included in "other income" on the same form or schedule on which the taxpayer took the depreciation deduction. The basis of the asset is increased by the recapture amount.¹⁵⁹

If the property is **not listed** property, the recapture amount is calculated using the following two steps.¹⁶⁰

Step 1. Calculate the depreciation that would have been allowable on the §179 expense deduction claimed. The calculation begins with the year the property was placed in service and ends with the year of recapture.

Step 2. Subtract the depreciation calculated in **Step 1** from the §179 expense deduction claimed. The result is the recapture amount.

Example 30. In January 2020, Alec bought and placed in service a copier costing \$5,000. The copier is 5-year property and is used in his accounting practice, a sole proprietorship. Alec elected to expense the entire purchase price under §179. He used the copier solely for business purposes in 2020 and 2021. In 2022, Alec's wife uses the copier in her volunteer activities, which reduces Alec's business use of the copier to 40%. He calculates his recapture amount as follows.

§179 expense deduction claimed in 2020		\$5,000
Allowable depreciation under MACRS for 2020	\$1,000	
Allowable depreciation under MACRS for 2021	1,600	
Allowable depreciation under MACRS for 2022		
(\$960 full MACRS depreciation × 40% business use)	384	
Total allowed depreciation	\$2,984	(2,984)
2022 recapture amount		\$2,016

Alec reports the recapture on part IV of his business's Form 4797, which follows.

32 Subtotal. Subtract line 34 from line 33. Enter the result, or zero, here.
32

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
 (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years.	33	5,000	
34 Recomputed depreciation. See instructions.	34	2,984	
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report.	35	2,016	

Form **4797** (2022)

Alec reports the \$2,016 recapture as ordinary income on his 2022 **Schedule C**. His **basis** in the copier is **increased** by the \$2,016 recapture.

¹⁵⁸. IRC §179(d)(10).

¹⁵⁹. Treas. Reg. §1.179-1(e); Instructions for Form 4797.

¹⁶⁰. IRS Pub. 946, *How to Depreciate Property*.

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Listed Property¹⁶¹

Like §179 property, depreciation on listed property must be recaptured when its business use falls to 50% or less. The recapture amount on listed property is the excess, if any, of the following two amounts.

1. The depreciation allowable for the property, including any §179 expense deduction and bonus depreciation deduction claimed for the years prior to the year the business usage of the property fell to less than 50%; **less**
2. The depreciation that would have been allowable for those years if the property had not been used predominantly for qualified business purposes in the year it was placed in service. This amount is determined by calculating the depreciation using the straight-line method and the **ADS recovery period**.

Example 31. In June 2018, Brandon Wax, owner of Candlestick Makers, purchased and placed in service a new SUV that cost \$28,000. During the 2018–2021 tax years, he used it **exclusively** for qualified business purposes.

In 2018, Brandon claimed a \$10,000 §179 deduction on the SUV and \$8,000 of bonus depreciation. He began depreciating the balance of the purchase price using the 200% declining balance method over a 5-year GDS recovery period. The SUV's GVW is under 6,000 pounds, so it is subject to the annual limits for depreciation of passenger vehicles.¹⁶² The depreciation limit for trucks and vans placed in service during 2018 was \$18,000.¹⁶³

During 2022, Brandon's business use of the vehicle drops to 50%. He must calculate the excess depreciation and include it in his 2022 gross income. The excess depreciation is calculated as follows.

Depreciation claimed:		
§179 expense	\$10,000	
Bonus depreciation	8,000	
MACRS depreciation:		
2018 $(\$28,000 - \$10,000 - \$8,000) \times 20.00\%$	2,000	
2019 $(\$28,000 - \$10,000 - \$8,000) \times 32.00\%$	3,200	
2020 $(\$28,000 - \$10,000 - \$8,000) \times 19.20\%$	1,920	
2021 $(\$28,000 - \$10,000 - \$8,000) \times 11.52\%$	1,152	
Total depreciation claimed 2018–2021	\$26,272	\$26,272
Depreciation allowed (straight-line method and ADS recovery life of five years):		
2018 $(10\% \times \$28,000)$	\$ 2,800	
2019 $(20\% \times \$28,000)$	5,600	
2020 $(20\% \times \$28,000)$	5,600	
2021 $(20\% \times \$28,000)$	5,600	
Total depreciation allowable 2018–2021	\$19,600	(19,600)
Excess depreciation		\$ 6,672

This \$6,672 is shown in part IV of Form 4797 and carried to Brandon's 2022 Schedule C. It is subject to both **ordinary income tax** and **SE tax**.

32 Subtract line 31 from line 30, or this amount if less than zero. Enter the result on Form 4797, line 32.		32
Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (see instructions)		
	(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years.	33	26,272
34 Recomputed depreciation. See instructions.	34	19,600
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report.	35	6,672

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¹⁶¹. IRC §280F(b)(2)(B).

¹⁶². Rev. Proc. 2018-25, 2018-18 IRB 543. See Table 2.

¹⁶³. Ibid.

Note. Excess depreciation that is recaptured under these rules is added back to the basis of the property. However, for property depreciated using the straight-line method and ADS property life, the amount of depreciation allowable in the year that business use drops to 50% or less is not changed by this adjustment. In **Example 29**, the 2022 depreciation is still 20% of \$28,000 (\$5,600) before it is allocated to business and nonbusiness use.



Practitioner Planning Tip

When business use of listed property or §179 property drops to 50% or less during the recovery period, the taxpayer may have reportable income that was not caused by disposing of the property. It is important to verify the taxpayer's business use of the property each year during its depreciable life.

Real Estate

Generally, if the qualified use of real estate drops below 50%, there are no tax consequences until the year the asset is sold.¹⁶⁴ Taxpayers who sell their home may be taxed on a portion of any gain realized depending on the timing and amount of the sale.¹⁶⁵ However, it is still necessary to determine the adjusted basis at the time the use changes.

Example 32. Stanley and Anne purchased a rental home in Arizona in 1995 for \$65,000 with the intention of leasing it to unrelated persons until they were ready to retire. After purchasing the home, they made improvements totaling \$75,000 to the home through the end of 2022.

Stanley and Anne had no personal use of the home until 2023, after they retired. They move into the rental home in April after the seasonal lease expired. Their adjusted basis in the real estate when it was taken out of service is equal to \$140,000 (\$65,000 + \$75,000) less the total of all the depreciation allowed or allowable for the property while it was in service. Their accumulated depreciation on the property is \$90,000, comprised of straight-line depreciation of the original structure and improvements since 1995.

Their adjusted basis at the time of the conversion to personal use is \$50,000 (\$140,000 – \$90,000). They are not required to recapture any of the depreciation in the year of the change in use.

In certain circumstances, converting commercial rentals to personal use may trigger **§179 recapture** if the commercial property includes assets for which the taxpayer claimed the §179 expense deduction.¹⁶⁶ Types of improvements to **nonresidential** properties that may qualify for the §179 deduction include QIP, roofs, HVAC property, and safety and security systems.¹⁶⁷ Such real estate improvements first became eligible for §179 after December 31, 2017.

¹⁶⁴ Treas. Reg. §1.168(i)-4(c).

¹⁶⁵ IRC §121; See also IRS Pub. 523, *Selling Your Home*.

¹⁶⁶ IRC §179(d)(10).

¹⁶⁷ IRC §179(e).

Caution. Although the §179 deduction was not available for most real estate investments until after 2017, the relevant provisions have been altered several times.¹⁶⁸ QIP¹⁶⁹ has undergone many transformations, and practitioners must be on alert for numerous phrases and acronyms that have been used to identify qualified improvements on depreciation schedules. Examples include qualified leasehold property,¹⁷⁰ qualified restaurant property,¹⁷¹ and qualified retail improvement property.¹⁷²

ASSETS SHIFTING FROM PERSONAL USE TO BUSINESS USE

If a taxpayer acquires property for personal use and converts it to business or income-producing use, they must apply the appropriate depreciation rules in effect on the date of the change, which is considered the placed-in-service date. This date determines the method, recovery period, convention, and applicability of bonus depreciation for the property.¹⁷³

The depreciable basis of the property is the lesser of its FMV or its adjusted depreciable basis¹⁷⁴ at the time of the change to business or income-producing use.¹⁷⁵

Example 33. Alethia bought her principal residence in Illinois in 1995.¹⁷⁶ In 2023, she retires to a warmer part of the country, but she does not want to sell the home because of her personal attachment to it.

In February, she engages a real estate agent to rent it, and the first tenant, an unrelated party, moves in late in the month. Alethia's tax practitioner advises her that she can begin depreciation of the home in mid-February, but she needs more information to determine the appropriate basis to use. After some research, they determine the following.

Alethia's original basis was the \$159,000 she paid for the land and the house. Over the years, she added various improvements that probably cost at least \$131,000. Thus, her **cost basis is \$290,000** (\$159,000 original cost + \$131,000 improvements) when she starts using it as rental property.

A real estate agent estimates that the homestead is currently worth **\$371,000**. To determine the lesser of the FMV or adjusted basis for depreciation purposes, these values must be separated between depreciable property and nondepreciable land. They make the following allocations after appropriate consultations.

	Total	Land	Depreciable
Cost basis	\$290,000	\$ 47,000	\$243,000
FMV	371,000	118,000	253,000

Alethia's depreciable basis is \$243,000 for the house and improvements (the lesser of cost or FMV.)

¹⁶⁸. First added as IRC §179(f) by *Tax Cuts and Jobs Act*, PL 115-97, amended to (e) by *Tax Technical Corrections Act of 2018*, PL 115-141, Div. U.

¹⁶⁹. IRC §168(e)(6).

¹⁷⁰. IRC §§168(b)(3)(G) and (e)(6) before being struck out by *Tax Cuts and Jobs Act*, PL 115-97, §13204(a)(2).

¹⁷¹. IRC §§168(b)(3)(H) and (e)(7) before being struck out by *Tax Cuts and Jobs Act*, PL 115-97, §13204(a)(2).

¹⁷². IRC §§168(b)(3)(I) and (e)(8) before being struck out by *Tax Cuts and Jobs Act*, PL 115-97, §13204(a)(2).

¹⁷³. Treas. Reg. §1.168(i)-4(b).

¹⁷⁴. Treas. Reg. §1.168(b)-1 (a)(4).

¹⁷⁵. Treas. Reg. §1.168(i)-4(b)(1).

¹⁷⁶. Based on Treas. Reg. §1.168(i)-4(b)(2).

ASSETS SHIFTING FROM ONE BUSINESS USE TO ANOTHER¹⁷⁷

Business and income-producing property may also change in use without being converted to personal use property. Examples include converting property from business use to farm use or from residential rental to commercial rental. The change is typically deemed to occur on the first day of the tax year.

The depreciation options available for such an asset vary depending on if the new **use** qualifies for a faster or slower recovery period than the old use. Taxpayers are not required to change the depreciation method for a property that now qualifies for faster recovery.¹⁷⁸

Shifting to a Slower Depreciation Rate¹⁷⁹

If the new use is slower than the old use, depreciation must be calculated using a specific formula provided in the regulations.¹⁸⁰ In this case, the depreciation is applied as though it had originally been placed in service at the slower depreciation rate. Starting with January 1 of the year of change, the asset should be depreciated using the original adjusted basis **on that date**. The lesser depreciation amount in the year of change is applied to the asset's remaining basis. If a change in the asset's use takes place, the convention used for depreciation does not change.

If a change in business use causes an asset's basis to be recovered over a shorter period, the taxpayer may elect to disregard the change in use.¹⁸¹ This election can be revoked, but this requires a change in accounting method, as discussed later.¹⁸²

Caution. Depreciation elections, such as bonus depreciation, that are made for the tax year in which the property changes use may apply to the converted property as well as newly purchased property.¹⁸³

7

CORRECTING ERRORS IN PRIOR YEAR DEPRECIATION

Given the complexities surrounding depreciation, it is not unusual to discover errors after tax returns have been filed. There are two methods for correcting depreciation errors.¹⁸⁴

1. Filing an amended return for the year of the mistake
2. Filing Form 3115, *Application for Change in Accounting Method*, with the current year return

Not all depreciation errors can be corrected by filing an amended return. If the option to amend is not available, taxpayers must file Form 3115 to correct the calculations.

FILING AN AMENDED RETURN

A taxpayer can file an amended return to correct depreciation when the correction affects **only** the return being amended, such as when correcting **mathematical and posting errors**.¹⁸⁵

¹⁷⁷. Treas. Reg. §1.168(i)-4(d).

¹⁷⁸. Treas. Reg. §1.168(i)-4(d)(3)(ii).

¹⁷⁹. Treas. Reg. §1.168(i)-4(d)(4).

¹⁸⁰. Treas. Regs. §§1.168(i)-4(d)(3)(ii) and (4).

¹⁸¹. Treas. Reg. §1.168(i)-4(d)(3)(ii).

¹⁸². Treas. Reg. §1.168(i)-4(d)(g)(3)(i).

¹⁸³. IRC §168(b)(5).

¹⁸⁴. Rev. Proc. 2015-13, 2015-05 IRB 419.

¹⁸⁵. Ibid.

A taxpayer may change permissible methods of depreciation on an amended return if the amended return is filed before the original return is filed for the following tax year.¹⁸⁶

Example 34. Jeremy elected to use straight-line depreciation for the 7-year property he placed in service in 2022 when he filed his 2022 return instead of the 200% declining balance method. He regrets that choice when working on his 2023 return. Because he has not filed his 2023 return yet, he may amend his 2022 return to change depreciation methods. Alternately, he may elect to file Form 3115 and claim the difference on his 2023 return.

Impermissible methods, such as failing to calculate depreciation, must be corrected by filing an amended return if the depreciation for that asset affects **only one** previous return.¹⁸⁷ If the impermissible method affects more than one previous return, the taxpayer must use Form 3115 to change to a permissible method.¹⁸⁸

Example 35. Use the same facts as **Example 34**, except Jeremy omitted the asset from the 2022 return. Because he discovers the error before the lack of depreciation of the asset affects his 2023 return, he must amend the 2022 tax return. If Jeremy had discovered the error after his 2023 return was filed, the omission would be treated as affecting two returns, and his only option would have been to file Form 3115 with the next return he files.

FILING A CHANGE IN ACCOUNTING METHOD¹⁸⁹

If a taxpayer does not qualify to correct their depreciation by filing an amended return, the IRS has provided taxpayers with an alternative method for correcting depreciation. Despite the general rule that mistakes cannot be corrected after the statute of limitations expires, missed depreciation can be corrected after the asset should have been fully depreciated. Filing Form 3115 to claim previously unclaimed depreciation allows the taxpayer to deduct in the current year the entire amount of depreciation not previously deducted.

Form 3115 is designed to cover hundreds of different situations that result in a change in accounting methods. Tax practitioners using the form should pay careful attention to the detailed instructions provided by the IRS and should review the revenue procedures applicable to the requested change.

Correcting depreciation is generally covered under the **automatic change procedures**, which do not require the taxpayer to obtain IRS consent before making the change.¹⁹⁰ Under the automatic change procedures, no application fee is required. The 2022 version of Form 3115 appears with the next example.

Note. For more information about changes in accounting methods, see IRM 4.11.6.2. Additionally, Form 3115 is covered in detail in the 2023 *University of Illinois Federal Tax Workbook*, Chapter 2: Capitalization vs. Repair Review.

A taxpayer who did not claim any of the allowable depreciation for certain assets on prior years' returns and is claiming the missed depreciation on the current year's return is changing from an **impermissible** method to a **permissible** method.¹⁹¹ The total amount of missed depreciation includes the depreciation that should have been taken in both open and closed years. This total is reported as an "other expense" on the appropriate schedule of the taxpayer's return for the year of the change.

¹⁸⁶. Rev. Proc. 2022-14, 2022-07 IRB 502, §6.01(1)(b).

¹⁸⁷. Treas. Reg. §1.446-1(e)(2)(ii)(a).

¹⁸⁸. Rev. Proc. 2015-13, 2015-05 IRB 419.

¹⁸⁹. Ibid.

¹⁹⁰. Ibid; Rev. Proc. 2022-14, 2022-07 IRB 502.

¹⁹¹. Rev. Proc. 2022-14, 2022-07 IRB 502, §6.01; Instructions for Form 3115.

Small Business Taxpayers¹⁹²

Some small taxpayers qualify for a reduced filing requirement for Form 3115. A **qualified small taxpayer** is a taxpayer whose average annual gross receipts, as determined under Treas. Reg. §1.263(a)-3(h)(3), for the three preceding taxable years is less than or equal to \$10 million. These small taxpayers must file only one of the following designated automatic accounting method change numbers (DCNs).¹⁹³

DCN	Change
7	Depreciation or amortization (impermissible to permissible)
8	Depreciation (permissible to permissible)
21	Removal costs (IRC §263)
88	Change in method of accounting for depreciation due to a change in use
89	Depreciation of qualified non-personal-use vans and light trucks
107	Impermissible to permissible method of accounting for depreciation or amortization for disposed property
121	Repairable and reuseable spare parts (§263(a))
145	Tenant construction allowances
157	Classification of wireless telecommunications assets used by carriers
184–193	These DCNs generally deal with capitalization and repair accounting
198	Partial dispositions of tangible depreciable assets
199	Depreciation of leasehold improvements
200	Depreciation of §168 MACRS property (permissible to permissible)
205	Dispositions of a building or structural component
206	Dispositions of tangible depreciable assets in a general asset accounting
207	Dispositions of tangible depreciable assets in a general asset account (§168)
222	Remodel-refresh safe harbor method (§263)

Qualifying small taxpayers complete only the following information on Form 3115.¹⁹⁴

- The identification section of page 1 (above part I)
- The signature section appearing on the first page
- Part I
- Part II, all lines except 13, 15, 17, and 19
- Part IV, all lines except line 25
- Schedule E, *Changes in Depreciation or Amortization*

Applicants requesting approval to change their method of accounting for depreciation or amortization must complete Schedule E of Form 3115. Per line 4a, the applicant must attach a statement to Form 3115 with the following information.¹⁹⁵

- Description of the property subject to the change, which includes a description, type, placed-in-service year, and use in the applicant's trade or business or income-producing activity
- Type and amount of any federal tax credit claimed or grant received
- Any necessary adjustments to basis required per the Code

¹⁹² Rev. Proc. 2022-14, 2022-07 IRB 502, §6.07(4).

¹⁹³ Instructions for Form 3115.

¹⁹⁴ Rev. Proc. 2022-14, 2022-07 IRB 502, §6.07(4); Instructions for Form 3115.

¹⁹⁵ See Form 3115.

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Example 36. Toni is excited when she hears that Jack and Jill Hill made an appointment for help in preparing their 2023 income tax returns. When she first meets with them, she is surprised to learn that they have never taken a depreciation deduction for any of their five rental properties. The Hills purchased these rental properties between 2010 and 2022.

After attending a tax seminar, Toni learns that she could prepare Form 3115 to claim all the depreciation deductions the Hills had missed when they were preparing their own returns and the total of all the missed depreciation can be deducted on the Hill's 2023 Form 1040, Schedule E, *Supplemental Income and Loss*.

Toni calculates that the total prior years' depreciation was \$63,091. She completes Form 3115 to document the adjustment and notify the IRS about the change. The missed depreciation for each property is deducted as other expenses on Schedule E, and the description "Form 3115 §481(a) adjustment" is entered on the description line.

The following pages show the Hill's 2023 Form 3115 and associated attachment, completed to take advantage of reduced filing requirements.

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For Example 36

Form 3115 (Rev. December 2022) Department of the Treasury Internal Revenue Service	Application for Change in Accounting Method Go to www.irs.gov/Form3115 for instructions and the latest information.	OMB No. 1545-2070 Attachment Sequence No. 315				
Name of filer (name of parent corporation if a consolidated group) (see instructions) Jack and Jill Hill		Identification number (see instructions) ***-**-3115 ***-**-4887				
		Principal business activity code number (see instructions) 531120				
Number, street, and room or suite no. If a P.O. box, see the instructions. 6900 Maple St		Tax year of change begins (MM/DD/YYYY) 01/01/2023 Tax year of change ends (MM/DD/YYYY) 12/31/2023				
City or town, state, and ZIP code Urbana, IL 61801		Name of contact person (see instructions) Toni Smith				
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)		Contact person's telephone number 217-555-2443				
Does the filer want to receive a copy of the change in method of accounting letter ruling or other correspondence related to this Form 3115 by fax or encrypted email attachment? If "Yes," see instructions ☐ Yes ☒ No						
If the applicant is a member of a consolidated group, check this box ☐						
If Form 2848 , Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box ☒						
Check the box to indicate the type of applicant.						
☒ Individual ☐ Cooperative (Sec. 1381) ☐ Corporation ☐ Partnership ☐ Controlled foreign corporation (Sec. 957) ☐ S corporation ☐ 10/50 corporation (Sec. 904(d)(2)(E)) ☐ Insurance co. (Sec. 816(a)) ☐ Qualified personal service corporation (Sec. 448(d)(2)) ☐ Insurance co. (Sec. 831) ☐ Exempt organization. Enter Code section: _____ ☐ Other (specify): _____						
Check the appropriate box to indicate the type of accounting method change being requested. See instructions. ☒ Depreciation or Amortization ☐ Financial Products and/or Financial Activities of Financial Institutions ☐ Other (specify): _____						
Caution: To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115. The taxpayer must attach all applicable statements requested throughout this form.						
Part I Information for Automatic Change Request						
1 Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions.		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td></td> </tr> </table>	Yes	No		
Yes	No					
a (1) DCN: 7 (2) DCN: _____ (3) DCN: _____ (4) DCN: _____ (5) DCN: _____ (6) DCN: _____ (7) DCN: _____ (8) DCN: _____ (9) DCN: _____ (10) DCN: _____ (11) DCN: _____ (12) DCN: _____ b Other ☐ Description: _____		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td></td> </tr> </table>	Yes	No		
Yes	No					
2 Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td style="text-align: center;">x</td> </tr> </table>	Yes	No		x
Yes	No					
	x					
3 Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions Note: Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td></td> </tr> </table>	Yes	No		
Yes	No					
Part II Information for All Requests						
4 During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td style="text-align: center;">x</td> </tr> </table>	Yes	No		x
Yes	No					
	x					
5 Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)? If "No," go to line 6a. If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.		<table border="1" style="width: 100%;"> <tr> <th style="width: 50%;">Yes</th> <th style="width: 50%;">No</th> </tr> <tr> <td></td> <td style="text-align: center;">x</td> </tr> </table>	Yes	No		x
Yes	No					
	x					
Sign Here	Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge. Signature of filer (and spouse, if joint return) _____ Date _____ Name and title (print or type) Jack and Jill Hill, Taxpayers					
Preparer (other than filer/applicant)	Print/Type preparer's name Toni Smith Preparer's signature _____ Date _____ Firm's name Smith Tax Service					

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Part II Information for All Requests (continued)

	Yes	No
6a Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		x
b Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions		
c Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name _____ Telephone number _____ Tax year(s) _____		
d Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?		
7a Does audit protection apply to the applicant's requested change in method of accounting? See instructions . . . If "No," attach an explanation.		x
b If "Yes," check the applicable box and attach the required statement. ☐ Not under exam ☐ 3-month window ☐ 120 day: Date examination ended _____ ☐ Method not before director ☐ Negative adjustment ☐ CAP: Date member joined group _____ ☐ Audit protection at end of exam ☐ Other _____		
8a Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		x
b Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions If "Yes," attach an explanation.		
c If "Yes," enter the name of the (check the box) ☐ Appeals officer and/or ☐ counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name _____ Telephone number _____ Tax year(s) _____		
d Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?		
9 If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.		
10 If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?		x
11a Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the 5 tax years ending with the tax year of change? If "No," go to line 12.		x
b If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.		
c If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.		
12 Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? . . . If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s).		x
13 Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of the form.		

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Part II Information for All Requests <i>(continued)</i>				Yes	No
14	If the applicant is either (i) not changing its overall method of accounting, or (ii) changing its overall method of accounting and changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions):				
a	The item(s) being changed.				
b	The applicant's present method for the item(s) being changed.				
c	The applicant's proposed method for the item(s) being changed.				
d	The applicant's present overall method of accounting (cash, accrual, or hybrid).				
15a	Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d).				
b	If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application.				
	Note: If you are requesting an automatic method change, see the instructions to see if you are required to complete lines 16a-16c.				
16a	Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method.				
b	Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method.				
c	Include either a discussion of the contrary authorities or a statement that no contrary authority exists.				
17	Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions				
	If "No," attach an explanation.				
18	Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response?				x
19a	If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 471 or 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.				
	1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.		
	\$	\$	\$		
b	If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change: 4th preceding year ended: mo. yr. \$				
Part III Information for Non-Automatic Change Request				Yes	No
20	Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request?				
	If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.				
21	Attach a copy of all documents related to the proposed change (see instructions).				
22	Attach a statement of the applicant's reasons for the proposed change.				
23	If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed?				
	If "No," attach an explanation.				
24a	Enter the amount of user fee attached to this application (see instructions) \$				
b	If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).				

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Part IV Section 481(a) Adjustment

- | | Yes | No |
|---|-----|----|
| 25 Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis?
If "Yes," attach an explanation and do not complete lines 26, 27, 28, and 29 below. | | |
| 26 Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. \$ <u>(63,091)</u> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If the applicant waived any deductions with respect to the method of accounting pursuant to Regulations section 1.59A-3(c)(6)(i), include a summary of the waived deductions. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant. | | |
| 27 Is the applicant required to take into account in the year of change any remaining portion of a section 481(a) adjustment from a prior change (see instructions)? If "Yes," enter the amount. \$ | | |
| 28 Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions).
☐ \$50,000 de minimis election ☐ Eligible acquisition transaction election | | |
| 29 Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties?
If "Yes," attach an explanation. | | |

Part V Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.)

11 Other costs

Schedule E—Change in Depreciation or Amortization (see instructions)

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants **must** provide this information for each item or class of property for which a change is requested.

Note: See the **Summary of the List of Automatic Accounting Method Changes** in the instructions for information regarding automatic changes under sections 56, 167, 168, or 197, or former sections 168, 1400L, or 1400L. **Do not** file Form 3115 with respect to certain late elections and election revocations. See instructions.

- 1** Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)? ☐ Yes ☒ No
If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).
- 2** Is any of the depreciation or amortization required to be capitalized under any Code section, such as section 263A? ☐ Yes ☒ No
If "Yes," enter the applicable section
- 3** Has a depreciation, amortization, expense, or disposition election been made for the property, such as the election under sections 168(f)(1), 168(i)(4), 179, 179C, or Regulations section 1.168(i)-8(d)? ☐ Yes ☒ No
If "Yes," state the election made
- 4a** Attach a statement describing the property subject to the change. Include the property's description, type, placed-in-service year, and use in the applicant's trade or business or income-producing activity. Also include the type and amount of any federal tax credit claimed or grant received, along with any necessary adjustments to basis required under the Internal Revenue Code, with respect to the property.
- b** If the property is residential rental property, did the applicant live in the property before renting it? . . . ☐ Yes ☒ No
- c** Is the property public utility property? ☐ Yes ☒ No

5 To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the

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For Example 36

Jack and Jill Hill

SS# ***-**-3115 & ***-**-4887

FORM 3115 ATTACHMENT

This Form 3115 is filed for the following properties:

E1	A	4200 Elm St Urbana, IL 61801
E1	B	4000 Elm St Urbana, IL 61801
E2	A	8000 Beech St Urbana, IL 61801
E2	B	8200 Maple St Urbana, IL 61801

Note: No change is being made for property C (6900 Aspen Point) on Schedule E, Copy 1 because this property was placed in service in 2023.

Part II

- Q14
- Items being changed:** Depreciation of residential real estate used in rental activity
 - Present method:** No depreciation was taken
 - Proposed method:** Calculate depreciation using 27.5-year life starting when properties purchased.
 - Present overall accounting method:** Cash

Part IV

Q26 The correct amount of depreciation for each property is calculated using straight-line, mid-month convention over 27.5 years.

Property E1A: 4200 Elm St Urbana, IL 61801

The cost of the real estate including improvements was \$46,000. The amount of the cost allocated to land is \$7,360 based on the county assessor records.

		Improper Depr.	Per Year	Proper Depr.	IRC §481 Adj.
1	2010	\$0	\$ 293	\$ 293	(\$ 293)
2	2011 through 2022	0	1,405	16,860	(16,860)
					(\$17,153)

Property E1B: 4000 Elm St Urbana, IL 61801

The cost of the real estate including improvements was \$44,500. The amount of the cost allocated to land is \$6,120 based on the county assessor records.

		Improper Depr.	Per Year	Proper Depr.	IRC §481 Adj.
1	2022	\$0	\$291	\$291	(\$291)
					(\$291)

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Property E2A: 8000 Beech St Urbana, IL 61801

The cost of the real estate including improvements was \$65,000. The amount of the cost allocated to land is \$2,922 based on the county assessor records.

		Improper Depr.	Per Year	Proper Depr.	IRC §481 Adj.
1	2011	\$0	\$1,223	\$ 1,223	(\$ 1,223)
2	2012 through 2022	0	2,257	24,829	(24,829)
					(\$26,052)

Property E2B: 8200 Maple St Urbana, IL 61801

The cost of the real estate including improvements was \$80,000. The amount of the cost allocated to land is \$2,556 based on the county assessor records.

		Improper Depr.	Per Year	Proper Depr.	IRC §481 Adj.
1	2015	\$0	\$2,699	\$ 2,699	(\$ 2,699)
2	2016 through 2021	0	2,816	16,896	(16,896)
					(\$19,595)

Schedule E - Change in Depreciation or Amortization

5	See Q14b above	
7a	Code section under which the property is depreciated:	IRC §167
7b	Asset class:	Residential real estate
7c	Facts in support of method:	See above
7d	Depr method:	§168(b)(3)(B)— Straight line
7e	Recovery period:	27.5 years
7f	Convention:	Mid-month convention
7g	First-year special depreciation allowance not claimed for any of the properties because the properties were not eligible.	

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APPENDIX

Table B-1. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:				
00.11	Office Furniture, Fixtures, and Equipment: Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes.	10	7	10
00.12	Information Systems: Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Information systems are defined as: 1) Computers: A computer is a programmable electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention. It usually consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. Excluded from this category are adding machines, electronic desk calculators, etc., and other equipment described in class 00.13. 2) Peripheral equipment consists of the auxiliary machines which are designed to be placed under control of the central processing unit. Nonlimiting examples are: Card readers, card punches, magnetic tape feeds, high speed printers, optical character readers, tape cassettes, mass storage units, paper tape equipment, keypunches, data entry devices, teleprinters, terminals, tape drives, disc drives, disc files, disc packs, visual image projector tubes, card sorters, plotters, and collators. Peripheral equipment may be used online or offline. Does not include equipment that is an integral part of other capital equipment that is included in other classes of economic activity, that is, computers used primarily for process or production control, switching, channeling, and automating distributive trades and services such as point of sale (POS) computer systems. Also, does not include equipment of a kind used primarily for amusement or entertainment of the user.	6	5	5
00.13	Data Handling Equipment, except Computers: Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.	6	5	6
00.21	Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines)	6	5	6
00.22	Automobiles, Taxis	3	5	5
00.23	Buses	9	5	9
00.241	Light General Purpose Trucks: Includes trucks for use over the road (actual weight less than 13,000 pounds)	4	5	5
00.242	Heavy General Purpose Trucks: Includes heavy general purpose trucks, concrete ready mix-trucks, and ore trucks, for use over the road (actual unloaded weight 13,000 pounds or more)	6	5	6
00.25	Railroad Cars and Locomotives, except those owned by railroad transportation companies	15	7	15
00.26	Tractor Units for Use Over-the-Road	4	3	4
00.27	Trailers and Trailer-Mounted Containers	6	5	6
00.28	Vessels, Barges, Tugs, and Similar Water Transportation Equipment, except those used in marine construction	18	10	18
00.3	Land Improvements: Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in class 51), wharves and docks, bridges, fences, landscaping shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations. Excludes public utility initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102.	20	15	20
00.4	Industrial Steam and Electric Generation and/or Distribution Systems: Includes assets, whether such assets are section 1245 property or 1250 property, providing such assets are depreciable, used in the production and/or distribution of electricity with rated total capacity in excess of 500 Kilowatts and/or assets used in the production and/or distribution of steam with rated total capacity in excess of 12,500 pounds per hour for use by the taxpayer in its industrial manufacturing process or plant activity and not ordinarily available for sale to others. Does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. Assets used to generate and/or distribute electricity or steam of the type described above, but of lesser rated capacity, are not included, but are included in the appropriate manufacturing equipment classes elsewhere specified. Also includes electric generating and steam distribution assets, which may utilize steam produced by a waste reduction and resource recovery plant, used by the taxpayer in its industrial manufacturing process or plant activity. Steam and chemical recovery boiler systems used for the recovery and regeneration of chemicals used in manufacturing, with rated capacity in excess of that described above, with specifically related distribution and return systems are not included but are included in appropriate manufacturing equipment classes elsewhere specified. An example of an excluded steam and chemical recovery boiler system is that used in the pulp and paper manufacturing equipment classes elsewhere specified. An example of an excluded steam and chemical recovery boiler system is that used in the pulp and paper manufacturing industry.	22	15	22

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:				
01.1	Agriculture: Includes machinery and equipment, grain bins, and fences but no other land improvements, that are used in the production of crops or plants, vines, and trees; livestock; the operation of farm dairies, nurseries, greenhouses, sod farms, mushroom cellars, cranberry bogs, apiaries, and fur farms; the performance of agriculture, animal husbandry, and horticultural services.	10	7****	10
01.11	Cotton Ginning Assets	12	7	12
01.21	Cattle, Breeding or Dairy	7	5	7
01.221	Any breeding or work horse that is 12 years old or less at the time it is placed in service**	10	7	10
01.222	Any breeding or work horse that is more than 12 years old at the time it is placed in service**	10	3	10
01.223	Any race horse that is more than 2 years old at the time it is placed in service**	*	3	12
01.224	Any horse that is more than 12 years old at the time it is placed in service and that is neither a race horse nor a horse described in class 01.222**	*	3	12
01.225	Any horse not described in class 01.221, 01.222, 01.223, or 01.224	*	7	12
01.23	Hogs, Breeding	3	3	3
01.24	Sheep and Goats, Breeding	5	5	5
01.3	Farm buildings except structures included in class 01.4	25	20	25
01.4	Single purpose agricultural or horticultural structures (within the meaning of section 168(i)(13) of the Code)	15	10***	15
10.0	Mining: Includes assets used in the mining and quarrying of metallic and nonmetallic minerals (including sand, gravel, stone, and clay) and the milling, beneficiation, and other primary preparation of such materials.	10	7	10
13.0	Offshore Drilling: Includes assets used in offshore drilling for oil and gas such as floating, self-propelled and other drilling vessels, barges, platforms, and drilling equipment and support vessels such as tenders, barges, towboats, and crewboats. Excludes oil and gas production assets.	7.5	5	7.5
13.1	Drilling of Oil and Gas Wells: Includes assets used in the drilling of onshore oil and gas wells and the provision of geophysical and other exploration services; and the provision of such oil and gas field services as chemical treatment, plugging and abandoning of wells, and cementing or perforating well casings. Does not include assets used in the performance of any of these activities and services by integrated petroleum and natural gas producers for their own account.	6	5	6
13.2	Exploration for and Production of Petroleum and Natural Gas Deposits: Includes assets used by petroleum and natural gas producers for drilling of wells and production of petroleum and natural gas, including gathering pipelines and related storage facilities. Also includes petroleum and natural gas offshore transportation facilities used by producers and others consisting of platforms (other than drilling platforms classified in class 13.0), compression or pumping equipment, and gathering and transmission lines to the first onshore transshipment facility. The assets used in the first onshore transshipment facility are also included and consist of separation equipment (used for separation of natural gas, liquids, and in class 49.23), and liquid holding or storage facilities (other than those classified in class 49.25). Does not include support vessels.	14	7	14
13.3	Petroleum Refining: Includes assets used for the distillation, fractionation, and catalytic cracking of crude petroleum into gasoline and its other components.	16	10	16
15.0	Construction: Includes assets used in construction by general building, special trade, heavy, and marine construction contractors; operative and investment builders; real estate subdividers and developers; and others except railroads.	6	5	6
20.1	Manufacture of Grain and Grain Mill Products: Includes assets used in the production of flours, cereals, livestock feeds, and other grain and grain mill products.	17	10	17
20.2	Manufacture of Sugar and Sugar Products: Includes assets used in the production of raw sugar, syrup, or finished sugar from sugar cane or sugar beets.	18	10	18
20.3	Manufacture of Vegetable Oils and Vegetable Oil Products: Includes assets used in the production of oil from vegetable materials and the manufacture of related vegetable oil products.	18	10	18
20.4	Manufacture of Other Food and Kindred Products: Includes assets used in the production of foods and beverages not included in classes 20.1, 20.2, and 20.3.	12	7	12
20.5	Manufacture of Food and Beverages—Special Handling Devices: Includes assets defined as specialized materials handling devices such as returnable pallets, palletized containers, and fish processing equipment including boxes, baskets, carts, and flaking trays used in activities as defined in classes 20.1, 20.2, 20.3, and 20.4. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	4	3	4

* Property described in asset classes 01.223, 01.224, and 01.225 are assigned recovery periods but have no class lives.

** A horse is more than 2 (or 12) years old after the day that is 24 (or 144) months after its actual birthdate.

*** 7 if property was placed in service before 1989.

**** 5 if machinery and equipment used in a farming business (other than any grain bin, cotton ginning asset, fence, or other land improvement) placed in service after 2017, in tax years ending after 2017.

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
21.0	Manufacture of Tobacco and Tobacco Products: Includes assets used in the production of cigarettes, cigars, smoking and chewing tobacco, snuff, and other tobacco products.	15	7	15
22.1	Manufacture of Knitted Goods: Includes assets used in the production of knitted and netted fabrics and lace. Assets used in yarn preparation, bleaching, dyeing, printing, and other similar finishing processes, texturing, and packaging are elsewhere classified.	7.5	5	7.5
22.2	Manufacture of Yarn, Thread, and Woven Fabric: Includes assets used in the production of spun yarns including the preparing, blending, spinning, and twisting of fibers into yarns and threads, the preparation of yarns such as twisting, warping, and winding, the production of covered elastic yarn and thread, cordage, woven fabric, tire fabric, braided fabric, twisted jute for packaging, mattresses, pads, sheets, and industrial belts, and the processing of textile mill waste to recover fibers, flocks, and shoddies. Assets used to manufacture carpets, man-made fibers, and nonwovens, and assets used in texturing, bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	11	7	11
22.3	Manufacture of Carpets and Dyeing, Finishing, and Packaging of Textile Products and Manufacture of Medical and Dental Supplies: Includes assets used in the production of carpets, rugs, mats, woven carpet backing, chenille, and other tufted products, and assets used in the joining together of backing with carpet yarn or fabric. Includes assets used in washing, scouring, bleaching, dyeing, printing, drying, and similar finishing processes applied to textile fabrics, yarns, threads, and other textile goods. Includes assets used in the production and packaging of textile products, other than apparel, by creasing, forming, trimming, cutting, and sewing, such as the preparation of carpet and fabric samples, or similar joining together processes (other than the production of scrim reinforced paper products and laminated paper products) such as the sewing and folding of hosiery and panty hose, and the creasing, folding, trimming, and cutting of fabrics to produce nonwoven products, such as disposable diapers and sanitary products. Also includes assets used in the production of medical and dental supplies other than drugs and medicines. Assets used in the manufacture of nonwoven carpet backing, and hard surface floor covering such as tile, rubber, and cork, are elsewhere classified.	9	5	9
22.4	Manufacture of Textile Yarns: Includes assets used in the processing of yarns to impart bulk and/or stretch properties to the yarn. The principal machines involved are fasetwist, draw, beam-to-beam, and stuffer box texturing equipment and related highspeed twisters and winders. Assets, as described above, which are used to further process man-made fibers are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes are elsewhere classified.	8	5	8
22.5	Manufacture of Nonwoven Fabrics: Includes assets used in the production of nonwoven fabrics, felt goods including felt hats, padding, batting, wadding, oakum, and fillings, from new materials and from textile mill waste. Nonwoven fabrics are defined as fabrics (other than reinforced and laminated composites consisting of nonwovens and other products) manufactured by bonding natural and/or synthetic fibers and/or filaments by means of induced mechanical interlocking, fluid entanglement, chemical adhesion, thermal or solvent reaction, or by combination thereof other than natural hydration bonding as occurs with natural cellulose fibers. Such means include resin bonding, web bonding, and melt bonding. Specifically includes assets used to make flocked and needle punched products other than carpets and rugs. Assets, as described above, which are used to manufacture nonwovens are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes are elsewhere classified.	10	7	10
23.0	Manufacture of Apparel and Other Finished Products: Includes assets used in the production of clothing and fabricated textile products by the cutting and sewing of woven fabrics, other textile products, and furs; but does not include assets used in the manufacture of apparel from rubber and leather.	9	5	9
24.1	Cutting of Timber: Includes logging machinery and equipment and roadbuilding equipment used by logging and sawmill operators and pulp manufacturers for their own account.	6	5	6
24.2	Sawing of Dimensional Stock From Logs: Includes machinery and equipment installed in permanent or well-established sawmills.	10	7	10
24.3	Sawing of Dimensional Stock From Logs: Includes machinery and equipment in sawmills characterized by temporary foundations and a lack, or minimum amount, of lumberhandling, drying, and residue disposal equipment and facilities.	6	5	6
24.4	Manufacture of Wood Products, and Furniture: Includes assets used in the production of plywood, hardboard, flooring, veneers, furniture, and other wood products, including the treatment of poles and timber.	10	7	10
26.1	Manufacture of Pulp and Paper: Includes assets for pulp materials handling and storage, pulp mill processing, bleach processing, paper and paperboard manufacturing, and on-line finishing. Includes pollution control assets and all land improvements associated with the factory site or production process such as effluent ponds and canals, provided such improvements are depreciable but does not include buildings and structural components as defined in section 1.48-1(e)(1) of the regulations. Includes steam and chemical recovery boiler systems, with any rated capacity, used for the recovery and regeneration of chemicals used in manufacturing. Does not include assets used either in pulpwood logging, or in the manufacture of hardboard.	13	7	13

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
26.2	Manufacture of Converted Paper, Paperboard, and Pulp Products: Includes assets used for modification, or remanufacture of paper and pulp into converted products, such as paper coated off the paper machine, paper bags, paper boxes, cartons, and envelopes. Does not include assets used for manufacture of nonwovens that are elsewhere classified.	10	7	10
27.0	Printing, Publishing, and Allied Industries: Includes assets used in printing by one or more processes, such as letter-press, lithography, gravure, or screen; the performance of services for the printing trade, such as bookbinding, typesetting, engraving, photo-engraving, and electrotyping; and the publication of newspapers, books, and periodicals.	11	7	11
28.0	Manufacture of Chemicals and Allied Products: Includes assets used to manufacture basic organic and inorganic chemicals; chemical products to be used in further manufacture, such as synthetic fibers and plastics materials; and finished chemical products. Includes assets used to further process man-made fibers, to manufacture plastic film, and to manufacture nonwoven fabrics, when such assets are located in the same plant in an integrated operation with chemical products producing assets. Also includes assets used to manufacture photographic supplies, such as film, photographic paper, sensitized photographic paper, and developing chemicals. Includes all land improvements associated with plant site or production processes, such as effluent ponds and canals, provided such land improvements are depreciable but does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. Does not include assets used in the manufacture of finished rubber and plastic products or in the production of natural gas products, butane, propane, and by-products of natural gas production plants.	9.5	5	9.5
30.1	Manufacture of Rubber Products: Includes assets used for the production of products from natural, synthetic, or reclaimed rubber, gutta percha, balata, or gutta siak, such as tires, tubes, rubber footwear, mechanical rubber goods, heels and soles, flooring, and rubber sundries; and in the recapping, retreading, and rebuilding of tires.	14	7	14
30.11	Manufacture of Rubber Products—Special Tools and Devices: Includes assets defined as special tools, such as jigs, dies, mandrels, molds, lasts, patterns, specialty containers, pallets, shells; and tire molds, and accessory parts such as rings and insert plates used in activities as defined in class 30.1. Does not include tire building drums and accessory parts and general purpose small tools such as wrenches and drills, both power and hand-driven, and other general purpose equipment such as conveyors and transfer equipment.	4	3	4
30.2	Manufacture of Finished Plastic Products: Includes assets used in the manufacture of plastics products and the molding of primary plastics for the trade. Does not include assets used in the manufacture of basic plastics materials nor the manufacture of phonograph records.	11	7	11
30.21	Manufacture of Finished Plastic Products—Special Tools: Includes assets defined as special tools, such as jigs, dies, fixtures, molds, patterns, gauges, and specialty transfer and shipping devices, used in activities as defined in class 30.2. Special tools are specifically designed for the production or processing of particular parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3.5	3	3.5
31.0	Manufacture of Leather and Leather Products: Includes assets used in the tanning, currying, and finishing of hides and skins; the processing of fur pelts; and the manufacture of finished leather products, such as footwear, belting, apparel, and luggage.	11	7	11
32.1	Manufacture of Glass Products: Includes assets used in the production of flat, blown, or pressed products of glass, such as float and window glass, glass containers, glassware, and fiberglass. Does not include assets used in the manufacture of lenses.	14	7	14
32.11	Manufacture of Glass Products—Special Tools: Includes assets defined as special tools such as molds, patterns, pallets, and specialty transfer and shipping devices such as steel racks to transport automotive glass, used in activities as defined in class 32.1. Special tools are specifically designed for the production or processing of particular parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	2.5	3	2.5
32.2	Manufacture of Cement: Includes assets used in the production of cement, but does not include assets used in the manufacture of concrete and concrete products nor in any mining or extraction process.	20	15	20
32.3	Manufacture of Other Stone and Clay Products: Includes assets used in the manufacture of products from materials in the form of clay and stone, such as brick, tile, and pipe; pottery and related products, such as vitreous-china, plumbing fixtures, earthenware, and ceramic insulating materials; and also includes assets used in manufacture of concrete and concrete products. Does not include assets used in any mining or extraction processes.	15	7	15

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
33.2	Manufacture of Primary Nonferrous Metals: Includes assets used in the smelting, refining, and electrolysis of nonferrous metals from ore, pig, or scrap, the rolling, drawing, and alloying of nonferrous metals; the manufacture of castings, forgings, and other basic products of nonferrous metals; and the manufacture of nails, spikes, structural shapes, tubing, wire, and cable.	14	7	14
33.21	Manufacture of Primary Nonferrous Metals—Special Tools: Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and drawings concerning such special tools used in the activities as defined in class 33.2, Manufacture of Primary Nonferrous Metals. Special tools are specifically designed for the production or processing of particular products or parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices. Rolls, mandrels, and refractories are not included in class 33.21 but are included in class 33.2.	6.5	5	6.5
33.3	Manufacture of Foundry Products: Includes assets used in the casting of iron and steel, including related operations such as molding and coremaking. Also includes assets used in the finishing of castings and patternmaking when performed at the foundry, all special tools, and related land improvements.	14	7	14
33.4	Manufacture of Primary Steel Mill Products: Includes assets used in the smelting, reduction, and refining of iron and steel from ore, pig, or scrap; the rolling, drawing, and alloying of steel; the manufacture of nails, spikes, structural shapes, tubing, wire, and cable. Includes assets used by steel service centers and ferrous metal forges, and assets used in coke production, regardless of ownership. Also includes related land improvements and all special tools used in the above activities.	15	7	15
34.0	Manufacture of Fabricated Metal Products: Includes assets used in the production of metal cans, tinware, fabricated structural metal products, metal stampings, and other ferrous and nonferrous metal and wire products not elsewhere classified. Does not include assets used to manufacture non-electric heating apparatus.	12	7	12
34.01	Manufacture of Fabricated Metal Products—Special Tools: Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and returnable containers and drawings concerning such special tools used in the activities as defined in class 34.0. Special tools are specifically designed for the production or processing of particular machine components, products, or parts, and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3	3	3
35.0	Manufacture of Electrical and Non-Electrical Machinery and Other Mechanical Products: Includes assets used to manufacture or rebuild finished machinery and equipment and replacement parts thereof such as machine tools, general industrial and special industry machinery, electrical power generation, transmission, and distribution systems, space heating, cooling, and refrigeration systems, commercial and home appliances, farm and garden machinery, construction machinery, mining and oil field machinery, internal combustion engines (except those elsewhere classified), turbines (except those that power airborne vehicles), batteries, lamps and lighting fixtures, carbon and graphite products, and electromechanical and mechanical products including business machines, instruments, watches and clocks, vending and amusement machines, photographic equipment, medical and dental equipment and appliances, and ophthalmic goods. Includes assets used by manufacturers or rebuilders of such finished machinery and equipment in activities elsewhere classified such as the manufacture of castings, forgings, rubber and plastic products, electronic subassemblies or other manufacturing activities if the interim products are used by the same manufacturer primarily in the manufacture, assembly, or rebuilding of such finished machinery and equipment. Does not include assets used in mining, assets used in the manufacture of primary ferrous and nonferrous metals, assets included in class 00.11 through 00.4, and assets elsewhere classified.	10	7	10
36.0	Manufacture of Electronic Components, Products, and Systems: Includes assets used in the manufacture of electronic communication, computation, instrumentation and control system, including airborne applications; also includes assets used in the manufacture of electronic products such as frequency and amplitude modulated transmitters and receivers, electronic switching stations, television cameras, video recorders, record players and tape recorders, computers and computer peripheral machines, and electronic instruments, watches, and clocks; also includes assets used in the manufacture of components, provided their primary use is products and systems defined above such as electron tubes, capacitors, coils, resistors, printed circuit substrates, switches, harness cables, lasers, fiber optic devices, and magnetic media devices. Specifically excludes assets used to manufacture electronic products and components, photocopiers, typewriters, postage meters and other electromechanical and mechanical business machines and instruments that are elsewhere classified. Does not include semiconductor manufacturing equipment included in class 36.1.	6	5	6
36.1	Any Semiconductor Manufacturing Equipment	5	5	5

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
37.11	Manufacture of Motor Vehicles: Includes assets used in the manufacture and assembly of finished automobiles, trucks, trailers, motor homes, and buses. Does not include assets used in mining, printing and publishing, production of primary metals, electricity, or steam, or the manufacture of glass, industrial chemicals, batteries, or rubber products, which are classified elsewhere. Includes assets used in manufacturing activities elsewhere classified other than those excluded above, where such activities are incidental to and an integral part of the manufacture and assembly of finished motor vehicles such as the manufacture of parts and subassemblies of fabricated metal products, electrical equipment, textiles, plastics, leather, and foundry and forging operations. Does not include any assets not classified in manufacturing activity classes, for example, does not include any assets classified in asset guideline classes 00.11 through 00.4. Activities will be considered incidental to the manufacture and assembly of finished motor vehicles only if 75% or more of the value of the products produced under one roof are used for the manufacture and assembly of finished motor vehicles. Parts that are produced as a normal replacement stock complement in connection with the manufacture and assembly of finished motor vehicles are considered used for the manufacture assembly of finished motor vehicles. Does not include assets used in the manufacture of component parts if these assets are used by taxpayers not engaged in the assembly of finished motor vehicles.	12	7	12
37.12	Manufacture of Motor Vehicles—Special Tools: Includes assets defined as special tools, such as jigs, dies, fixtures, molds, patterns, gauges, and specialty transfer and shipping devices, owned by manufacturers of finished motor vehicles and used in qualified activities as defined in class 37.11. Special tools are specifically designed for the production or processing of particular motor vehicle components and have no significant utilitarian value, and cannot be adapted to further or different use, after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	3	3	3
37.2	Manufacture of Aerospace Products: Includes assets used in the manufacture and assembly of airborne vehicles and their component parts including hydraulic, pneumatic, electrical, and mechanical systems. Does not include assets used in the production of electronic airborne detection, guidance, control, radiation, computation, test, navigation, and communication equipment or the components thereof.	10	7	10
37.31	Ship and Boat Building Machinery and Equipment: Includes assets used in the manufacture and repair of ships, boats, caissons, marine drilling rigs, and special fabrications not included in asset classes 37.32 and 37.33. Specifically includes all manufacturing and repairing machinery and equipment, including machinery and equipment used in the operation of assets included in asset class 37.32. Excludes buildings and their structural components.	12	7	12
37.32	Ship and Boat Building Dry Docks and Land Improvements: Includes assets used in the manufacture and repair of ships, boats, caissons, marine drilling rigs, and special fabrications not included in asset classes 37.31 and 37.33. Specifically includes floating and fixed dry docks, ship basins, graving docks, shipways, piers, and all other land improvements such as water, sewer, and electric systems. Excludes buildings and their structural components.	16	10	16
37.33	Ship and Boat Building—Special Tools: Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and drawings concerning such special tools used in the activities defined in classes 37.31 and 37.32. Special tools are specifically designed for the production or processing of particular machine components, products, or parts, and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	6.5	5	6.5
37.41	Manufacture of Locomotives: Includes assets used in building or rebuilding railroad locomotives (including mining and industrial locomotives). Does not include assets of railroad transportation companies or assets of companies which manufacture components of locomotives but do not manufacture finished locomotives.	11.5	7	11.5
37.42	Manufacture of Railroad Cars: Includes assets used in building or rebuilding railroad freight or passenger cars (including rail transit cars). Does not include assets of railroad transportation companies or assets of companies which manufacture components of railroad cars but do not manufacture finished railroad cars.	12	7	12
39.0	Manufacture of Athletic, Jewelry, and Other Goods: Includes assets used in the production of jewelry; musical instruments; toys and sporting goods; motion picture and television films and tapes; and pens, pencils, office and art supplies, brooms, brushes, caskets, etc. Railroad Transportation: Classes with the prefix 40 include the assets identified below that are used in the commercial and contract carrying of passengers and freight by rail. Assets of electrified railroads will be classified in a manner corresponding to that set forth below for railroads not independently operated as electric lines. Excludes the assets included in classes with the prefix beginning 00.1 and 00.2 above, and also excludes any non-depreciable assets included in Interstate Commerce Commission accounts enumerated for this class.	12	7	12

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
40.1	Railroad Machinery and Equipment: Includes assets classified in the following Interstate Commerce Commission accounts: Roadway accounts: (16) Station and office buildings (freight handling machinery and equipment only) (25) TOFC/COFC terminals (freight handling machinery and equipment only) (26) Communication systems (27) Signals and interlockers (37) Roadway machines (44) Shop machinery Equipment accounts: (52) Locomotives (53) Freight train cars (54) Passenger train cars (57) Work equipment	14	7	14
40.2	Railroad Structures and Similar Improvements: Includes assets classified in the following Interstate Commerce Commission road accounts: (6) Bridges, trestles, and culverts (7) Elevated structures (13) Fences, snowsheds, and signs (16) Station and office buildings (stations and other operating structures only) (17) Roadway buildings (18) Water stations (19) Fuel stations (20) Shops and enginehouses (25) TOFC/COFC terminals (operating structures only) (31) Power transmission systems (35) Miscellaneous structures (39) Public improvements construction	30	20	30
40.3	Railroad Wharves and Docks: Includes assets classified in the following Interstate Commerce Commission accounts: (23) Wharves and docks (24) Coal and ore wharves	20	15	20
40.4	Railroad Track	10	7	10
40.51	Railroad Hydraulic Electric Generating Equipment	50	20	50
40.52	Railroad Nuclear Electric Generating Equipment	20	15	20
40.53	Railroad Steam Electric Generating Equipment	28	20	28
40.54	Railroad Steam, Compressed Air, and Other Power Plant Equipment	28	20	28
41.0	Motor Transport—Passengers: Includes assets used in the urban and interurban commercial and contract carrying of passengers by road, except the transportation assets included in classes with the prefix 00.2.	8	5	8
42.0	Motor Transport—Freight: Includes assets used in the commercial and contract carrying of freight by road, except the transportation assets included in classes with the prefix 00.2.	8	5	8
44.0	Water Transportation: Includes assets used in the commercial and contract carrying of freight and passengers by water except the transportation assets included in classes with the prefix 00.2. Includes all related land improvements.	20	15	20
45.0	Air Transport: Includes assets (except helicopters) used in commercial and contract carrying of passengers and freight by air. For purposes of section 1.167(a)-11(d)(2)(iv)(a) of the regulations, expenditures for “repair, maintenance, rehabilitation, or improvement” shall consist of direct maintenance expenses (irrespective of airworthiness provisions or charges) as defined by Civil Aeronautics Board uniform accounts 5200, maintenance burden (exclusive of expenses pertaining to maintenance buildings and improvements) as defined by Civil Aeronautics Board accounts 5300, and expenditures which are not “excluded additions” as defined in section 1.167(a)-11(d)(2)(vi) of the regulations and which would be charged to property and equipment accounts in the Civil Aeronautics Board uniform system of accounts.	12	7	12
45.1	Air Transport (restricted): Includes each asset described in the description of class 45.0 which was held by the taxpayer on April 15, 1976, or is acquired by the taxpayer pursuant to a contract which was, on April 15, 1976, and at all times thereafter, binding on the taxpayer. This criterion of classification based on binding contract concept is to be applied in the same manner as under the general rules expressed in sections 49(b)(1), (4), (5), and (8) of the Code (as in effect prior to its repeal by the Revenue Act of 1978, section 312(c)(1), (d), 1978-3 C.B. 1, 60).	6	5	6
46.0	Pipeline Transportation: Includes assets used in the private, commercial, and contract carrying of petroleum, gas, and other products by means of pipes and conveyors. The trunk lines and related storage facilities of integrated petroleum and natural gas producers are included in this class. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102, but includes all other related land improvements.	22	15	22

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
48.11	Telephone Communications: Includes the assets classified below and that are used in the provision of commercial and contract telephonic services such as: Telephone Central Office Buildings: Includes assets intended to house central office equipment, as defined in Federal Communications Commission Part 31 Account No. 212 whether section 1245 or section 1250 property.	45	20	45
48.12	Telephone Central Office Equipment: Includes central office switching and related equipment as defined in Federal Communications Commission Part 31 Account No. 221. Does not include computer-based telephone central office switching equipment included in class 48.121. Does not include private branch exchange (PBX) equipment.	18	10	18
48.121	Computer-Based Telephone Central Office Switching Equipment: Includes equipment whose functions are those of a computer or peripheral equipment (as defined in section 168(i)(2)(B) of the Code) used in its capacity as telephone central office equipment. Does not include private exchange (PBX) equipment.	9.5	5	9.5
48.13	Telephone Station Equipment: Includes such station apparatus and connections as teletypewriters, telephones, booths, private exchanges, and comparable equipment as defined in Federal Communications Commission Part 31 Account No. 231, 232, and 234.	10	7*	10*
48.14	Telephone Distribution Plant: Includes such assets as pole lines, cable, aerial wire, underground conduits, and comparable equipment, and related land improvements as defined in Federal Communications Commission Part 31 Account Nos. 241, 242.1, 242.2, 242.3, 242.4, 243, and 244.	24	15	24
48.2	Radio and Television Broadcastings: Includes assets used in radio and television broadcasting, except transmitting towers. Telegraph, Ocean Cable, and Satellite Communications (TOCSC) includes communications-related assets used to provide domestic and international radio-telegraph, wire-telegraph, ocean-cable, and satellite communications services; also includes related land improvements. If property described in classes 48.31–48.45 is comparable to telephone distribution plant described in class 48.14 and used for 2-way exchange of voice and data communication which is the equivalent of telephone communication, such property is assigned a class life of 24 years under this revenue procedure. Comparable equipment does not include cable television equipment used primarily for 1-way communication.	6	5	6
48.31	TOCSC—Electric Power Generating and Distribution Systems: Includes assets used in the provision of electric power by generation, modulation, rectification, channelization, control, and distribution. Does not include these assets when they are installed on customers' premises.	19	10	19
48.32	TOCSC—High Frequency Radio and Microwave Systems: Includes assets such as transmitters and receivers, antenna supporting structures, antennas, transmission lines from equipment to antenna, transmitter cooling systems, and control and amplification equipment. Does not include cable and long-line systems.	13	7	13
48.33	TOCSC—Cable and Long-Line Systems: Includes assets such as transmission lines, pole lines, ocean cables, buried cable and conduit, repeaters, repeater stations, and other related assets. Does not include high frequency radio or microwave systems.	26.5	20	26.5
48.34	TOCSC—Central Office Control Equipment: Includes assets for general control, switching, and monitoring of communications signals including electromechanical switching and channeling apparatus, multiplexing equipment patching and monitoring facilities, in-house cabling, teleprinter equipment, and associated site improvements.	16.5	10	16.5
48.35	TOCSC—Computerized Switching, Channeling, and Associated Control Equipment: Includes central office switching computers, interfacing computers, other associated specialized control equipment, and site improvements.	10.5	7	10.5
48.36	TOCSC—Satellite Ground Segment Property: Includes assets such as fixed earth station equipment, antennas, satellite communications equipment, and interface equipment used in satellite communications. Does not include general purpose equipment or equipment used in satellite space segment property.	10	7	10
48.37	TOCSC—Satellite Space Segment Property: Includes satellites and equipment used for telemetry, tracking, control, and monitoring when used in satellite communications.	8	5	8
48.38	TOCSC—Equipment Installed on Customer's Premises: Includes assets installed on customer's premises, such as computers, terminal equipment, power generation and distribution systems, private switching center, teleprinters, facsimile equipment, and other associated and related equipment.	10	7	10
48.39	TOCSC—Support and Service Equipment: Includes assets used to support but not engage in communications. Includes store, warehouse and shop tools, and test and laboratory assets. Cable Television (CATV): Includes communications-related assets used to provide cable television community antenna television services. Does not include assets used to provide subscribers with 2-way communications services.	13.5	7	13.5

* Property described in asset guideline class 48.13 which is qualified technological equipment as defined in section 168(i)(2) is assigned a 5-year recovery period.

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
48.41	CATV—Headend: Includes assets such as towers, antennas, preamplifiers, converters, modulation equipment, and program non-duplication systems. Does not include headend buildings and program origination assets.	11	7	11
48.42	CATV—Subscriber Connection and Distribution Systems: Includes assets such as trunk and feeder cable, connecting hardware, amplifiers, power equipment, passive devices, directional taps, pedestals, pressure taps, drop cables, matching transformers, multiple set connector equipment, and convertors.	10	7	10
48.43	CATV—Program Origination: Includes assets such as cameras, film chains, videotape recorders, lighting, and remote location equipment excluding vehicles. Does not include buildings and their structural components.	9	5	9
48.44	CATV—Service and Test: Includes assets such as oscilloscopes, field strength meters, spectrum analyzers, and cable testing equipment, but does not include vehicles.	8.5	5	8.5
48.45	CATV—Microwave Systems: Includes assets such as towers, antennas, transmitting and receiving equipment, and broad band microwave assets used in the provision of cable television services. Does not include assets used in the provision of common carrier services.	9.5	5	9.5
49.11	Electric, Gas, Water, and Steam Utility Services: Includes assets used in the production, transmission and distribution of electricity, gas, steam, or water for sale including related land improvements. Electric Utility Hydraulic Production Plant: Includes assets used in the hydraulic power production of electricity for sale, including related land improvements, such as dams, flumes, canals, and waterways.	50	20	50
49.12	Electric Utility Nuclear Production Plant: Includes assets used in the nuclear power production and electricity for sale and related land improvements. Does not include nuclear fuel assemblies.	20	15	20
49.121	Electric Utility Nuclear Fuel Assemblies: Includes initial core and replacement core nuclear fuel assemblies (i.e., the composite of fabricated nuclear fuel and container) when used in a boiling water, pressurized water, or high temperature gas reactor used in the production of electricity. Does not include nuclear fuel assemblies used in breeder reactors.	5	5	5
49.13	Electric Utility Steam Production Plant: Includes assets used in the steam power production of electricity for sale, combustion turbines operated in a combined cycle with a conventional steam unit and related land improvements. Also includes package boilers, electric generators, and related assets, such as, electricity and steam distribution systems as used by a waste reduction and resource recovery plant if the steam or electricity is normally for sale to others.	28	20	28
49.14	Electric Utility Transmission and Distribution Plant: Includes assets used in the transmission and distribution of electricity for sale and related land improvements. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102.	30	20	30
49.15	Electric Utility Combustion Turbine Production Plant: Includes assets used in the production of electricity for sale by the use of such prime movers as jet engines, combustion turbines, diesel engines, gasoline engines, and other internal combustion engines, their associated power turbines and/or generators, and related land improvements. Does not include combustion turbines operated in a combined cycle with a conventional steam unit.	20	15	20
49.21	Gas Utility Distribution Facilities: Includes gas water heaters and gas conversion equipment installed by utility on customers' premises on a rental basis.	35	20	35
49.221	Gas Utility Manufactured Gas Production Plants: Includes assets used in the manufacture of gas having chemical and/or physical properties which do not permit complete interchangeability with domestic natural gas. Does not include gas-producing systems and related systems used in waste reduction and resource recovery plants which are elsewhere classified.	30	20	30
49.222	Gas Utility Substitute Natural Gas (SNG) Production Plant (naphtha or lighter hydrocarbon feedstocks): Includes assets used in the catalytic conversion of feedstocks or naphtha or lighter hydrocarbons to a gaseous fuel which is completely interchangeable with domestic natural gas.	14	7	14
49.223	Substitute Natural Gas—Coal Gasification: Includes assets used in the manufacture and production of pipeline quality gas from coal using the basic Lurgi process with advanced methanation. Includes all process plant equipment and structures used in this coal gasification process and all utility assets such as cooling systems, water supply and treatment facilities, and assets used in the production and distribution of electricity and steam for use by the taxpayer in a gasification plant and attendant coal mining site processes but not for assets used in the production and distribution of electricity and steam for sale to others. Also includes all other related land improvements. Does not include assets used in the direct mining and treatment of coal prior to the gasification process itself.	18	10	18
49.23	Natural Gas Production Plant	14	7	14
49.24	Gas Utility Trunk Pipelines and Related Storage Facilities: Excluding initial clearing and grading land improvements as specified in Rev. Rul. 72-40.	22	15	22
49.25	Liquefied Natural Gas Plant: Includes assets used in the liquefaction, storage, and regasification of natural gas including loading and unloading connections, instrumentation equipment and controls, pumps, vaporizers and odorizers, tanks, and related land improvements. Also includes pipeline interconnections with gas transmission lines and distribution systems and marine terminal facilities.	22	15	22

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Table B-2. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			GDS (MACRS)	ADS
49.3	Water Utilities: Includes assets used in the gathering, treatment, and commercial distribution of water.	50	20***	50
49.4	Central Steam Utility Production and Distribution: Includes assets used in the production and distribution of steam for sale. Does not include assets used in waste reduction and resource recovery plants which are elsewhere classified.	28	20	28
49.5	Waste Reduction and Resource Recovery Plants: Includes assets used in the conversion of refuse or other solid waste or biomass to heat or to a solid, liquid, or gaseous fuel. Also includes all process plant equipment and structures at the site used to receive, handle, collect, and process refuse or other solid waste or biomass in a waterwall, combustion system, oil or gas pyrolysis system, or refuse-derived fuel system to create hot water, gas, steam, and electricity. Includes material recovery and support assets used in refuse or solid refuse or solid waste receiving, collecting, handling, sorting, shredding, classifying, and separation systems. Does not include any package boilers, or electric generators and related assets such as electricity, hot water, steam, and manufactured gas production plants classified in classes 00.4, 49.13, 49.221, and 49.4. Does include, however, all other utilities such as water supply and treatment facilities, ash handling, and other related land improvements of a waste reduction and resource recovery plant.	10	7	10
50.0	Municipal Wastewater Treatment Plant	24	15	24
51.0	Municipal Sewer	50	20***	50
57.0	Distributive Trades and Services: Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.	9	5	9*
57.1	Distributive Trades and Services—Billboard, Service Station Buildings, and Petroleum Marketing Land Improvements: Includes section 1250 assets, including service station buildings and depreciable land improvements, whether section 1245 property or section 1250 property, used in the marketing of petroleum and petroleum products, but not including any of these facilities related to petroleum and natural gas trunk pipelines. Includes car wash buildings and related land improvements. Includes billboards, whether such assets are section 1245 property or section 1250 property. Excludes all other land improvements, buildings, and structural components as defined in section 1.48-1(e) of the regulations.	20	15	20
79.0	Recreation: Includes assets used in the provision of entertainment services on payment of a fee or admission charge, as in the operation of bowling alleys, billiard and pool establishments, theaters, concert halls, and miniature golf courses. Does not include amusement and theme parks and assets which consist primarily of specialized land improvements or structures, such as golf courses, sports stadia, race tracks, ski slopes, and buildings which house the assets used in entertainment services.	10	7	10
80.0	Theme and Amusement Parks: Includes assets used in the provision of rides, attractions, and amusements in activities defined as theme and amusement parks, and includes appurtenances associated with a ride, attraction, amusement, or theme setting within the park such as ticket booths, facades, shop interiors, and props, special purpose structures, and buildings other than warehouses, administration buildings, hotels, and motels. Includes all land improvements for or in support of park activities (for example, parking lots, sidewalks, waterways, bridges, fences, landscaping, etc.), and support functions (for example, food and beverage retailing, souvenir vending, and other nonlodging accommodations) if owned by the park and provided exclusively for the benefit of park patrons. Theme and amusement parks are defined as combinations of amusements, rides, and attractions which are permanently situated on park land and open to the public for the price of admission. This guideline class is a composite of all assets used in this industry except transportation equipment (general purpose airplanes, etc., which are included in asset guideline classes with the prefix 00.2); assets used in the trucks, cars, provision of administrative services (asset classes with the prefix 00.1) and warehouses, administration buildings, hotels, and motels.	12.5	7	12.5
Certain Property for Which Recovery Periods Assigned				
A. Personal Property With No Class Life Section 1245 Real Property With No Class Life			7 7	12 40
B. Qualified Technological Equipment, as defined in section 168(i)(2).		**	5	5
C. Property Used in Connection with Research and Experimentation referred to in section 168(e)(3)(B).		**	5	class life if no class life—12
D. Alternative energy property described in sections 48(l)(3)(A)(ix) (as in effect on the day before the date of enactment (11/5/90) of the Revenue Reconciliation Act of 1990).		**	5	class life if no class life—12
E. Biomass property described in section 48(l)(15) (as in effect on the day before the date of enactment (11/5/90) of the Revenue Reconciliation Act of 1990) and is a qualifying small production facility within the meaning of section 3(17)(c) of the Federal Power Act (16 U.S.C. 796(17)(C)), as in effect on September 1, 1986.		**	5	class life if no class life—12
F. Energy property described in section 48(a)(3)(A) (or would be described if “solar or wind energy” were substituted for “solar energy” in section 48(a)(3)(A)(i)).		**	5	class life if no class life—12

* Any high technology medical equipment as defined in section 168(i)(2)(C) which is described in asset guideline class 57.0 is assigned a 5-year recovery period for the alternate MACRS method.

** The class life (if any) of property described in class B, C, D, E, or F is determined by reference to the asset guideline classes. If an item of property described in paragraph B, C, D, E, or F is not described in any asset guideline class, such item of property has no class life.

*** Use straight line over 25 years if placed in service after June 12, 1996, unless placed in service under a binding contract in effect before June 10, 1996, and at all times until placed in service.

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Table 4-1. Depreciation Methods

Note. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.		
Method	Type of Property	Benefit
GDS using 200% DB	• Nonfarm 3-, 5-, 7-, and 10-year property • Farm 3-, 5-, 7-, and 10-year property placed in service after 2017, in tax years ending after 2017	• Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction
GDS using 150% DB	• Farm 3-, 5-, 7-, or 10-year property placed in service before 2018 • All 15- and 20-year property • Nonfarm 3-, 5-, 7-, or 10-year property² • Farm 3-, 5-, 7-, or 10-year property placed in service after 2017²	• Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction¹
GDS using SL	• Nonresidential real property • Residential rental property • Trees or vines bearing fruits or nuts • Water utility property • All 3-, 5-, 7-, 10-, 15-, and 20-year property² • Property for which you elected section 168(k)(4) of the Internal Revenue Code for a tax year beginning before January 1, 2018 • Qualified improvement property (as defined in section 168(e)(6) of the Internal Revenue Code) placed in service after 2017	• Provides for equal yearly deductions (except for the first and last years)
ADS using SL	• Listed property used 50% or less for business • Property used predominantly outside the United States • Tax-exempt property • Tax-exempt bond-financed property • Farm property used when an election not to apply the uniform capitalization rules is in effect • Imported property³ • Any property for which you elect to use this method⁴ • Any nonresidential real property, residential rental property, or qualified improvement property held by an electing real property trade or business (as defined in section 163(j)(7)(B) of the Internal Revenue Code) • Any property that has a recovery period of 10 years or more under GDS that is held by an electing farming business (as defined in section 163(j)(7)(C) of the Internal Revenue Code)	• Provides for equal yearly deductions (except for the first and last years)
¹ The MACRS percentage tables in Appendix A have the switch to the straight line method built into their rates. ² See section 168(b)(5) of the Internal Revenue Code. ³ See section 168(g)(6) of the Internal Revenue Code. ⁴ See section 168(g)(7) of the Internal Revenue Code.		