Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation

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

1978

Name(s) as shown on return | Identifying number

Use this form as an attachment to an individual, partnership, fiduciary, or corporation return.

a. Description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of computing depreciation	f. Life or rate	g. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Depreciation from Form 4832						
3 Other depreciation:						
Buildings						
Furniture and fixtures . . .						
Transportation equipment . .						
Machinery and other equipment .						
Other (Specify)						
4 Totals (add amounts in columns c and g) .						

Individual, partnership, and fiduciary filers should include totals from line 4 on the corresponding lines of their regular depreciation schedule. Form 1120 or any of the Form 1120 series (Form 1120S, 1120F, etc.) filers should attach Form 4562 to their return and enter total of line 4, column g, on appropriate depreciation expense line in "Deductions" section of return.

The Energy Bill recently passed by Congress limits depreciation to the straight line method for certain boilers fueled by oil or gas. For more information, please get **Publication 534,** Tax Information on Depreciation.

Instructions

(Section references are to the Internal Revenue Code unless otherwise specified.)

Note: *Information on Class Life Asset Depreciation Range (CLADR) System is contained in Publication 534, Tax Information on Depreciation.*

Reasonable Allowance.—You may deduct a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business, or held for the production of income. The allowance is not allowed for stock in trade, inventories, land, or personal assets. To figure the allowance, write off the cost or other basis to be recovered over the expected useful life of the property.

Depreciation begins when the asset is placed in service and ends when it is retired from service. To figure the depreciation basis for personal property other than livestock, you need not take into account salvage value that is not more than 10% of its cost or other basis. If the salvage value is more than 10% take only the excess into account. These rules apply to property with a useful life of three or more years.

Depreciation Methods.—The methods of depreciation under section 167(b) are:

Straight Line Method.—To figure the depreciation on property for each year, di-

(Continued on back)

vide its cost or other basis by its remaining useful life. Adjust its cost or other basis by depreciation allowed or allowable in prior years and its salvage value.

Declining Balance Method.—Apply a uniform rate each year to the remaining cost or other basis figured at the start of the year. Do not adjust for salvage value, but stop depreciating when the unrecovered cost is the same amount as the salvage value. The maximum rate which may be used is twice the straight line rate. However, see the limitations for certain types of property.

Sum of the Years-Digits Method.—Figure the deduction each year by multiplying a different fraction each year by the cost or other basis that has been reduced by the estimated salvage value. The bottom number, which is the same for all the fractions, is the sum of the digits representing the years of estimated useful life. For a 5-year life, the bottom number of the fractions is 15 (5+4+3+2+1). The top number of each fraction changes each year to represent the years of useful life remaining at the start of the year for which you are figuring. For the 5-year life, the top number of the fraction for the first year is five (5/15); for the second, four (4/15), etc.

Other Methods.—You may use any consistent method. The method must not result at the end of any year in accumulated allowances that are more than the amount that could have been deducted if the declining balance method were used at twice the straight line rate. This applies only during the first two-thirds of the property's useful life.

Limitations on Use of Certain Methods Other Than Straight Line.—You may depreciate the cost or other basis of an asset using:

(1) The declining balance method at a rate not to exceed twice the straight line rate;

(2) Sum of the years-digits; or

(3) Any other acceptable method at a rate not to exceed twice the straight line rate; ONLY if:

- (a) The asset is tangible,
- (b) The estimated useful life to you is three years or more, and
- (c) The asset is new (the original use started with you).

Limitation on Used Personal Property.—You may depreciate used tangible personal property by using the straight line method, or the declining balance method at a rate not to exceed 1½ times the straight line rate.

Limitation on Accelerated Depreciation for New Section 1250 (Real) Property.—You may use the declining balance and the sum of the years-digits method for new residential rental property if at least 80 percent of the gross rental income is from dwelling units. Other new real property may be depreciated under the straight line method or at 1½ times the straight line rate.

Limitation on Accelerated Depreciation for Used Section 1250 (Real) Property.—You may depreciate used residential rental property with a useful life of 20 years or more under the declining balance method at 1¼ times the straight line rate. Other used real property should be depreciated under the straight line method.

Change in Method.—If you want to make any change to your method for figuring your depreciation, file Form 3115 with the same Service Center where you will file your return. You must file within the first 180 days of the tax year to which the change relates.

Additional First-Year Depreciation.—You may elect to write off 20% of the cost of new or used tangible personal property (equipment, machinery, etc.) purchased for use in a trade or business or held for the production of income. For this purpose, do not adjust cost for salvage value. If the total cost of these assets exceeds $10,000 ($20,000 for joint return), the additional depreciation is limited to $2,000 ($4,000 for joint return). You elect additional first-year depreciation in the year the asset is first subject to depreciation.

The cost of partnership property on which additional first-year depreciation is figured and passed through to the partners cannot be more than $10,000. For example, if the total cost of assets on which additional first-year depreciation can be figured is $40,000, only $10,000 of the cost can be passed through to the partners. If the partners have assets of their own on which additional first-year depreciation can be figured, they may add the cost of their assets to their partnership share of assets cost in figuring the allowable deduction.

Additional first-year depreciation is used only on property that has a remaining useful life of at least six years and that was not acquired from a related person (other than a brother or sister) whose relationship to you would result in the disallowance of losses. You may also take normal depreciation on the cost of the asset reduced by the first-year depreciation.

Enter the total additional first-year depreciation for the year on the line provided in the depreciation schedule. Do not include it on the line used to show regular depreciation.

Rehabilitation Expenditures for Low-Income Rental Housing.—You may elect, under Section 167(k), to compute the depreciation deduction for rehabilitation expenditures under the straight line method, using a useful life of 60 months with no salvage value. The rehabilitation expenditure must have been made for low-income rental housing only. It must also have been made under a binding contract entered into after 1975 and before 1982. If the election is for property held by a partnership, the partnership must make the election.

Low-income rental housing means any building whose dwelling units are for rental occupancy by low or moderate income families and individuals, as established by the Secretary or his delegate, consistent with the Leased Housing Program under section 8 of the United States Housing Act of 1937, as amended.

Limitations.—The expenditures: (1) must not be more than $20,000 per dwelling unit in the building, and (2) must be more than $3,000 per unit over two consecutive tax years. This rapid writeoff does not apply to motels, hotels, or other establishments in which more than one-half of the units are rented on a transient basis.

Time and Manner of Making Election.—To make an election under section 167(k), attach a statement to the income tax return filed for the first tax year in which you figure the deduction using a 60-month useful life. In general, you must file this election no later than the time, including extension, set by law for filing for the tax year in which the property is placed in service (see I.T. Regs. 1.167(k)–4).

Attach an information statement to the income tax return for each later tax year in which you figure depreciation under section 167(k).

Information Required for Election Year.—

(1) Your name, address, and identifying number.

(2) Description of property for which an election is made.

(3) Date the property was placed in service.

(4) Location and description of building being rehabilitated.

(5) Number of dwelling units in the structure.

(6) Number of dwelling units used on a transient basis (see I.T. Regs. 1.167(k)–3(c)(2)).

(7) Date rehabilitation expenditures are incurred (see I.T. Regs. 1.167(k)–1(a)(2)).

(8) Statement that all income certifications required by I.T. Regs. 1.167(k)–3(b)(4) have been obtained.

(9) For each dwelling unit which you seek to qualify as low-income housing for election purposes under section 167(k):

- (a) List rehabilitation expenditures allocated to that unit (see I.T. Regs. 1.167(k)–2(d)),
- (b) List for each period of occupancy during the taxable year the number of occupants, the maximum income level permissible under I.T. Regs. 1.167(k)–3(b)(2) for them, their adjusted income, which is set solely from the income certifications required by I.T. Regs. 1.167(k)–3(b)(4)), and the rent charged for that unit, and
- (c) List for each period in which the unit is vacant during the taxable year, the number of rooms of each unit, the low or moderate income level in that area for the number of persons occupying similar units, and the rental at which each vacant unit is offered.

(10) If allocation is required under I.T. Regs. 1.167(k)–2(d), the area occupied by dwelling units and nondwelling units.

(11) If required, a statement of intent to fulfill the $3,000 minimum amount limitation (see I.T. Regs. 1.167(k)–4(a)(2)).

(12) If you are treated as if you have paid or incurred expenditures by reason of I.T. Regs. 1.167(k)–1(b):

- (a) the amount of those expenditures,
- (b) the date they were incurred,
- (c) the date the property attributable to the expenditures was placed in service,
- (d) the accounting method used by the person who made the expenditures, and
- (e) the purchase price of the property attributable to them.

Information Required for Subsequent Years.—For each tax year in which you figure depreciation under section 167(k) after the tax year of the election, the required statement must show the rental charge for each occupied unit and the charge at which each vacant unit is offered. If any unit is rented to a new tenant during the tax year, the statement must show:

(1) A statement that the tenant has signed an income certification (see I.T. Regs. 1.167(k)–3(b)(4)),

(2) The number of occupants in the unit, the maximum income level permissible under I.T. Regs. 1.167(k)–3(b)(2) for that number of occupants, and the total adjusted income of the occupants, set solely by the income certifications required by I.T. Regs. 1.167(k)–3(b)(4).

Definitions.—See section 167(k) and I.T. Regs. 1.167(k)–3 for definitions of rehabilitation expenditures, low-income rental housing, dwelling unit, low or moderate income, and adjusted income.

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