Department of the Treasury

Internal Revenue Service

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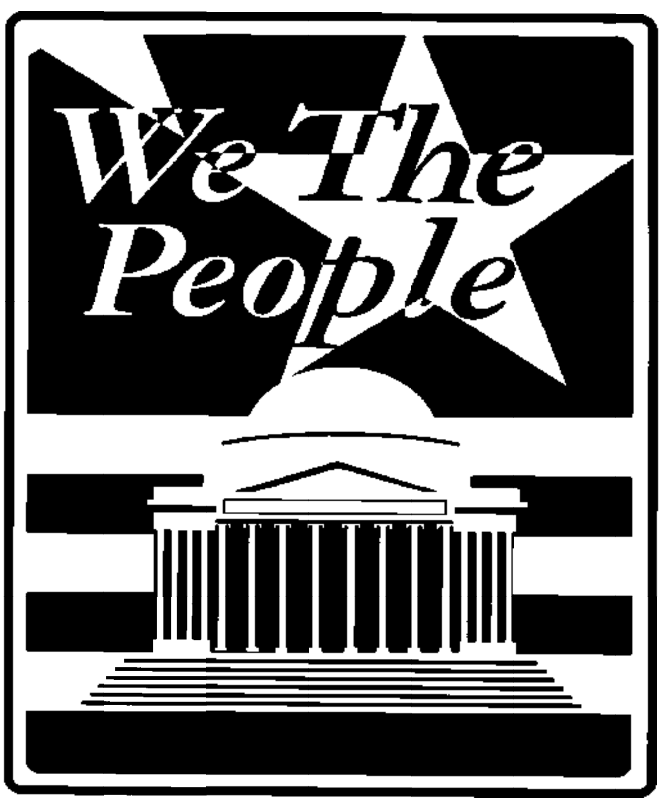
Depreciation

For use in preparing

1994 Returns



Contents

Important Changes for 1994

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

Shorter recovery period for property on Indian reservations. You can depreciate certain property placed in service on Indian reservations after 1993 over a shorter recovery period than other depreciable property. For more information, see *Shorter Recovery Period for Property Used on Indian Reservations* in Chapter 3.

Important Reminders

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

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

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

For more information, see Chapter 12 in Publication 535.

Introduction

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

The law allows you to recover your cost in business or income-producing property through yearly tax deductions. You do this by depreciating your property, that is, by deducting some of your cost on your tax return each year. You can depreciate both tangible property, such as a car, building, or machinery, and certain intangible property, such as a copyright or a patent.

The amount you can deduct depends on:

1) How much the property cost,
2) When you began using it,
3) How long it will take to recover your cost, and
4) Which of several depreciation methods you use.

Amortization. Amortization is similar to depreciation. Using amortization, you can recover your cost or basis in certain property proportionately over a specific number of years or months. Examples of costs you can amortize are the costs of starting a business, reforestation, and pollution control facilities. You can find information on amortization in Chapter 12 of Publication 535, *Business Expenses.*

Alternative minimum tax. If you use accelerated depreciation for real property, or personal property that is leased to others, you may be liable for the alternative minimum tax. Accelerated depreciation is any method, including MACRS and ACRS, that allows recovery at a faster rate in the earlier years than the straight line method. For more information, you may wish to see the following:

- Form 6251, *Alternative Minimum Tax–Individuals,* and
- Publication 542, *Tax Information on Corporations.*

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

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

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

How To Use This Publication

This publication describes the kinds of property that can be depreciated and the methods used to figure depreciation. It is divided into seven chapters and contains three appendices.

Chapter 1 describes property that can and cannot be depreciated and how and when to report depreciation deductions on Form 4562, *Depreciation and Amortization.*

Chapter 2 explains the one-time expense deduction of up to $17,500 that is allowed against the cost of certain qualifying property. It provides a worksheet to help you figure the maximum section 179 expense deduction and any carryover.

Chapter 3 explains the rules for depreciating property first used after 1986 under the Modified Accelerated Cost Recovery System (MACRS). It provides a worksheet to help figure your depreciation deduction.

Chapter 4 explains the rules for listed property and the special limits on the amount of depreciation and section 179 expense deduction that can be claimed for passenger automobiles. It provides a separate worksheet to help you figure the maximum depreciation deduction for passenger automobiles. Listed property is also defined in this chapter.

Chapter 5 provides an example and includes a sample filled-in Form 4562 and depreciation worksheet.

Chapter 6 explains the rules for depreciating property under the Accelerated Cost Recovery System (ACRS).

Chapter 7 explains the rules for depreciating property first used before 1981.

- Appendix A — MACRS Percentage Tables
- Appendix B — The Table of Class Lives and Recovery Periods
- Appendix C — ACRS Percentage Tables

1. General Information

Topics

This chapter discusses:

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

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

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

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

Depreciation Defined

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

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

Types of Property

Property is either:

- Tangible property, or
- Intangible property.

Tangible Property

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

1) Real property, and
2) Personal property.

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

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

Intangible Property

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

Who Can Claim

In order to claim depreciation, you usually must be the owner of property and the property must be used in a trade or business or for the production of income.

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

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

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

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

What Can Be Depreciated

Depreciable property is property for which depreciation is allowed. You can depreciate many different kinds of property, as, for example, machinery, buildings, vehicles, patents, copyrights, furniture, and equipment.

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

1) The property must be used in business or held to produce income,
2) The property must have a determinable useful life longer than one year, and
3) The property must be something that is subject to wearing out, decaying being used up, becoming obsolete, or losing its value from natural causes.

Tangible Property

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

Partial Business/Investment Use

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

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

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

Special Situations

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

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

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

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

Improvements to rental property. Permanent improvements to business property you rent can be depreciated as discussed later in *Additions or improvements to property* under *How To Figure the Deduction,* in Chapter 3.

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

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

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

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

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

Videocassettes. If you are in the videocassette rental business, you can depreciate those videocassettes purchased for rental. You can deduct in the year of purchase as a business expense the cost of any cassette that has a useful life of one year or less. You can depreciate the cost less salvage value of those videocassettes that have a useful life over one year using either:

- The straight line method, or
- The income forecast method.

The straight line method, salvage value, and useful life are discussed in Chapter 7 under *Methods To Use.*

The ***income forecast method*** requires income projections for each videocassette or group of videocassettes. You can group the videocassettes by title for making this projection. You determine the depreciation by applying a fraction to the cost less salvage value of the cassette. The numerator is the income from the videocassette for the tax year and the denominator is the total projected income for the cassette. For more information on the income forecast method, see Revenue Ruling 60–358 in Cumulative Bulletin 1960, Volume 2, on page 68.

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

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

If you bought your stock as part of its first offering, figure your depreciation deduction as a tenant-stockholder in a cooperative housing corporation as follows:

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

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

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

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

Change to business use. If you change your co-op apartment to business use, figure your allowable depreciation as explained under *Cooperative apartments.* If you bought the stock as part of its first offering, your depreciable basis in all the depreciable real property owned by the cooperative housing corporation is the smaller of:

1) The fair market value on the date you change to business use, or
2) The corporation's adjusted basis on that date.

Do not subtract depreciation when figuring the adjusted basis. The fair market value is normally the same as the corporation's adjusted basis minus straight line depreciation unless this value is unrealistic. See *Straight Line Method* under *Methods To Use* later in Chapter 7.

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

Intangible Property

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Straight Line Method

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

To figure your deduction using this method, see *Straight Line Method* under *Methods To Use* in Chapter 7.

What Cannot Be Depreciated

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

Property placed in service and disposed of in the same year. You cannot deduct depreciation on property placed in service and disposed of in the same taxable year. When property is considered placed in service is explained later.

Tangible Property

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

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

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

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

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

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

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

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

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

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

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

Term interest in property. You cannot take depreciation or amortization for a term interest in property created or acquired after July 27, 1989. This applies for any period during which a person related to you holds the remainder interest directly or indirectly. A term interest in property means a life interest, an interest for a term of years, or an income interest in a trust. A person related to you includes your spouse, child, parent, brother, sister, half-brother, half-sister, ancestor, or lineal descendent.

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

You generally increase your basis in a remainder interest in property by the amount of deductions not allowed. However, do not increase the basis of a remainder interest for any deductions not allowed for periods during which the term interest is held by an organization exempt from tax. Also, do not increase the basis for deductions not allowed for periods during which the interest was held by a nonresident alien individual or foreign corporation if the income from the term interest is not effectively connected with the conduct of a trade or business in the United States.

Intangible Property

Some types of intangible property can never be depreciated.

Goodwill. Goodwill can never be depreciated because its useful life cannot be determined.

However, if you acquired a business after August 10, 1993 (July 25, 1991, if elected), and part of the price included goodwill, you may be able to amortize the cost of the goodwill over 15 years. For more information, see Chapter 12 in Publication 535.

Trademark and trade name. In general, trademark and trade name expenses must be capitalized. This means that the full amount cannot be deducted in the current year. For trademarks and trade names acquired before August 11, 1993 (July 26, 1991, if elected), you cannot depreciate or amortize these expenses. For trademarks and trade names acquired after August 10, 1993, you may be able to amortize their costs over 15 years. For more information, see Chapter 12 in Publication 535.

When Depreciation Begins and Ends

You begin to depreciate your property when you place it in service for use in your trade or business or for the production of income. You stop depreciating property either when you have recovered your cost or other basis or when you retire it from service. (See *Retired From Service,* later.) You have fully recovered your cost or other basis when you have taken section 179 and depreciation deduction that are equal to your cost or investment in the property.

Placed in Service

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

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

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

Retired From Service

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

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

Idle property. You must claim a deduction for depreciation on property usually used in your business but temporarily idle. For example, treat an item of property as used in your business even if there is a temporary lack of a market for the product made with that item of property.

Depreciation Not Deducted

You cannot deduct unclaimed depreciation in the current year or any later tax year. However, you can claim the depreciation on a timely filed amended return for the earlier year. You must file an amended return within 3 years from the date you filed your original return, or within 2 years from the time you paid your tax, whichever is later. A return filed early is considered filed on the due date.

If, in an earlier year, you did not claim depreciation you were entitled to deduct, you must still reduce the basis of the property. Reduce the basis by the amount of depreciation you were entitled to deduct. If you deduct more depreciation than you should, you must decrease your basis by the amount deducted to the extent of any benefit received from the excess depreciation claimed.

How To Claim Depreciation

Use Form 4562 to elect the section 179 deduction, discussed later in *Electing the Deduction* in Chapter 2. Also use this form to claim depreciation and amortization deductions.

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

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

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

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

Form 4562

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

Part I

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

Part II

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

Part III

This part of Form 4562 is used to report MACRS depreciation deductions for property placed in service prior to 1994. It is also used to report property being depreciated under the Accelerated Cost Recovery System (ACRS) which is discussed in Chapter 6. In addition, it is used to report depreciation deductions that were figured using other methods. If you elect to depreciate property under a method not based on a term of years as discussed in *What Cannot Be Depreciated Under MACRS,* later in Chapter 3, report that depreciation deduction in this part.

Part IV

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

Part V

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

Part VI

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

2.

Section 179 Deduction

Topics

This chapter discusses:

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

Useful Items

You may want to see:

❏ **448** Federal Estate and Gift Taxes

❏ **537** Installment Sales

Form (and Instructions)

❏ **4562** Depreciation and Amortization

❏ **4797** Sales of Business Property

If you purchase certain business property, you may be able to recover all or part of its cost by taking a section 179 deduction. Certain costs that you do not recover by the section 179 deduction can be recovered through depreciation as discussed in Chapter 3. The discussion in this chapter explains the kinds of property qualifying for the section 179 expense deduction and how to elect the deduction. It explains and provides a worksheet for you to figure your deduction and discusses when you may be required to recapture the deduction.

Section 179 Deduction Defined

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

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

What Costs Can and Cannot Be Deducted

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

Acquired by Purchase

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

Acquired by Trade

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

Example. In 1994, Silver Leaf, a retail bakery, traded two ovens having a total adjusted basis of $680 for a new oven costing $1,320. The bakery also traded a used van with an adjusted basis of $4,500 for a new van costing $9,000. The new items were placed in service in 1994. Silver Leaf was given an $800 trade-in for the old ovens and paid $520 cash for the new oven. The bakery was given a $4,800 trade-in and paid $4,200 cash for the new van.

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

Qualifying Property

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

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

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

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

Tangible Personal Property

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

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

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

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

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

Single Purpose Agricultural (Livestock) or Horticultural Structures

As used here, livestock includes poultry.

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

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

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

Horticultural structure. A single purpose horticultural structure is:

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

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

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

1) Stocking, caring for, or collecting livestock or plants or their produce,
2) Maintaining the enclosure or structure, and
3) Maintaining or replacing the equipment or stock enclosed or housed in the structure.

Business and Nonbusiness Use

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

Example 1. On February 5, 1994, May Oak bought and placed in service an item of section 179 property. She paid $11,000 for it. She used the property 80% for her business and 20% for personal purposes. The business part of the cost of her property is $8,800 (80% × $11,000).

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

Nonqualifying Property

You cannot claim the section 179 deduction on:

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

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

Production of Income

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

Acquired From Certain Groups or Persons

Property does not qualify for the section 179 deduction if:

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

Related persons. For these purposes, related persons are:

1) An individual and his or her spouse, child, parent, or other ancestor or lineal descendant.
2) A corporation and any individual who owns directly or indirectly more than 50% of the value of the corporation's outstanding stock.
3) Two corporations that are members of the same controlled group.
4) A fiduciary of a trust and a corporation if more than 50% of the value of the outstanding stock of the corporation is owned directly or indirectly by or for the trust or the grantor of the trust.
5) The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
6) The fiduciaries or the fiduciaries and beneficiaries of two different trusts if the same person is the grantor of both trusts.
7) Certain educational and charitable organizations and any person (including members of the person's family) who directly or indirectly controls the organization.
8) A partnership and a person who owns directly or indirectly an interest of more than 50% of the partnership's capital or profits.
9) Two partnerships if the same persons directly or indirectly own more than 50% of the capital or profits of each.
10) Two S corporations if the same persons own more than 50% in value of the outstanding stock of each corporation.
11) An S corporation and a corporation that is not an S corporation if the same persons own more than 50% in value of the outstanding stock of each corporation.
12) A corporation and a partnership if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital interest, or profits interest, in the partnership.

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

Electing the Deduction

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

You can make this election only in the tax year the property is placed in service.

Placed-in-Service Rule

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

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

How To Make the Election

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

1) The original return you file for the tax year the property was placed in service (whether or not you file your return on time), or
2) An amended return filed no later than the due date (including extensions) for your return for the tax year the property was placed in service.

Revoking an Election

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

Commissioner of Internal Revenue

Washington, DC 20224

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

Recordkeeping Requirements

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

How To Figure the Deduction

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

If you purchased and placed in service more than one item of qualifying property during the year, you can divide the deduction between them. If you have only one item of qualifying property and it costs less than $17,500 (for example, $3,200), your deduction is limited to the lesser of:

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

The taxable income limit is discussed later.

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

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

Deduction Limits

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

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

Maximum Dollar Limit

The total cost of section 179 property that you can elect to deduct for any year cannot be more than $17,500. (Before 1993, the maximum dollar limit was $10,000). This maximum dollar limit is reduced if you go over the investment limit (discussed later) in any tax year.

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

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

Example 1. Jack Elm is married. He and his wife filed separate returns for 1994. He bought and placed in service $200,000 of qualified farm machinery in 1994. His wife had her own business and she placed in service $5,000 of qualified business equipment. If Mr. and Mrs. Elm had filed a joint return for 1994, their maximum dollar limit would have been $12,500. This is because their $17,500 maximum dollar limit would have been reduced by $5,000 (the excess over the $200,000 investment limit). They elect to allocate the $12,500 as follows: $9,375 (75%) to Mr. Elm's machinery and $3,125 (25%) to Mrs. Elm's equipment. If they did not make an election to allocate their costs, they would be limited to the $12,500 multiplied by 50% or $6,250 each on their separate returns.

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

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

Example 2. Assume Jack Elm and his wife in Example 1 had filed separate tax returns. On their separate returns, Jack elected to expense $4,000 of section 179 property and his wife elected to expense $2,000. If they subsequently file a joint return after the due date for that tax year, their maximum dollar limit for section 179 is $6,000, the lesser of $17,500 or $6,000 (the total amount they elected to expense on their separate returns).

Investment Limit

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

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

Taxable Income Limit

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

Taxable income for this purpose is figured by totaling the net income (or loss) from all trades and businesses you and your spouse owned, if filing a joint return actively conducted during the tax year. Items of income derived from a trade or business actively conducted by you include section 1231 gains (or losses), and interest from working capital of your trade or business. Also include in aggregate taxable income any wages, salaries, tips, or other compensation earned as an employee. When figuring taxable income, do not take into account any unreimbursed employee business expenses you may have as an employee.

In addition, taxable income is figured without regard to:

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

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

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

The sale or exchange of real property or depreciable personal property used in a trade or business and held for more than one year.

The sale or exchange of cattle or horses held for draft, breeding, dairy, or sporting purposes and held for 2 years or more.

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

The sale, exchange, or involuntary conversion of unharvested crops on land used in farming if the crop and land are sold, exchanged, or involuntarily converted at the same time and to the same person and the land was held for more than one year.

The cutting of timber for sale or for use in your trade or business if:

- You elect to treat the cutting as a sale or exchange, and
- You either owned the timber for more than one year or held a contract right to cut the timber for more than one year.

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

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

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

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

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

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

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

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

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

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

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

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

Example. XYZ is a corporation. During the tax year, the corporation purchased and placed in service qualifying section 179 property that cost $17,500. It elects to expense as much as possible under section 179. The XYZ corporation also gave charitable contributions of $1,000 during the tax year. A corporation's deduction for charitable contributions cannot be more than 10 percent of its taxable income, figured after subtracting any section 179 deduction. The taxable income limit for the section 179 deduction is figured after subtracting any allowable charitable contributions. XYZ's taxable income figured without taking into account either any section 179 deduction or any deduction for the charitable contributions is $20,000. XYZ figures its section 179 deduction and its deduction for charitable contributions as follows.

Step 1. Taxable income figured without either deduction is $20,000.

Step 2. Using $20,000 as taxable income, a hypothetical section 179 deduction of $17,500 would be allowable.

Step 3. $20,000 (from Step 1) minus $17,500 (from Step 2) equals $2,500.

Step 4. Using $2,500 (from Step 3) as taxable income, a hypothetical charitable contribution (limited to 10 percent of taxable income) of $250 is figured.

Step 5. $20,000 (from Step 1) minus $250 (from Step 5) equals $19,750.

Step 6. Using $19,750 (from Step 5) as taxable income, the actual section 179 deduction is figured. Because the taxable income is at least $17,500, XYZ can take a $17,500 section 179 deduction.

Step 7. $20,000 (from Step 1) minus $17,500 (from Step 6) equals $2,500.

Step 8. Using $2,500 (from Step 7) as taxable income, the actual charitable contribution (limited to 10 percent of taxable income) of $250 is figured.

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

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

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

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

Partnerships and Partners

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

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

Figuring taxable income for a partnership. To figure taxable income (or loss) from the active conduct by a partnership of any trade or business, you total the net income (or loss) from all trades or businesses actively conducted by the partnership during the tax year. To determine the total amount of partnership items, you treat deductions and losses as negative income.

Partner's share of partnership taxable income. For purposes of section 179, a partner who is engaged in the active conduct of one or more of a partnership's trades or businesses includes some of the partnership's taxable income as his or her taxable income from the active conduct of a trade or business. The amount that the partner includes is his or her allocable share of taxable income derived from the partnership's active conduct of any trade or business.

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

Example. John Oak and James Oak are equal partners in Oak Company. Oak Company uses a tax year ending January 31. John and James both use a tax year ending December 31. For Oak Company's tax year ending January 31, 1994, it has taxable income from the active conduct of its trade or business of $80,000, of which $70,000 was earned during 1993. John and James each include $40,000 of partnership taxable income in computing their taxable income limit.

Basis adjustment. A partner must reduce the basis of his or her partnership interest by the total amount of section 179 expenses allocated from the partnership regardless of whether the partner can currently deduct the full amount of allocated section 179 expense. If a partner disposes of his or her interest in a partnership, the partner's basis for determining gain or loss is increased by any outstanding carryover of disallowed deduction of section 179 expenses allocated from the partnership.

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

Example. In 1994, Beech Partnership placed in service section 179 property with a total business cost of $204,000. The partnership's income for the year was $17,500. Because the business cost of the section 179 property exceeds $200,000 by $4,000, the partnership must reduce its maximum deduction allowed ($17,500) by $4,000. The maximum section 179 deduction for the partnership is $13,500. The partnership allocates this $13,500 equally to its two partners, Ann and Dean.

Ann had no other section 179 property placed in service this year. In addition to being a partner in the Beech Partnership, she also operates a business as a sole proprietorship. This business has taxable income of more than $3,000. She can claim the $3,000 allocated to her by Beech as a section 179 deduction.

In addition to being a partner in Beech Partnership, Dean also operates a business as a sole proprietorship. This year he placed $15,500 of qualifying section 179 property in service in his sole proprietorship business. This business had taxable income of $20,000. He is also a partner in the Cedar Partnership, which allocated him a section 179 amount of $7,000. Because he has a total section 179 deduction allocated from the partnerships of $13,750 ($6,750 from Beech and $7,000 from Cedar), he can elect a section 179 deduction of only $3,750 for the property from his sole proprietorship because his maximum section 179 deduction is $17,500.

S Corporations

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

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

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

Other Corporations

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

Passenger Automobiles

For passenger automobiles placed in service in 1994, the total of the section 179 and depreciation deductions cannot exceed $2,960 for 1994. For more information, see *Special Rules for Passenger Automobiles,* in Chapter 4.

Section 179 Worksheet

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

Section 179 Deduction Worksheet

Step 1: Maximum dollar limitation	$ 17,500
Step 2: Enter the total business cost of all your qualifying property placed in service during the tax year $ ________	

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

Step 3: Section 179 property investment limit ..... $ 200,000	
Step 4: Subtract Step 3 from Step 2. If Step 2 is less than Step 3, enter -0-	$
Step 5: Subtract Step 4 from Step 1. This is your reduced maximum dollar limitation. If Step 1 is less than Step 4, enter -0-	$
Step 6: Enter amount you elect to expense under section 179. (Do not enter more than Step 2.)	$
Step 7: Enter the smaller of Step 5 or Step 6. This is your tentative deduction	$
Step 8: Enter any section 179 carryover from prior years	$
Step 9: Enter the smaller of your 1994 taxable income limitation or your Step 5 amount	$
Step 10: Add Step 7 and Step 8. Do not enter more than your Step 9 amount. (No more than $2,960 can be entered on this line for a passenger automobile.) This is your 1994 section 179 deduction	$

Carryover to 1995:

Step 11: Add Step 7 and Step 8 $ ________	
Step 12: Enter Step 10 amount $ ________	
Step 13: Subtract Step 12 from Step 11. This is your carryover to 1995 ...	$

When To Recapture the Deduction

If you claim a section 179 deduction for the cost of property, and in a year after you place it in service, you do not use the property predominantly for business, you may have to recapture part of the deduction. This can occur in any tax year during the recovery period for the property.

See the *Table of Class Lives and Recovery Periods* near the end of this publication in Appendix B to determine the recovery period for your property.

If you elect the section 179 deduction, the amount deducted is treated as depreciation for purposes of the recapture rules. Thus, any gain you realize from a sale, exchange or other disposition of the property may have to be treated as ordinary income to the extent of the section 179 and depreciation deductions you claimed.

Report any recapture of the section 179 deduction on Form 4797.

To figure the amount to include in income, you subtract the depreciation that would have been allowable on the section 179 amount for prior tax years and the tax year of recapture from the section 179 deduction claimed.

Example 1. Shirley Butler, a calendar year taxpayer, bought and placed in service in her business on February 12, 1992, an item of 3–year property costing $5,000. She elected a section 179 deduction of $5,000 for the property. Since she deducted the full cost of the property in 1992, she cannot claim any depreciation for it in 1992. She used the property in her business for all of 1993.

For all of 1994, Shirley used the property only for personal use. Because of the change from business to personal use, she must recapture the benefit she got from the section 179 deduction claimed in 1992. Shirley figures her recapture amount as follows:

Section 179 Deduction Claimed (1992)		$5,000.00
Allowable Depreciation (Instead of Section 179):		
1992 — $5,000 × 33.33%*	$1,666.50	
1993 — $5,000 × 44.45%*	2,222.50	3,889.00
1994 — Recapture Amount		$ 1,111.00

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

Therefore, she must include $1,111 in income for the 1994 tax year. This is the excess of $5,000 (the amount claimed in 1992) over $3,889 (the depreciation that would have been allowable in 1992 and 1993). Because she did not use the property for business or investment purposes in 1994, she cannot claim any depreciation for 1994.

Example 2. Paul Lamb, a calendar year taxpayer, bought and placed in service on August 1, 1992, an item of 3–year property costing $10,000. The property is not listed property. He used the property only for business in 1992 and 1993. He elected a section 179 deduction of $5,000 for it. During 1994, he used the property 40% for business and 60% for personal use. He figures his recapture amount as follows:

Section 179 Deduction Claimed (1992)		$5,000.00
Allowable Depreciation (Instead of Section 179):		
1992 — $5,000 × 33.33%*	$1,666.50	
1993 — $5,000 × 44.45%*	2,222.50	
1994 — $5,000 × 14.81%* × 40% (Business)	296.20	4,185.20
1994 — Recapture Amount		$ 814.80

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

Paul must include $814.80 in income for 1994, the excess of $5,000 over $4,185.20 ($1,666.50 +$2,222.50 + $296.20).

Dispositions. If you elect the section 179 deduction, you treat the amount deducted as depreciation for purposes of the recapture rules. Thus, you must treat any gain you realize on disposition of your property as ordinary income to the extent of the section 179 and depreciation deductions taken. See *Depreciation Recapture on Personal Property* in Publication 544.

Installment sales. For an installment sale of qualifying property, you must generally include as ordinary income in the year of sale any depreciation recapture income to the extent of gain even if you receive no payments in the year of sale. See Publication 537.

3.

Modified Accelerated Cost Recovery System (MACRS)

Topics

This chapter discusses:

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

Useful Items

You may want to see:

Publication

- ❏ **225** Farmer's Tax Guide
- ❏ **463** Travel, Entertainment, and Gift Expenses
- ❏ **544** Sales and Other Dispositions of Assets
- ❏ **551** Basis of Assets
- ❏ **583** Taxpayers Starting a Business
- ❏ **587** Business Use of Your Home
- ❏ **917** Business Use of a Car

Form (and Instructions)

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

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

MACRS Defined

MACRS consists of two systems that determine how you depreciate your property. The main system is called the ***General Depreciation System (GDS)*** while the second system is called the ***Alternative Depreciation System (ADS).*** Unless ADS is specifically required by law or you elect it, GDS is generally used to figure your depreciation deduction. Property for which you are required by law to use ADS and how to elect ADS are discussed in *What Can Be Depreciated Under MACRS,* later. The main ***difference between the two systems*** is that ADS generally provides for a longer recovery period and uses only the straight line method of depreciation.

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

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

1) For all nonresidential real and residential rental property — the mid-month convention, and
2) For all other property,
   a) Generally the half-year convention, or
   b) If the basis of property placed in service during the last 3 months of the tax year (excluding residential rental, nonresidential real property and property placed in service and disposed of in the same year) exceeds 40 percent of the total bases of all property placed in service for the entire year — the mid-quarter convention.

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

MACRS provides five ways to depreciate property. Under GDS, there are:

Both the 200% and 150% declining balance methods over a GDS recovery period,

The 150% declining balance method over an ADS recovery period, and

The straight line method over a GDS recovery period.

Under ADS the straight line method is used over an ADS recovery period. You can elect to use ADS for property that qualified for GDS.

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

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

What Can Be Depreciated Under MACRS

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

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

When To Use GDS

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

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

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

When To Use ADS

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

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

What Cannot Be Depreciated Under MACRS

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

Property that you cannot depreciate using MACRS includes:

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

Property Placed in Service Before 1987

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

Note: For these rules, you do not treat real or personal property as owned before it is placed in service. Therefore, if you owned property in 1986 but did not place it in service until 1987, you do not treat it as owned in 1986.

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

Personal property. You cannot use MACRS for most personal property (section 1245 property) that you acquired after 1986 (after July 31, 1986, if MACRS was elected) if:

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

Real property. You cannot use MACRS for certain real property. This includes real property acquired after 1986 (after July 31, 1986, if MACRS was elected) if:

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

Note: This rule does not apply to nonresidential real property or residential rental property.

Special rule. The excluded property rules do not apply to any property if the allowable deduction for the property for the first tax year it is placed in service under ACRS is greater than the deduction under MACRS using the half-year convention.

For property placed in service before 1981 that is transferred to a related person or converted from personal to business use after 1986, you use the straight line or declining balance method. These methods are based on salvage value and useful life. See *Methods To Use* in Chapter 7.

If property placed in service after 1980 and before 1987 is transferred to a related person or converted from personal to business use after 1986, ACRS will apply to it. However, if the depreciation under ACRS gives a greater deduction than under MACRS, it must be depreciated under MACRS.

Example. On March 3, 1994, you bought machinery from your father, who bought it on November 1, 1986. You used it only for business in 1994. Because your father owned and used the machinery in 1986, it is excluded property. Its depreciable basis is $1,000. Under ACRS, your deduction would be $150 (15%, first year ACRS percentage for 5–year property ×$1,000). Under MACRS, the machinery is also 5–year property. The deduction would be $200 [(40% × $1,000) × 50%]. Because the depreciation for the machinery under MACRS is greater than that under ACRS, you must use ACRS to depreciate it.

Related Parties

In determining whether the owner or user of property has changed, a person is considered related to the owner or user if a relationship described in the following rules applied. You must make the determination of whether a person is related to another at the time you acquire the property involved. A partnership acquiring property from a terminating partnership must make its determination of whether it is related to the terminating partnership immediately before the event causing such termination. If a partnership terminates because of the sale or exchange, within 12 months, of 50% or more of its total interest in partnership capital or profits, this rule applies.

The law treats the following as related parties:

1) An individual and a member of his or her immediate family, including a spouse, child, parent, brother, sister, half-brother, or half-sister, or any ancestor or lineal descendant.
2) A corporation and an individual who owns directly or indirectly more than 10% of the value of the outstanding stock of that corporation.
3) Two corporations that are members of the same controlled group.
4) A fiduciary of a trust and a corporation, if more than 10% of the value of the outstanding stock is owned directly or indirectly by or for the trust or grantor of the trust.
5) The grantor and fiduciary of any trust, and the fiduciary and beneficiary of any trust.
6) The fiduciaries of two different trusts, and the fiduciaries and beneficiaries of two different trusts, if the same person is the grantor of both trusts.
7) Certain educational and charitable organizations and any person (if an individual, including the members of the individual's family) who directly or indirectly controls the organization.
8) A partnership and a person who owns directly or indirectly an interest of more than 10% of the capital or profits of the partnership.
9) Two partnerships, if the same persons directly or indirectly own more than 10% of the capital or profits of each.
10) The related person and a person who are engaged in trade or businesses under common control (see section 52(a) and (b) of the Internal Revenue Code).
11) Two S corporations if the same persons own more than 10% in value of the outstanding stock of each corporation.
12) An S corporation and a corporation that is not an S corporation if the same persons own more than 10% in value of the outstanding stock of each corporation.
13) A corporation and a partnership if the same persons own:
    a) More than 10% in value of the outstanding stock of the corporation, and
    b) More than 10% of the capital interest or profits interest in the partnership.

Constructive ownership of stock. To determine whether an individual constructively owns (is considered to own) any of the outstanding stock of a corporation, apply the following rules:

1) Stock owned by or for a corporation, partnership, estate, or trust is constructively owned proportionately by or for its shareholders, partners, or beneficiaries,
2) An individual constructively owns the stock owned by or for the individual's family, or
3) An individual owning, except by applying rule 2), any stock in a corporation, constructively owns the stock owned by or for the individual's partner.

For applying rules 1), 2), and 3), a person is treated as owning stock that he or she constructively owned by applying rule 1). But if an individual constructively owns stock by applying rule 2) or 3), he or she does not own the stock for reapplying either rule 2) or 3) to make another person the constructive owner of the same stock.

Constructive ownership of a partnership interest. Apply rules 1) and 2) just discussed to determine if a person owns more than a 10% interest in the capital or profits of a partnership. A person is treated as owning an interest that he or she constructively owns when applying rule 1). But, if an individual constructively owns an interest by applying rule 2), that individual is not treated as owning the interest for reapplying rule 2) to make another person the constructive owner of that interest.

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

The nontaxable transfers covered by this rule include:

1) A distribution in complete liquidation of a subsidiary,
2) A transfer to a corporation controlled by the transferor,
3) An exchange of property solely for corporate stock or securities in a reorganization,
4) A contribution of property to a partnership in exchange for a partnership interest, and
5) A partnership distribution of property to a partner.

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

Election To Exclude Property from MACRS

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

Use of Standard Mileage Rate

If you use the standard mileage rate for your business automobile, you are treated as having made an election to exclude the automobile from MACRS. See Publication 917 for a discussion of the standard mileage rate.

How To Figure the Deduction

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

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

Basis

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

Cost as Basis

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

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

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

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

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

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

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

Adjusted Basis

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

Basis of Property Changed From Personal Use

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

1) The fair market value (FMV) on the date you change it from personal use, or
2) Your original cost or other basis adjusted as follows:
   a) Increased by the cost of any permanent improvements or additions and other additions to basis, and
   b) Decreased by any tax deductions you claimed for casualty losses and other charges to basis claimed on earlier years' income tax returns.

Example. Several years ago Nia paid $60,000 to have her home built on a lot that cost her $10,000. Before changing the property to rental use last year, she paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house. Because land is not depreciable, she can only include the cost of the house when figuring the basis for depreciation.

Nia's adjusted basis in the house when she changes its use is $78,000 ($60,000 + $20,000 −$2,000). On the date of change in use her property has an FMV of $80,000, of which $15,000 is for the land and $65,000 is for the house. The basis for depreciation on the house is the FMV on the date of change ($65,000), because it is less than her adjusted basis ($78,000).

Investment Use

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

Business use,

Investment use, and

Personal use.

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

Property Classes and Recovery Periods

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

GDS

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

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

5–year property. This class includes automobiles, taxis, buses, trucks, computers and peripheral equipment, office machinery (such as typewriters, calculators, copiers, etc.), and any property used in research and experimentation. It also includes breeding cattle and dairy cattle.

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

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

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

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

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

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

a) Residential rental property (defined next), or

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

The recovery period for nonresidential real property is:

31.5 years for property you placed in service ***before*** May 13, 1993, or

39 years for property you placed in service ***after*** May 12, 1993.

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

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

Office in the home. If you begin to use part of your home as an office after 1986, that part of your home is depreciated as nonresidential real property over 39 years (31.5 years if ***before*** May 13, 1993) under GDS. See Publication 587 for a discussion of the tests that must be met to claim expenses, including depreciation, for the business use of your home.

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

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

1) The date the addition or improvement is placed in service, or

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

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

Example. You own a rental home which you have been renting out since 1980. If you put an addition on the home which you place in service on January 31, 1994, you use MACRS for it. Under GDS, the property class for the addition is residential rental property and its recovery period is 27.5 years because the home to which the addition is made would be residential rental property if it was placed in service on January 31, 1994.

Shorter Recovery Period for Property Used on Indian Reservations

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

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

To be qualified property, the property must not be:

1) Used or located outside an Indian reservation on a regular basis,

2) Acquired directly or indirectly from a related person (discussed later), or

3) Placed in service for purposes of conducting or housing class I, II, or, III gaming (as defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703)).

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

Qualified infrastructure property. Item 1 above does not apply to qualified infrastructure property located outside the reservation that is used to connect with qualified infrastructure property within the reservation. To be qualified property, it must:

1) Meet the rules stated above under *Qualified property* (except that it can be outside the reservation),

2) Benefit the tribal infrastructure,

3) Be available to the general public, and

4) Be placed in service in connection with the active conduct of a trade or business within a reservation.

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

Related persons. A person is a related person if:

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

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

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

Property Class	Recovery Period
3–Year	2 years
5–Year	3 years
7–Year	4 years
10–Year	6 years
15–Year	9 years
20–Year	12 years
Nonresidential Real Property	22 years

ADS

As discussed in *When To Use ADS* under *What Can Be Depreciated Under MACRS,* earlier, you must use ADS for certain property. It was also pointed out that you can elect to use ADS even if property qualifies for GDS. This election is discussed later in *Election of ADS* under *Depreciation Methods.* If you elect to use ADS, you will recover the cost of your property using the straight line method of depreciation. The recovery periods for most property are generally longer under ADS than they are under GDS. Some of the ADS recovery periods are as follows:

Property	Recovery Period
Nonresidential real and residential rental property	40 years
Automobiles and light duty trucks	5 years
Computers and peripheral equipment	5 years
High technology telephone station equipment installed on customer premises	5 years
High technology medical equipment	5 years
Single purpose agricultural and horticultural structures	15 years
Any tree or vine bearing fruit or nuts	20 years
Personal property with no class life	12 years

The ADS recovery periods for many items of property are located in the tables at the end of this publication in Appendix B.

ADS recovery periods for property not listed in Appendix B tables. For all personal property that is not listed in Appendix B that has a class life, the recovery period is the class life. Any personal property without a class life, has a recovery period of 12 years. For all section 1245 real property not listed in the tables, the recovery period is 40 years.

Placed-in-Service Date

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

Example 1. On November 23, 1993, Donald Steep bought a machine for his business. It was delivered on December 7, 1993. However, it was not installed and operational until January 4, 1994. Because it was not operational until 1994, it is considered placed in service in 1994. If the machine had been ready for use when it was delivered in 1993, it would be considered placed in service in 1993 even if it was not actually used until 1994.

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

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

Conventions

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

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

The Half-Year Convention

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

The Mid-Month Convention

This convention is used for:

- Nonresidential real property, and
- Residential rental property.

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

The Mid-Quarter Convention

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

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

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

1) The amount of amortization taken on the property,

2) Any section 179 deduction claimed on the property, and
3) Any deduction claimed for clean-fuel vehicles or for clean-fuel vehicle refueling property.

Depreciation Methods

The depreciation method you use depends on whether you use GDS or ADS, the class of property, and what type of property it is. Under MACRS, there are five methods to depreciate your property.

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

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

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

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

GDS

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

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

150% election. Instead of using the 200% declining balance method over the GDS recovery period for property in the 3–, 5–, 7–, and 10–year property classes, you can elect to use the 150% declining balance method over the ADS recovery period. Some of the ADS recovery periods are provided in *ADS* in *Property Classes and Recovery Periods,* earlier. For a list of ADS recovery periods, see the *Table of Class Lives and Recovery Periods* in Appendix B. If the property does not have an ADS recovery period specifically assigned to it, the recovery period is 12 years. If you elect this method, you change to the straight line method when it provides a larger deduction.

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

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

Straight line election. Instead of using either the 200% or 150% declining balance methods over the GDS recovery period, you can elect to use the straight line method over the GDS recovery period.

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

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

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

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

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

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

ADS

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

The ADS recovery periods for most classes of property can be found in the *Table of Class Lives and Recovery Periods* in Appendix B. For personal property not listed in the table, the ADS recovery period is 12 years. For section 1245 real property not covered by the table, the recovery period is 40 years.

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

Special Rules

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

Farm property. Property placed in service in a farming business after 1988 is depreciated under MACRS using any method other than the 200% declining balance method.

For a quick reference to the MACRS methods, see the *MACRS Depreciation Methods Chart,* later.

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

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

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

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

ADS required for some farmers. If you elect not to apply the uniform capitalization rules to any plant produced in your farming business, you must use ADS. The use of ADS applies to all property placed in service in any tax year the election is in effect. See Chapter 7 in Publication 225 for a discussion of the application of the uniform capitalization rules to farm property.

Depreciation Methods Chart

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

Depreciation Methods Chart

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

*Elective Method

Percentage Tables

Later, in Appendix A at the end of this publication are percentage tables you can use to figure your depreciation under MACRS.

Special Rules Governing Use of the Tables

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

1) The rates in the percentage tables must be applied to your property's ***unadjusted basis,***
2) You cannot use the percentage tables for a short tax year, and
3) When using the percentage tables to figure your depreciation, you must continue to use them for the entire recovery period unless there are adjustments to the basis of your property for reasons other than:
   a) Depreciation allowed or allowable, or
   b) An addition or improvement to that property that is depreciated as a separate item of property.
4) You cannot continue to use the tables if there is an adjustment to the basis of your property other than for a reason listed in 3), earlier.

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

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

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

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

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

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

The clean-fuel vehicle and clean-fuel vehicle refueling property deductions and the credit for electric vehicles are discussed in Chapter 15 of Publication 535.

Figuring MACRS deductions without the tables. If you are required to or would prefer to figure depreciation without using the tables, see *Figuring MACRS Deductions Without Tables,* later.

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

Example. On October 26, 1993, Sandra Elm bought and placed in service in her business an item of 7–year property. She uses the calendar year as her tax year. This is the only item of property she placed in service in 1993. It cost $27,500 and she elected a section 179 deduction of $17,500. Her unadjusted basis after the section 179 deduction was $10,000. Because it was placed in service during the last 3 months of her tax year, she was required to use the mid-quarter convention. Her property is in the 7–year class, and she figures her deduction using the percentages in Table A–5. For 1993, her depreciation is $357 ($10,000 × 3.57%).

In July 1994, her property was vandalized and Sandra had a deductible casualty loss of $3,000. She spent $3,500 to put the property back in working order. Because her property's basis must be adjusted for the casualty loss, she can no longer use the percentage tables. Her adjusted basis before figuring her 1994 depreciation is $10,143. This is figured by subtracting the 1993 depreciation of $357 and the casualty loss of $3,000 from the unadjusted basis of $10,000. To this amount, she adds the $3,500 repair cost. She can now figure her depreciation without the percentage tables for 1994.

Which Table To Use

Near the end of this publication in Appendix A is a *MACRS Percentage Table Guide.* This guide is designed to help you locate the correct percentage table to use for depreciating your property. The MACRS percentage tables immediately follow the guide in Appendix A.

MACRS Worksheet

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

MACRS Worksheet

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

Part I

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

Part II

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

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

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

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

MACRS Worksheet

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

Part I

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

Part II

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

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

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

Year	Basis	Percentage	Deduction
1995	$10,000	24.49%	$ 2,449
1996	$10,000	17.49%	$ 1,749
1997	$10,000	12.49%	$ 1,249
1998	$10,000	8.93%	$ 893
1999	$10,000	8.92%	$ 892
2000	$10,000	8.93%	$ 893
2001	$10,000	4.46%	$ 446

Examples

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

Example 1. You bought a building and land for $120,000. The sales contract showed the building cost $100,000 and the land $20,000. You placed this property in service in your business on October 7, 1994. It is nonresidential real property. You use the calendar year as your tax year. You do not elect to use ADS. You refer to the *MACRS Percentage Table Guide* in Appendix A at the end of this publication and find that you should use Table A–7a. The building's unadjusted basis is its original cost, $100,000. As discussed earlier, land is never depreciable.

Because October is the 10 month of your tax year, multiply the building's unadjusted basis, $100,000, by the percentages for the 10 month in Table A–7a. Your depreciation deduction for each of the first 3 years is as follows:

Year	Basis	Percentage	Deduction
1994	$100,000	0.535%	$ 535
1995	$100,000	2.564%	$ 2,564
1996	$100,000	2.564%	$ 2,564

Example 2. During 1994, you bought a machine that is 7–year property for $4,000, office furniture that is 7–year property for $1,000, and a computer that is 5–year property for $5,000. All the properties are used only for business. The machine was placed in service in January, the furniture in September, and the computer in October. You do not elect a section 179 deduction for any of these items. You use the calendar year as your tax year.

You decide to use GDS over the GDS recovery period for all of the properties. Because you placed property in service during the last three months of the year, you must first determine if you are required to use the mid-quarter convention. The total bases of all property placed in service in 1994 is $10,000. Because the basis of the computer ($5,000) which was placed in service during the last 3 months (the fourth quarter) of your tax year exceeds 40% of the total bases of all property ($10,000) placed in service during 1994, you are required to use the mid-quarter convention for all three items.

You refer to the *MACRS Percentage Table Guide* in Appendix A at the end of this publication to determine which table you should use under the mid-quarter convention. Because the machine is 7–year property, it must be depreciated using Table A–2. Because the furniture is also 7–year property, it must be depreciated using Table A–4. Finally, Because the computer is 5–year property, it must be depreciated using Table A–5. Knowing what table to use for each property, you figure the depreciation for the first two years as follows:

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

Figuring MACRS Deductions Without Tables

Instead of using the rates in the percentage tables to figure depreciation, you can actually compute the depreciation deduction each year. You must apply the appropriate convention for the first year and if applicable, the last year.

Declining Balance Method

To figure your MACRS deduction, first determine your declining balance rate. You do this by dividing the specified declining balance percentage (150% or 200% changed to a decimal) by the recovery period. For example, for 3–year property depreciated using the 200% declining balance rate, divide 2 (200%) by 3 to get 0.6667, or 66.67%. For 15–year property that is depreciated at the 150% declining balance rate, divide 1.5 (150%) by 15 to get 0.10, or 10%.

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

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

1) Multiply your adjusted basis in the property by the declining balance rate (figured as explained earlier), and
2) Apply the appropriate convention.

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

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

1) Reduce your adjusted basis in the property by the amount of depreciation claimed in earlier years, and
2) Multiply this adjusted basis by the same declining balance rate used in earlier years.

See *Straight Line Method,* later, for information on how to figure depreciation for years in which you must use the straight line method.

Declining Balance Rates

The following tables show the declining balance rate for each property class and the first year for which the straight line method gives an equal or greater deduction if GDS recovery periods are being used. For 3–, 5–, 7–, and 10–year property, the rate is based on the 200% declining balance method. For 15– and 20–year property, it is based on the 150% declining balance method.

If you are using ADS recovery periods, you must figure depreciation under both the declining balance method and the straight line method to determine the year to switch to the straight line method.

Class	Declining Balance Rate	Year
3	66.67%	3rd
5	40%	4th
7	28.57%	5th
10	20%	7th
15	10%	7th
20	7.5%	9th

Straight Line Method

When using the straight line method, you must determine a new depreciation rate for each tax year in the recovery period. Also, you must apply the appropriate convention. The conventions are explained later under *Applying the Conventions.*

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

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

1) Multiply your adjusted basis in the property by the depreciation rate (figured as explained earlier), and
2) Apply the appropriate convention.

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

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

1) Reduce your adjusted basis in the property by the amount of depreciation claimed in earlier years (under any method),
2) Determine the depreciation rate for the year as explained earlier (taking into account the convention used in the tax year you placed the property in service), and
3) Multiply the adjusted basis figured in 1) by the depreciation rate figured in 2).

Applying the Convention

You must apply the appropriate convention in the following two years:

1) The year in which you place property in service, and
2) If you dispose of property before the end of the recovery period, the year of disposal.

Half-Year Convention

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

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

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

First, figure the depreciation for a full tax year using the method you select. Then you apply the half-year convention by taking half of that amount. You do this by dividing the full amount of depreciation by 2. The result is your depreciation deduction for the first tax year or for the year of disposal.

Mid-Quarter Convention

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

A quarter is a period of three months. The first quarter in a year begins on the first day of the tax year. The second quarter begins on the first day of the fourth month of the tax year. The third quarter begins on the first day of the seventh month of the tax year. The fourth quarter begins on the first day of the 10 month of the tax year. A calendar year is divided into the following quarters:

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

To figure your MACRS deduction using the mid-quarter convention, first you must figure your depreciation for the full tax year. Then multiply by the following percentages for the quarter of the tax year the property is placed in service.

Quarter of Tax Year	Percentage
First	87.5%
Second	62.5%
Third	37.5%
Fourth	12.5%

Mid-Month Convention

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

Example. You use the calendar year and place nonresidential real property in service in August 1994. The property is in service 4 full months in 1994 (September, October, November, and December). Your numerator is 4.5 (4 full months plus 0.5).

Examples

The following examples show how to figure depreciation under MACRS without using the percentage tables. Figures are rounded for purposes of the examples.

Example 1. You bought for $10,000 and placed in service on August 11, 1994, an item of 7–year property. You do not elect a section 179 deduction for this property. The adjusted basis of the property is $10,000. You use GDS to figure your depreciation. This is the only item of property placed in service during 1994. You use the calendar year as your tax year. Therefore, you apply the half-year convention.

The 200% declining balance rate for 7–year property is 28.57%. You determine this by dividing 2.00 (200% DB rate shown as a decimal) by 7 (years in the recovery period). You get .2857 or 28.57%.

You multiply the adjusted basis of $10,000 by .2857. This gives you a full year's depreciation, $2,857. You then apply the half-year convention by dividing $2,857 by 2. This gives you a depreciation deduction for 1994 of $1,429.

For 1995, your depreciation deduction is $2,449. You figure this by subtracting $1,429 from $10,000 to get the adjusted basis of $8,571 for the property. Then you multiply the $8,571 by .2857 (the full year rate for 7–year property using 200% DB).

For 1996 and 1997, you follow the same procedure. Your deduction for 1996 will be $1,749 [$6,122 ($8,571 – $2,449) × .2857]. Your deduction for 1997 will be $1,249 [$4,373 ($6,122 – $1,749) × .2857].

For 1998, the fifth year of the recovery period, you change to the straight line method. You divide 1 by 3.5 (remaining years) to get .2857 that is the same as the 200% declining balance rate. Your deduction for 1998 will be $893 [$3,124 ($4,373 – $1,249) × .2857].

For 1999, you figure a straight line rate of .40 (1 divided by 2.5 remaining years). Your deduction will be $892 [$2,231 ($3,124 – $893) × .40].

For 2000, you figure a straight line rate of .6667 (1 divided by 1.5 remaining years). Your deduction will be $893 [$1,339 ($2,231 – $892) ×.6667].

For 2001, your deduction will be your remaining basis of $446 ($1,339 – $893). At the beginning of 2001 the remaining recovery period (a half year) will be less than one year. Therefore, the straight rate is 100%.

Example 2. You bought a building for $100,000 that is nonresidential real property that you placed in service in your business on January 7, 1994. You use the calendar year as your tax year. The adjusted basis of the building is its cost of $100,000. You figure your MACRS depreciation for the building by dividing 1 by 39 years to get the straight line depreciation rate for a full year of .02564. The depreciation for a full year is $2,564 ($100,000 × .02564). Under the mid-month convention, you treat the property as placed in service in the middle of October. Therefore, you would get 11.5 months of depreciation for 1994. Expressed as a decimal, the fraction of 11.5 months divided by 12 months is .958. Your 1994 depreciation for the building is $2,456 ($2,564 × .958).

For 1995, you subtract $2,456 from $100,000 to get your unrecovered basis of $97,544 for the building. The straight line rate for the second year will be .02629. This is 1 divided by the remaining recovery period of 38.04. The remaining recovery period is the recovery period of 39 years reduced by 11.5 months or .958 and rounded to 38.04. Your depreciation for the building for 1995 will be $2,564 ($97,544 ×.02629).

For 1996, the unrecovered basis will be $94,980 ($97,544 – $2,564). The straight line rate will be .027 (1 divided by 37.04 remaining years). Your depreciation for 1996 will be $2,564 ($94,980 ×.027).

Example 3. During 1994, you bought a machine for $4,000. You placed it in service in January. You also bought office furniture for $1,000 that you placed in service in September. In October, you bought and placed in service a computer that cost $5,000 (not listed property). You do not elect a section 179 deduction and do not wish to use the tables. You use the calendar year as your tax year. You use GDS to figure the depreciation. The total basis of all property placed in service in 1994 is $10,000. Because the basis of the computer ($5,000) exceeds 40% of the total bases of all property ($10,000) placed in service during 1994, you must use the mid-quarter convention. This convention will apply for all three items of property. The machine and office furniture are in the 7–year property class and the computer is in the 5–year property class.

The 200% declining balance rate for 7–year property is .2857. You determine this by dividing 2.00 (200% DB rate shown as a decimal) by 7 (years in the recovery period). You get .2857 or 28.57%. The depreciation for the machine for a full year is $1,143. You get this by multiplying the cost of $4,000 by the declining balance rate of .2857. Because the machine was placed in service in the first quarter of your tax year, you multiply $1,143 by 87.5% (mid-quarter percentage for the first quarter). The result is your deduction of $1,000 for 1994 for depreciation on the machine.

For 1995, you must first figure your adjusted basis of the machine. You do this by subtracting the 1994 depreciation ($1,000) from the basis of the machine ($4,000). Your depreciation deduction for 1995 is $857 [$3,000 ($4,000 – $1,000) × .2857].

Because the furniture is also 7–year property, you use the same 200% declining balance rate of .2857. You multiply the basis of the furniture ($1,000) by .2857 to get the depreciation of $286 for the full year. Because the furniture was placed in service in the third quarter of your tax year, you multiply $286 by 37.5% (mid-quarter percentage for the third quarter). The result is your deduction of $107 for 1994 for depreciation on the furniture.

For 1995, you must first figure your adjusted basis of the furniture. You do this by subtracting the 1994 depreciation ($107) from the basis of the furniture ($1,000). Your depreciation for 1995 will be $255 [$893 ($1,000 – $107) ×.2857].

The 200% declining balance rate for 5–year property is .40. You determine this by dividing 2.00 (200% DB rate shown as a decimal) by 5 (years in the recovery period). You get .40 or 40%. The depreciation for the computer for a full year is $2,000. You get this by multiplying the basis of $5,000 by the declining balance rate of .40. Because the computer was placed in service in the fourth quarter of your tax year, you multiply the $2,000 by 12.5% (mid-quarter percentage for the fourth quarter). The result is your deduction of $250 for 1993 for depreciation on the computer.

For 1995, you must first figure the adjusted basis for the computer. You do this by subtracting the 1994 depreciation ($250) from the basis ($5,000). Your depreciation deduction for 1995 will be $1,900 [$4,750 ($5,000 – $250) × .40].

Example 4. You bought and placed in service in your business on October 26, 1993, an item of 7–year property. You use the calendar year as your tax year. This is the only item of property you placed in service in 1993. The property cost $20,000 and you elected a $10,000 section 179 deduction for it. Your unadjusted basis for the property is $10,000. Because you placed your property in service in the last 3 months of your tax year, you must use the mid-quarter convention. You figured your deduction using the percentages in Table A–5 for 7–year property. For 1993, your depreciation was $357 ($10,000 × 3.57%).

In July 1994, your property was vandalized. You had a deductible casualty loss of $3,000. You spent $3,500 to put the property back in operational order. Your adjusted basis at the end of 1994 is $10,143. You figured this by subtracting the 1993 depreciation ($357) and the casualty loss ($3,000) from the unadjusted basis of $10,000. To this amount, you added the $3,500 repair cost.

You cannot use the table percentages to figure your depreciation for this property for 1994 because of the adjustments to basis. You must figure the deduction yourself. The declining balance rate for 7–year property is .2857. You determined this by dividing 2.00 (200% DB rate shown as a decimal) by 7 (years in the recovery period). The result is .2857 or 28.57%. You multiply the adjusted basis of your property ($10,143) by the declining balance rate of .2857 to get your depreciation deduction of $2,898 for 1994.

Example 5. You apply the straight line method to property with a 5–year recovery period as follows:

For the first year,

a) You determine the straight line rate for the first tax year. You divide the number

1 by 5 (the number of years in the recovery period). This gives you a straight line rate of .20 or 20% for a full tax year. You then apply the half-year convention. Your first year rate is .10 or 10%.

b) You multiply the rate obtained in a) by the cost or other basis of your property to get your MACRS deduction.

For all subsequent years except the final year,

a) You determine the remaining recovery period at the beginning of the year. For the second year of recovery, it is 4.5 years because of applying the half-year convention in the first year. You divide the number 1 by the number of years remaining in the recovery period at the beginning of the tax year (4.5 for the second year). This gives you a straight line rate for the second year of .2222 or 22.22%.

b) Next, you determine the unrecovered basis of your property for the subsequent year. This is the cost or other basis of your property less the depreciation taken for the prior years.

c) You get your MACRS deduction by multiplying the subsequent year rate by the unrecovered basis of the property.

For the final year of recovery,

a) For 5–year property, your final year is the sixth year because of applying the half–year convention in the first year.

b) You do not need to determine the rate for the final year because the remaining recovery period is less than 1 year. The rate for the final tax year is 1.0 or 100%.

MACRS Deduction in Short Tax Year

A short tax year is any tax year with less than 12 full months. This section discusses the rules for determining the depreciation deduction for tangible property you place in service in a short tax year. It also discusses the rules for determining depreciation when you have a short tax year during the recovery period other than the year the property is placed in service.

Determining Placed-in-Service Date in Short Tax Year

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

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

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

For a short tax year beginning on the first day of a month or ending on the last day of a month, the tax year consists of the number of months in the tax year. If the short tax year includes part of a month, you generally include the full month in the number of months in the tax year. You determine the midpoint of the tax year by dividing the number of months in the tax year by 2. For the half-year convention, you treat property as placed in service on either the first day or the midpoint of a month. For example, a short tax year that begins on June 20 and ends on December 31 consists of 7 months. Because you use only full months for this determination, you treat the tax year as beginning on June 1 instead of June 20. The midpoint of the tax year is 3½ months from the beginning of the tax year or the middle of September.

Example. Tara Corporation, a calendar year taxpayer, was incorporated on March 15, 1994. For purposes of the half-year convention, it has a short tax year of 10 months, ending on December 31, 1994. During the 1994 tax year, Tara placed property in service for which it uses the half-year convention. Tara treats this property as placed in service on the first day of the sixth month of the short tax year, or August 1, 1994.

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

Mid-quarter convention. To determine if you must use the mid-quarter convention, compare the basis of property placed in service in the last 3 months of your tax year to that of property placed in service during the full tax year. The length of your tax year is immaterial. If you have a short tax year of 3 months or less, use the mid-quarter convention for all applicable property placed in service during that tax year.

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

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

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

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

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

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

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

Example. Tara Corporation, a calendar year taxpayer, was incorporated and began business on March 15, 1994. It has a short tax year of 9½ months, ending on December 31, 1994. During December 1994, it placed property in service for which it must use the mid-quarter convention. Because this is a short tax year of other than 4 or 8 full calendar months, it must determine the midpoint of each quarter.

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

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

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

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

Quarter	Midpoint	Deemed Placed in Service Date
March 15-May 26	April 20	Middle of April
May 27-August 7	July 2	Beginning of July
August 8-October 19	September 13	Beginning of September
October 20-December 31	November 25	Middle of November

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

Figuring Depreciation in a Short Tax Year

You cannot use the MACRS percentage tables to determine depreciation for a short tax year. If you place property in service in a short tax year, you must first determine the depreciation for a full tax year. You do this by multiplying your basis in the property by the applicable depreciation rate. Then determine the depreciation for the short tax year. Do this by multiplying the depreciation for a full tax year by a fraction. The numerator of the fraction is the number of months (including parts of a month) the property is treated as in service during the tax year (applying the applicable convention). The denominator is 12. See *Depreciation in Recovery Years After Short Tax Year* for how to figure depreciation in later years.

Example 1. Tara Corporation, with a short tax year beginning March 15 and ending December 31, 1994, placed in service on March 16 an item of 5–year property. This 5–year property had a basis of $100. This is the only property the corporation placed in service during the short tax year. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40% and Tara applies the half-year convention.

Tara treats the property as placed in service on August 1, 1994. The law allows Tara 5 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($100) by 40% (the declining balance rate) to get the depreciation for a full tax year of $40. The corporation must then multiply this amount by 5 (the number of months the property is treated as in service) to get $200. They divide the $200 by 12 to arrive at the short tax year depreciation of $16.67.

Example 2. Tara Corporation, with a short tax year beginning March 15 and ending on December 31, 1994, placed in service on October 16 an item of 5–year property. This property has a basis of $100. This is the only property the corporation placed in service during the short tax year. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40%. The corporation must apply the mid-quarter convention because the property was placed in service in the last 3 months of the tax year.

Tara treats the property as placed in service on September 1, 1994. MACRS allows Tara 4 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($100) by 40% (the declining balance rate) to get the depreciation for a full tax year of $40. They must then multiply this amount by 4 (the number of months the property is treated as in service) to get $160. Then Tara divides the $160 by 12 to arrive at the short tax year depreciation of $13.33.

Depreciation in Recovery Years After Short Tax Year

You can use either the "simplified method" or the "allocation method" to figure the depreciation for later tax years in the recovery period. You must use the method you choose consistently until the year of change to the straight line method.

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

Example. Tara Corporation has a short tax year of 10 months, ending on December 31, 1994. It placed in service an item of 5–year property with a basis of $100. It claimed depreciation of $16.67 using a depreciation rate of 40% and the half-year convention. The unrecovered basis on January 1, 1995, is $83.33 ($100 – $16.67). Tara's depreciation for its 1995 tax year will be 40% of $83.33, or $33.33.

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

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

Example. Assume the same facts as in Example 1 under *Figuring Depreciation in a Short Tax Year* for the Tara Corporation. Its 1995 tax year is a full tax year of 12 months, beginning January 1 and ending December 31, 1995. A recovery year for the 5–year property placed in service during the 1994 short tax year extends from August 1 to July 31. Tara deducted 5 months of depreciation for the first recovery year on its 1994 tax return. Seven months of the first recovery year and 5 months of the second recovery year fall within its 1995 tax year. The depreciation for the 1995 tax year will be $33.33 which is the sum of:

$23.33 — The depreciation for the short year ($40) × 7/12, and

$10 — The depreciation for the second tax year [$60 ($100 – $40) × 40%] or $24 × 5/12.

More information. For more information on figuring depreciation in a short tax year, see Revenue Procedure 89-15, 1989-1 CB 816.

Dispositions

A disposition is the permanent withdrawal of property from use in your trade or business or in the production of income. You can make a withdrawal by sale, exchange, retirement, abandonment, or destruction.

You generally recognize gain or loss on the disposition of an asset by sale. However, nonrecognition rules may allow you to postpone some gain. See Publication 544.

Early Dispositions

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

Mid-Month Convention Used

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

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

Example. On July 2, 1992, you purchased and placed in service residential rental property. The property cost $100,000, not including the cost of land. You file your tax return based on the calendar year. You used Table A–6 to figure your MACRS depreciation for this property. You sold the property on March 2, 1994.

The depreciation for the 1994 full tax year is $3,636. This is $100,000 multiplied by .03636 (the percentage for the seventh month of the third recovery year), from Table A–6. You must then apply the mid-month convention for the 2 ½ months of use in 1994. Multiply $3,636 by 2.5 and divide by 12 to get your 1994 depreciation deduction of $757.50.

Property placed in service in short tax year. If you placed property in service in a short tax year, you are using either the simplified method or the allocation method to figure your depreciation in later years in the recovery period. How you figure depreciation in the year of disposal depends on which method you are using.

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

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

Half-Year Convention Used

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

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

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

Mid-Quarter Convention Used

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

Quarter of tax year	Percentage
First	12.5%
Second	37.5%
Third	62.5%
Fourth	87.5%

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

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

Example. On December 2, 1992, you placed an item of 5–year property in service in your business. The property cost you $10,000 and you did not claim a section 179 deduction for it. Your basis for the property is $10,000. This is the only item of business property placed in service in 1992. Because you placed the property in service during the last 3 months of your tax year, you had to use the mid-quarter convention for this item of property. Because your property is in the 5–year property class, you use Table A–5 to figure your depreciation deduction. Your deduction for 1992 and 1993 for the property was $500 (5% of $10,000) and $3,800 (38% of $10,000). If you dispose of the property on April 6, 1994, figure your 1994 depreciation using the mid-quarter convention. First figure the deduction for the full year of 1994, which is $2,280 (22.8% of $10,000). Since April is in the second quarter of the tax year, you multiply $2,280 by 37.5% to get your depreciation deduction of $855 for 1994.

Depreciation Recapture

All gain on dispositions of property, other than residential rental and nonresidential real property depreciated under MACRS, is recaptured as ordinary income to the extent of previously allowed depreciation. For this rule, you treat any section 179 deduction claimed on the property as depreciation. Also, any deduction claimed for clean-fuel vehicles and clean-fuel vehicle refueling property is treated as depreciation. For residential rental and nonresidential real property depreciated under MACRS, there is no recapture of previously allowed depreciation. For more information, see Publication 544.

4.

Listed Property

Topics

This chapter discusses:

- Listed property defined
- The predominant use test
- Special rules for passenger automobiles
- What records must be kept

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

- ❏ **2106–EZ** Unreimbursed Employee Business Expenses
- ❏ **2106** Employee Business Expenses
- ❏ **4255** Recapture of Investment Credit
- ❏ **4562** Depreciation and Amortization

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

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

Listed Property Defined

Listed property is any of the following:

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

Other Property Used for Transportation

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

Listed property does not include:

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

Computers and Related Peripheral Equipment

A computer is a programmable electronically activated device that:

1) Is capable of accepting information, applying prescribed processes to the information, and supplying the results of those processes with or without human intervention, and
2) Consists of a central processing unit with extensive storage, logic, arithmetic, and control capabilities.

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

Computer or peripheral equipment does not include:

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

Improvements to Listed Property

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

Predominant Use Test

If ''listed property,'' defined earlier, placed in service after June 18, 1984, is not used predominantly (more than 50%) in a qualified business use during any tax year:

- The section 179 deduction on the property is not allowable, and
- You must depreciate the property using the straight line method.

Listed property placed in service after 1986. For listed property placed in service after 1986 that you do not use predominantly in a qualified business use, you must figure the depreciation using ADS (straight line method) over the ADS recovery period. This rule also applies to listed property placed in service after July 31, 1986, if you elected MACRS.

Listed property placed in service before 1987. For listed property placed in service before 1987, depreciate the property over the following period:

Class of Property	Listed Property Recovery Period
3–year property	5 years
5–year property	12 years
10–year property	25 years
18–year real property	40 years
19–year real property	40 years

If you are required to use the above recovery periods for listed property not used predominantly in a trade or business, use the percentages from Table C–16 titled *Listed Property Not Used Predominantly (Other Than 18– or 19–year Real Property),* and Table C–17 for 18– or 19–year real property, near the end of this publication in Appendix C.

Meeting the Predominant Use Test

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

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

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

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

Qualified Business Use

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

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

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

A 5% owner of a corporation is any person who owns, or is considered to own:

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

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

Entertainment Use

The use of listed property for entertainment, recreation, or amusement purposes is treated as a qualified business use only to the extent that expenses (other than interest and property tax expenses) attributable to its use are deductible as ordinary and necessary business expenses. See Publication 463.

Leasing or Compensatory Use of Aircraft

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

Commuting

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

Use of Your Passenger Automobile by Another Person

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

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

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

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

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

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

Employees

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

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

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

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

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

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

Example 3. Assume the same facts as in Example 2, except that Uplift furnishes a car to Bill who chooses to use his own car and receive reimbursement. The use of his own car is neither for the convenience of Uplift nor required as a condition of employment.

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

Example 5. David Rule is employed as an engineer with Zip, an engineering contracting firm. He occasionally takes work home at night rather than work late in the office. He owns and uses a home computer which is virtually identical to the office model. David's computer is listed property because it is not used at a regular business establishment. His use of the computer is neither for the convenience of his employer nor a required condition of employment.

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

Method of Allocating Use

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

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

Applying the Predominant Use Test

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

First Recovery Year

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

1) The property is not eligible for a section 179 deduction, and

2) The depreciation deduction must be figured using ADS.

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

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

Example. On July 1, 1994, James Wand bought and placed in service a computer, which is 5–year property, costing $4,000. In 1994, he uses the computer 40% in a qualified business use, 30% for investment purposes (to produce income), and 30% for personal use. James's computer is listed property because it is not used at a regular business establishment. Because the qualified business use is only 40%, he cannot elect any section 179 deduction and must use ADS to figure depreciation. Under ADS, he figures his depreciation deduction using the straight line method over the ADS 5–year recovery period. To determine his deduction, he must first determine the business/investment portion of his property cost. He does this by multiplying the total cost by the business/investment use percentage ($4,000 ×70%). He then figures his depreciation deduction. He refers to Table A–8 and obtains the first-year rate of 10% using the half-year convention. He then multiplies the business/investment portion of the cost by the first-year straight line rate ($2,800 × 10%). The result is his depreciation deduction, $280.

Years After the First Recovery Year

If you use listed property predominantly (more than 50%) in a qualified business use in the tax year you place it in service, but not in a subsequent tax year during the recovery period, the following rules apply:

1) Figure depreciation using the straight line method. Do this for each year, beginning with the year you no longer use the property predominantly in a qualified business use, and

2) Figure any excess depreciation on the property and add it to:

   Your gross income, and

   The adjusted basis of your property.

See *Recapture of excess depreciation,* later.

Placed in service before 1987. If you placed listed property in service before 1987, use Table C–16 or C–17 in Appendix C to determine the depreciation under the straight line method.

Placed in service after 1986. For listed property placed in service after 1986, you determine the depreciation using the ADS method of straight line depreciation. The ADS recovery periods for many items of property are located in the tables in Appendix B of this publication.

Recapture of excess depreciation. You must include any excess depreciation in your gross income for the first tax year the property is not predominantly used in a qualified business use. Any excess depreciation must also be added to the adjusted basis of your property. Excess depreciation is the excess (if any) of:

1) The amount of depreciation allowable for the property (including any section 179 deduction claimed) for tax years before the first tax year the property was not predominantly used in a qualified business use, over

2) The amount of depreciation that would have been allowable for those years if the property were not used predominantly in a qualified business use for the year it was placed in service. This means you figure your depreciation using the percentages from Table C–16 or C–17 (for property placed in service before 1987) or the ADS method.

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

Example. On June 25, 1990, Ellen Rye purchased and placed in service a pickup truck that cost $18,000. The pickup truck had gross vehicle weight of 7,000 pounds. She used it only in a qualified business use for 1990 through 1993. Because the pickup truck weighed over 6,000 pounds, it was not subject to the limits that apply to passenger automobiles as discussed under *Special Rules for Passenger Automobiles,* later. Ellen claimed a section 179 deduction of $10,000 based on the purchase of the truck. She began depreciating it using 200% DB over a 5-year GDS recovery period. If, during 1994, she had used the truck 50% for business and 50% for personal purposes, she would have been required to include $4,018 excess depreciation in her gross income. The excess depreciation would have been determined as follows:

Total Section 179 Deduction and Depreciation Claimed (Table A-1)		$16,618
Section 179 deduction	$10,000	
Depreciation Allowable (Table A–8):		
1990—10% of $18,000	$ 1,800	
1991—20% of $18,000	$ 3,600	
1992—20% of $18,000	$ 3,600	
1993—20% of $18,000	$ 3,600	12,600
Excess Depreciation		$ 4,018

If her use of the truck did not change to 50% for business and 50% for personal purposes until 1996, she would not be required to include any excess depreciation in income. This is because there would be no excess depreciation. The total depreciation allowable using Table A–8 through 1995 would be $18,000 which equals the total depreciation plus the section 179 deduction she claimed.

Deductions After Recovery Period

When listed property (other than passenger automobiles) is used for business, investment, and personal purposes, no deduction is ever allowable for the personal use. In tax years after the recovery period, you must determine if there is any unrecovered basis remaining before you compute the depreciation deduction for that tax year. To make this determination, figure the depreciation for earlier tax years as if your property were used 100% for business or investment purposes, beginning with the first tax year in which some or all use is for business or investment. See *Car Used 50% or Less for Business* in Publication 917.

Example. On October 1, 1988, Betty Oaks purchased and placed in service a home computer (5–year recovery property under MACRS). She installed the computer in her basement for use in her business that she operates out of her home. However, because she does not use her basement regularly and exclusively for business purposes, the home computer is listed property. Her business use for the computer in 1988 through 1993 was 80% each year. She claimed depreciation using regular MACRS percentages for these years based on her percentage of business use.

If, in 1994, Betty used the computer 100% in a qualified business use, she would not be entitled to claim any depreciation because there is no remaining basis to be recovered. The computer was 5–year property under MACRS. If the property had been used 100% in business, she would have depreciated it in full after 6 years using the regular MACRS percentage tables. This is because MACRS percentage tables had the use of conventions built into the table rates. Her unrecovered basis in 1994 would have been zero.

Leased Property

The limitations on cost recovery deductions apply to the rental of listed property. The following discussion covers the rules that apply to the lessor (the owner of the property) and the lessee (the person who rents the property from the owner). See *Leasing a Car* in Publication 917 for a discussion of leased passenger automobiles.

Lessor

The limitations on cost recovery generally do not apply to any listed property leased or held for leasing by anyone regularly engaged in the business of leasing listed property.

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

Lessee

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

The inclusion amount for listed property leased after 1986 is the sum of amount A and amount B.

Amount A. Amount A is the product of:

1) The fair market value of the property, multiplied by

2) The business/investment use for the first tax year the business use percentage is 50% or less, multiplied by

3) The applicable percentage from Table A–19 in Appendix A.

Amount B. Amount B is the product of:

1) The fair market value of the property, multiplied by

2) The average of the business/investment use for all tax years the property is leased that precede the first tax year the business use percentage is 50% or less, multiplied by

3) The applicable percentage from Table A–20 in Appendix A.

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

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

Inclusion Amount Worksheet

The following worksheet is provided to help you figure the inclusion amount for listed property leased after 1986.

Inclusion Amount Worksheet for Listed Property (Leased)

1. Fair market value	
2. Business/investment use for first year business use is 50% or less	
3. Multiply line 1 by line 2.	
4. Table rate (%)	
5. Multiply line 3 by line 4. This is Amount A	
6. Fair market value	
7. Average business/investment use for years property leased prior to the first year business use is 50% or less	
8. Multiply line 6 by line 7	
9. Table rate (%)	
10. Multiply line 8 by line 9. This is Amount B	
11. Add line 5 and line 10. This is your inclusion amount. Enter here and as ''other income'' on the form or schedule on which you originally took the deduction (i.e., Schedule C, F, Form 1040, 1120, etc.)	

Example. On February 1, 1992, Larry House, a calendar year taxpayer, leased and placed in service a computer with a fair market value of $3,000. The lease is for a period of five years. Because Larry does not use the computer at a regular business establishment, it is listed property. His qualified business use of the property is 80% in tax year 1992, 60% in 1993, and 40% in 1994. He must add an inclusion amount to gross income for 1994, the first tax year he does not use the computer more than 50% for business. The computer has a 5–year recovery period under both GDS and ADS. Because 1994 is the third tax year of the lease, the applicable percentage from Table A–19 is −7.2%. The applicable percentage from Table A–20 is 10%. You use the *Inclusion Amount Worksheet for Listed Property (Leased)* to figure the amount Larry must include in income for 1994. His inclusion amount is $224, which is the sum of –$238 (amount A) and $462 (amount B).

Inclusion Amount Worksheet for Listed Property (Leased)

1. Fair market value	$3,000
2. Business/investment use for first year business use is 50% or less	40%
3. Multiply line 1 by line 2.	1,200
4. Table rate (%)	-19.8%
5. Multiply line 3 by line 4. This is Amount A	-238
6. Fair market value	3,000
7. Average business/investment use for years property leased prior to the first year business use is 50% or less	70%
8. Multiply line 6 by line 7	2,100
9. Table rate (%)	22.0%
10. Multiply line 8 by line 9. This is Amount B	462
11. Add line 5 and line 10. This is your inclusion amount. Enter here and as ''other income'' on the form or schedule on which you originally took the deduction (i.e., Schedule C, F, Form 1040, 1120, etc.)	$224

Inclusion amount before 1987. You determine the inclusion amount for property leased after June 18, 1984 and before 1987 by multiplying the fair market value of the property by both the average business/investment use percentage and the applicable percentage. You can find the applicable percentages for listed property that is 5– or 10–year recovery property in Tables C–19 or C–20 in Appendix C.

The ***lease term*** for listed property other than 18– or 19–year real property, and residential rental or nonresidential real property, includes options to renew. For 18– or 19–year real property and residential rental or nonresidential real property that is listed property, the period of the lease does not include any option to renew at fair market value, determined at the time of renewal. You treat two or more successive leases that are part of the same transaction (or a series of related transactions) for the same or substantially similar property as one lease.

Special rules. The lessee adds the inclusion amount to gross income in the next tax year if:

The lease term begins within 9 months before the close of the lessee's tax year,

The lessee does not use the property predominantly in a qualified business use during that portion of the tax year, and

The lease term continues into the lessee's next tax year.

The lessee determines the inclusion amount by taking into account the average of the business/investment use for both tax years and the applicable percentage for the tax year the lease term begins.

If the lease term is less than one year, the amount included in gross income is the amount that bears the same ratio to the additional inclusion amount as the number of days in the lease term bears to 365.

Maximum inclusion amount. The inclusion amount cannot exceed the sum of the deductible amounts of rent allocable to the lessee's tax year in which the amount must be included in gross income.

Example 1. On August 1, 1993, Julie Rule, a calendar year taxpayer, leased and placed in service an item of listed property. The property is 5–year property with a fair market value of $10,000. Her property has a recovery period of 5 years under the ADS method. The lease is for 5 years. Her qualified business use of the property is 50% in 1993 and 90% in 1994. She pays rent of $3,600 for 1994 of which $3,240 is deductible. She must include $147 in gross income in 1994. The $147 is the sum of amount A and amount B. Amount A is $147 ($10,000 × 70% × 2.1%), the product of the fair market value, the average business use for 1993 and 1994, and the applicable percentage for year one from Table A–19. Because the applicable percentage for year one from Table A–20 is 0%, amount B is zero.

Example 2. On October 1, 1993, John Joyce, a calendar year taxpayer, leased and placed in service an item of listed property that is 3–year property. This property had a fair market value of $15,000 and a recovery period of 5 years under the ADS method. The lease term is 6 months (ending on March 31, 1994) during which he uses the property 45% in business. He must include $70.68 in gross income in 1994. The $70.68 is the sum of amount A and amount B. Amount A is $70.68 ($15,000 × 45% × 2.1% ×182/365), the product of the fair market value, the average business use for both years, and the applicable percentage for year one from Table A–19, prorated for the length of the lease. Because the applicable percentage for year one from Table A–20 is 0%, amount B is zero.

Special Rules for Passenger Automobiles

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

Maximum deduction for 1994. The maximum depreciation deduction you can claim for a passenger automobile for 1994 is determined by the date you place the automobile in service. The maximum deductions based on the year placed in service for 1994 are:

Maximum Depreciation Deduction

Year Placed In Service	1st Year	2nd Year	3rd Year	4th Year and Later
1994	$2,960	$4,700	$2,850	$1,675
1993	2,860	4,600	2,750	1,675
1992	2,760	4,400	2,650	1,575
1991	2,660	4,300	2,550	1,575
1990	2,660	4,200	2,550	1,475
1989	2,660	4,200	2,550	1,475
Pre-1989	2,560	4,100	2,450	1,475

For automobiles you place in service during 1994, your depreciation, including the section 179 deduction, cannot be more than $2,960 for 1994 (the first tax year of the recovery period). For 1995 and 1996 (second and third years), you are limited to a depreciation deduction of $4,700 and $2,850, respectively. The maximum depreciation in each succeeding tax year will be $1,675.

You must reduce these limits further if your business/investment use is less than 100%.

No deduction is allowed for the use of listed property (including passenger automobiles) regardless of the date the property is placed in service, unless:

1) Your use is substantiated by adequate records, or

2) Your use is substantiated by sufficient evidence supporting your own statements. See *What Records Must Be Kept,* later.

Fully depreciated automobile. If you have fully depreciated a car that you are still using in your business, you can continue to claim your other operating expenses for the business use of your car. Continue to keep records, as explained later.

Passenger Automobile Defined

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

A passenger automobile does not include:

1) An ambulance, hearse, or combination ambulance-hearse used directly in a trade or business, and

2) A vehicle used directly in the trade or business of transporting persons or property for compensation or hire.

Example 1. On April 15, 1994, Virginia Hart buys a car for $10,000. She uses the car only in her business. She files her tax return based on the calendar year. She does not elect a section 179 deduction. Under MACRS, a car is 5–year property. Because she placed her car in service on April 15 and used it only for business, she uses the percentages in Table A–1 to figure her depreciation on the car. Virginia multiplies the unadjusted basis of her car ($10,000) by 0.20 to get her depreciation of $2,000 for 1994. This $2,000 is below the maximum deduction of $2,960 for passenger automobiles placed in service in 1994. Therefore, she can deduct the full $2,000.

Example 2. On September 24, 1994, Donald Banks buys a car for $15,000. He uses the car 60% for business during 1994. He files his return based on the calendar year and does not elect a section 179 deduction. Because a car is 5–year property under MACRS, Donald uses the percentages in Table A–1 to figure his depreciation on the car. The depreciable basis for the car in 1994 is $9,000 (60% × $15,000). His depreciation deduction is $1,800 (depreciable basis of $9,000 × 0.20). The maximum that can be deducted for a car placed in service in 1994 and used 60% for business is $1,776 (60% × $2,960). He can take a depreciation deduction of $1,776 for this car on his 1994 tax return.

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

Listed Property Worksheet for Passenger Automobiles

The following worksheet will assist you in computing the maximum depreciation deduction. It considers the other special limits that apply to passenger automobiles that are listed property.

Worksheet for Passenger Automobiles (Subject to Special Limits)

Part I

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

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

Part II

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

*Note: Section 179A deduction—for clean-fuel vehicles or clean-fuel vehicle refueling property

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

Example. On September 26, 1994, Donald Banks bought a car for $15,000. He used the car 60% for business during 1994. He files his tax return based on the calendar year. Under GDS, his car is 5–year property. Donald is electing a section 179 deduction of $1,000 on the car. He finds the percentages in Table A–1 to figure his depreciation deduction. The unadjusted basis of his car is $8,000 (60% ×$15,000 – $1,000 section 179) for 1994. He multiplies his unadjusted basis ($8,000) by the percentage in Table A–1 (0.20) to get his tentative depreciation deduction of $1,600. Because he used the passenger automobile only 60% for business, his depreciation deduction (including the section 179 deduction) is limited to $1,776 (60% × $2,960). Therefore, because Donald is claiming a section 179 deduction of $1,000 in 1994, his depreciation is limited to $776.

Worksheet for Passenger Automobiles (Subject to Special Limits)

Part I

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

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

Part II

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

*Note: Section 179A deduction— for clean-fuel vehicles or clean-fuel vehicle refueling property

What Records Must Be Kept

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

Adequate Records

To meet the adequate records requirement, you must maintain an account book, diary, log, statement of expense, trip sheet, or similar record or other documentary evidence that, together with the receipt, is sufficient to establish each element of an expenditure or use. It is not necessary to record information in an account book, diary, or similar record if the information is already shown on the receipt. However, your records should back up your receipts in an orderly manner.

Elements of Expenditure or Use

The records or other documentary evidence must support:

1) The amount of each separate expenditure, such as the cost of acquiring the item, maintenance and repair costs, capital improvement costs, lease payments, and any other expenses,
2) The amount of each business/investment use (based on an appropriate measure, such as mileage for vehicles and time for other listed property), and the total use of the property for the tax year,
3) The date of the expenditure or use, and
4) The business or investment purpose for the expenditure or use.

Written documents of your expenditure or use are generally better evidence than oral statements alone. A written record prepared at or near the time of the expenditure or use has greater value as proof of the expenditure or use. A daily log is not required. However, some type of record containing the elements of an expenditure or the business use of listed property made at or near the time and backed up by other documents is preferable to a statement prepared later.

Timeliness

The elements of an expenditure or use must be recorded at the time you have full knowledge of the elements. An expense account statement made from an account book, diary, or similar record prepared or maintained at or near the time of the expenditure or use is generally considered a timely record if in the regular course of business:

1) The statement is submitted by an employee to the employer, or
2) The statement is submitted by an independent contractor to the client or customer.

For example, a log maintained on a weekly basis, which accounts for use during the week, will be considered a record made at or near the time of use.

Business Purpose Supported

An adequate record of business purpose must generally be in the form of a written statement. However, the amount of backup necessary to establish a business purpose depends on the facts and circumstances of each case. A written explanation of the business purpose will not be required if the purpose can be determined from the surrounding facts and circumstances. For example, a salesperson visiting customers on an established sales route will not normally need a written explanation of the business purpose of his or her travel.

Business Use Supported

An adequate record contains enough information on each element of every business/investment use. The amount of detail required to support the use depends on the facts and circumstances. For example, a taxpayer whose only business use of a truck is to make customer deliveries on an established route can satisfy the requirement by recording the length of the route, including the total number of miles driven during the tax year and the date of each trip at or near the time of the trips.

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

Separate or Combined Expenditures or Uses

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

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

Uses which can be considered part of a single use, such as a round trip or uninterrupted business use, can be accounted for by a single record. For example, use of a truck to make deliveries at several locations which begin and end at the business premises and can include a stop at the business in between deliveries can be accounted for by a single record of miles driven. Use of a passenger automobile by a salesperson for a business trip away from home over a period of time can be accounted for by a single record of miles traveled. Minimal personal use (such as a stop for lunch between two business stops) is not an interruption of business use.

Confidential Information

If any of the information on the elements of an expenditure or use is confidential, it does not need to be in the account book or similar record provided it is recorded at or near the time of the expenditure or use. It must be kept elsewhere and made available as support to the district director on request.

Substantial Compliance

If you have not fully supported a particular element of an expenditure or use, but have complied with the adequate records requirement for the expenditure or use to the district director's satisfaction, you can establish this element by any evidence the district director deems adequate.

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

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

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

Sampling

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

Example 1. Denise Williams, a sole proprietor and calendar year taxpayer, operates an interior decorating business out of her home. She uses her automobile for local business visits to the homes or offices of clients, meetings with suppliers and subcontractors, and to pick up and deliver items to clients. There is no other business use of the automobile, but she and family members also use it for personal purposes. She maintains adequate records for the first three months of the year showing that 75% of the automobile use was for business. Subcontractor invoices and paid bills show that her business continued at approximately the same rate for the remainder of the year. If there is no change in circumstances, such as the purchase of a second car for exclusive use in her business, the determination that her business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

Example 2. Assume the same facts as in Example 1 except that Denise maintains adequate records during the first week of every month showing that 75% of her use of the automobile is for business. Her business invoices show that her business continued at the same rate during the later weeks of each month so that her weekly records are representative of the automobile's business use throughout the month. Therefore, the determination that her business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

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

Loss of Records

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

Reporting Information on Form 4562

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

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

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

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

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

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

See the instructions for Form 4562.

How Long To Keep Records

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

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

Deductions in Later Years

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

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

5.

MACRS Example — Filled-in Worksheet and Form 4562

Fields of Flowers, Inc. operates a retail florist shop. It files its corporate tax return based on a calendar year. The corporation began its operation in 1990. The corporation uses all of its property 100% for business purposes.

Depreciation Worksheet

The worksheet shows the information needed to figure depreciation on each item of property and the total depreciation for 1994. The corporation's books and records support the information on the worksheet. There is an account for each item of property. These accounts show the date of acquisition, a description of the property, the cost or other basis of the property, the amount of section 179 deduction claimed, the MACRS depreciation method used, the property class and recovery period, and the depreciation deducted each year. For information on business recordkeeping, see Publication 583, *Taxpayers Starting a Business.*

On February 2, 1991, the corporation bought and placed in service the building used as its place of business. It also bought and placed in service on that date a desk and chair, refrigeration equipment, work tables, and a cash register. Because all the property was placed in service after 1986, it is depreciated under MACRS. It uses the MACRS percentage tables to figure its depreciation deduction.

The building is nonresidential real property. It is depreciated using the straight line method and mid-month convention over a recovery period of 31.5 years. The corporation used Table A–7.

The corporation put in use the desk and chair, refrigeration equipment, work tables, and cash register in 1991. These items are all 7–year property. Because no property was placed in service in the last quarter of the tax year, the corporation uses the half-year convention for this property. The corporation uses Table A–1. It claimed a section 179 deduction for the full cost of the desk and chair. Therefore, it takes no depreciation for this property.

The truck and typewriter placed in service in 1992 are 5–year property. The corporation chose to use the 150% declining balance method over the ADS recovery period for these property items. The recovery period for the truck is 5 years. The recovery period for the typewriter is 6 years. The corporation applied the half-year convention for both items. The corporation uses Table A–14. It claimed a $10,000 section 179 deduction for the truck whose basis for depreciation is $13,500. This is the cost of $23,500 reduced by the $10,000 section 179 deduction claimed. The typewriter cost $300.

In 1994, Fields of Flowers bought and placed in service a computer, file cabinets, store counters, and a USA 280F van. All items are used totally for the business.

The total bases of all property placed in service in 1994 is $30,145. The bases of the counters and van placed in service during the last three months of the corporation's tax year is $26,670. This amount exceeds 40% of the total bases of all property placed in service during 1994. Therefore, the corporation must apply the mid-quarter convention for all four items.

The computer is 5–year property for which the corporation uses Table A–3. The van is 5–year property for which it uses Table A–5.

The file cabinets and store counters are 7–year property. The corporation elects to use the ADS method for these property items. The recovery period is 10 years for the cabinets. The counters have no ADS recovery period in the *Table of Class Lives and Recovery Periods.* Therefore, their recovery period under ADS is 12 years. The corporation uses Table A–11 for the file cabinets and Table A–12 for the store counters.

Form 4562

Because Fields of Flowers is a corporation, it reports depreciation on Form 4562. The corporation enters the total depreciation deduction ($5,268.38) for the property placed in service before 1994 on line 16 in Part III.

The delivery truck has seating only for the driver. Therefore, it is not listed property. If it was listed property, its depreciation would have been reported on page 2 of Form 4562.

The corporation reports the depreciation for the computer on line 14(b) in Part II. It uses GDS for this property and applies a mid-quarter convention. It enters ''MQ'' in column (e) to show the mid-quarter convention is applied and enters ''200DB'' in column (f) to show they are using the 200% declining balance method. It enters the depreciation deduction of $750 in column (g).

The corporation reports the depreciation for the file cabinets on line 15(a). They have an ADS recovery period and class life assigned to them in the *Table of Class Lives and Recovery Periods,* in Appendix B. The corporation enters ''10'' in column (d) to show the recovery period in years and ''MQ''in column (e) to show the mid-quarter convention is applied. It enters the depreciation deduction of $17.81 in column (g).

The corporation reports the depreciation for the store counters on line 15(b). It enters ''MQ'' in column (e) to show the mid-quarter convention is applied. It enters the depreciation deduction of $19.45 in column (g).

The van is listed property. The corporation reports the depreciation for it on page 2 of Form 4562. Fields of Flowers has taxable income of $25,389. It elects to take a section 179 deduction of $17,500 on the van. The van weighs over 6,000 pounds. Therefore, it is not a passenger automobile for the limits discussed under *Special Rules for Passenger Automobiles,* earlier.

The corporation reduces the cost of the van by the amount of the section 179 deduction. It enters ''5'' in column (f) to show the recovery period in years and ''200DB'' and ''MQ'' in column (g) to show they are using the 200% declining balance method and that they are applying the mid-quarter convention. It enters the depreciation deduction of $365 in column (h) and the section 179 deduction of $17,500 in column (i).

The corporation enters the amount from line 25 on line 19 and the amount from line 26 on line 7. It completes Part I to determine its allowable section 179 deduction. It adds the amounts on lines 12, 14(b), 15(a), 15(b), 16, and 19 and enters the total of $23,920.64 on line 20. It rounds the total to $23,921 and enters it on the depreciation line of its tax return.

6.

Accelerated Cost Recovery System (ACRS)

Topics

This chapter discusses:

- The definition of ACRS
- What can and cannot be depreciated under ACRS
- How to figure the deduction
- Dispositions

Useful Items

You may want to see:

Publication

- ❏ **544** Sales and Other Dispositions of Assets
- ❏ **551** Basis of Assets
- ❏ **583** Taxpayers Starting a Business

Form (and Instructions)

- ❏ **3115** Application for Change in Accounting Method
- ❏ **4562** Depreciation and Amortization

The Accelerated Cost Recovery System (ACRS) applies to property first used before 1987. It is the name given to tax rules for getting back (recovering) through depreciation deductions the cost of property used in a trade or business or to produce income. These rules were mandatory and generally applied to tangible property placed in service after 1980 and before 1987. If you placed property in service during this period, you must continue to figure your depreciation under ACRS.

If you used listed property placed in service after June 18, 1984, less than 50% for business in 1994, see *Predominant Use Test* in Chapter 4. Listed property includes cars, other means of transportation, and certain computers.

Any additions or improvements placed in service after 1986, including any components of a building (such as plumbing, wiring, storm windows, etc.), are depreciated using MACRS, discussed in Chapter 3. It does not matter that the underlying property is depreciated under ACRS or one of the other methods.

ACRS Defined

ACRS consisted of accelerated depreciation methods and an alternate ACRS method that could have been elected. The alternate ACRS method used a recovery percentage based on a modified straight line method. The law prescribed fixed percentages to be used for each class of property.

Property depreciable under ACRS was called ***recovery property.*** The recovery class of property determined the recovery period. Generally, the class life of property placed it in a 3–year, 5–year, 10–year, 15–year, 18–year, or 19–year recovery class.

Under ACRS, the prescribed percentages were used to recover the unadjusted basis of recovery property. To figure a depreciation deduction, you multiplied the prescribed percentage for the recovery class by the unadjusted basis of the recovery property.

You must continue to figure your depreciation under ACRS for property placed in service after 1980 and before 1987. For property you placed in service after 1986, you must use MACRS, discussed in Chapter 3.

What Can and Cannot Be Depreciated Under ACRS

ACRS applies to most depreciable tangible property placed in service after 1980 and before 1987. It includes new or used and real or personal property. The property must be for use in a trade or business or for the production of income. Property you acquired before 1981 or after 1986 is not recovery property. For information on depreciating property acquired before 1981, see Chapter 7. For information on depreciating property acquired after 1986, see Chapter 3.

Recovery Property

Recovery property under ACRS is tangible depreciable property placed in service after 1980 and before 1987. It generally includes new or used property that you acquired after 1980 and before 1987 for use in your trade or business or for the production of income.

Nonrecovery Property

You cannot use ACRS for property you placed in service before 1981 or after 1986. Nonrecovery property also included:

1) Intangible property,
2) Property you elected to exclude from ACRS that is properly depreciated under a method of depreciation that is not based on a term of years,
3) Certain public utility property, and
4) Certain property acquired and excluded from ACRS because of the antichurning rules.

Intangible property. Intangible property is not depreciated under ACRS. Intangible property is depreciated using any reasonable method, usually, the straight line method.

Property depreciated under methods not expressed in a term of years. Certain property depreciated under a method not expressed in a term of years is not depreciated under ACRS. This included any property:

1) If you made an irrevocable election to exclude such property, and
2) In the first year that you could have claimed depreciation, you properly used the unit-of-production method or any method of depreciation not expressed in a term of years (not including the retirement-replacement-betterment method).

Public utility property. Public utility property for which the taxpayer does not use a normalization method of accounting is excluded from ACRS and is subject to depreciation under a special rule.

Additions or improvements to ACRS property after 1986. Any additions or improvements placed in service after 1986, including any components of a building (plumbing, wiring, storm windows, etc.) are depreciated using MACRS, discussed in Chapter 3. It does not matter that the underlying property is depreciated under ACRS or one of the other methods.

How To Figure the Deduction

After you determine that your property can be depreciated under ACRS, you are ready to figure your deduction. Because the conventions are built into the percentage table rates, you only need to know the following:

1) The unadjusted basis of your recovery property,
2) The classes of recovery property,
3) The recovery periods, and
4) Whether to use the prescribed percentages based on accelerated methods or percentages based on using the alternate ACRS method.

Unadjusted Basis

To figure your ACRS deduction, you multiply the unadjusted basis in your recovery property by its applicable percentage for the year. Unadjusted basis is the same amount you would use to figure gain on a sale, but it is figured without taking into account any depreciation taken in earlier years. However, you do reduce your original basis by the amount of amortization taken on the property and by any section 179 deduction claimed as discussed in Chapter 2.

If you buy property, your unadjusted basis is usually its cost minus any amortized amount and minus any section 179 deduction elected. If you acquire property in some other way, such as by inheriting it, getting it as a gift, or building it yourself, you figure your unadjusted basis under other rules. See Publication 551.

Classes of Recovery Property

All recovery property under ACRS is in one of the following classes. The class for your property was determined when you began to depreciate it.

3–Year Property

3–year property included automobiles, light-duty trucks (actual unloaded weight less than 13,000 pounds), and tractor units for use over-the-road. Race horses over 2 years old when placed in service were 3–year property. Any other horses over 12 years old when you placed them in service were also included in the 3–year property class.

The ACRS percentages for 3–year recovery property were:

Recovery Period	Percentage
1st year	25%
2nd year	38%
3rd year	37%

If you used the percentages above to depreciate your 3–year recovery property, except for certain passenger automobiles, your property is fully depreciated. You cannot claim depreciation for this property after 1988.

5–Year Property

5–year property included computers, copiers, and equipment, such as office furniture and fixtures. It also included single purpose agricultural or horticultural structures and petroleum storage facilities (other than buildings and their structural components).

The ACRS percentages for 5–year recovery property were:

Recovery period	Percentage
1st year	15%
2nd year	22%
3rd through 5th year	21%

10–Year Property

10–year property included certain real property such as theme-park structures and certain public utility property. Manufactured homes (including mobile homes) and railroad tank cars were also 10–year property.

You do not treat a building, and its structural components, as 10–year property by reason of a change in use after you placed the property in service. For example, a building (15–year real property) that was placed in service in 1981 and was converted to a theme-park structure in 1986 remained 15–year real property.

The ACRS percentages for 10–year recovery property were:

Recovery Period	Percentage
1st year	8%
2nd year	14%
3rd year	12%
4th through 6th year	10%
7th through 10th year	9%

Example. On April 21, 1986, you bought and placed in service a new mobile home for $26,000 to be used as rental property. You paid $10,000 cash and signed a note for $16,000 giving you an unadjusted basis of $26,000. On June 8, 1986, you bought and placed in service a used mobile home for use as rental property at a total cost of $11,500. The total unadjusted basis of your 10–year recovery property placed in service in 1986 was $37,500 ($26,000 + $11,500). Your ACRS deduction was $3,000 (8% × $37,500). In 1987, your ACRS deduction was $5,250 (14% ×$37,500). In 1988, your ACRS deduction was $4,500 (12% × $37,500). In 1989, 1990, and 1991, your ACRS deduction was $3,750 (10% × $37,500). In 1992, 1993, and 1994 your deduction for each year is $3,375 (9% ×$37,500).

15–Year Real Property

15–year real property is real property that is recovery property placed in service before March 16, 1984. It includes all real property, such as buildings, other than that designated as 5–year or 10–year property.

Unlike the 3–, 5–, or 10–year classes of property, the percentages for 15–year real property depend on when you place the property in service during your tax year. You can group 15–year real property by month and year placed in service.

In Table C–1, at the end of this publication in Appendix C, find the month in your tax year that you placed the property in service in your trade or business or for the production of income. You use the percentages listed under that month for each year of the recovery period to determine your depreciation deduction each year.

Example. On March 5, 1984, you placed an apartment building in service in your business. It is 15–year real property. After subtracting the value of the land, your unadjusted basis in the building is $250,000. You use the calendar year as your tax year. March is the third month of your tax year. Your ACRS deduction for 1984 was $25,000 (10% × $250,000). For 1985, the percentage for the third month of the second year of the recovery period is 11%. Therefore, your deduction was $27,500 (11% × $250,000). For the third, fourth, and fifth years of the recovery period (1986, 1987, and 1988), the percentages are 9%, 8%, and 7%. For 1989 through 1992, the percentage for the third month is 6%. Therefore, your deduction each year is $15,000 (6% × $250,000). For 1993 and 1994, the percentage for the third month is 5%. Your depreciation deduction is $12,500 (5% × $250,000) for both 1993 and 1994.

Low-Income Housing

Low-income housing that was assigned a 15–year recovery period under ACRS included the following types of property:

1) Federally assisted housing projects where the mortgage is insured under section 221(d)(3) or 236 of the National Housing Act, or housing financed or assisted by direct loan or tax abatement

under similar provisions of state or local laws.

2) Low-income rental housing for which a depreciation deduction for rehabilitation expenditures is allowed.

3) Low-income rental housing held for occupancy by families or individuals eligible to receive subsidies under section 8 of the United States Housing Act of 1937, as amended, or under the provisions of state or local laws that authorize similar subsidies for low-income families.

4) Housing financed or assisted by direct loan or insured under Title V of the Housing Act of 1949.

The ACRS percentages for low-income housing real property, like the regular 15–year real property percentages, depend on when you place the property in service. Find the month in your tax year in Table C–2 or C–3 at the end of this publication in Appendix C that you first placed the property in service as rental housing. Use the percentages listed under that month for each year of the recovery period. Table C–2 shows percentages for low-income housing placed in service before May 9, 1985. Table C–3 shows percentages for low-income housing placed in service after May 8, 1985, and before 1987.

Example. In May 1986, you acquired and placed in service a house that qualified as low-income rental housing under item 3) of the above listing. You use the calendar year as your tax year. You use Table C–3 because the property was placed in service after May 8, 1985. Your unadjusted basis for the property, not including the land, was $59,000. Because May is the fifth month of your tax year, your ACRS deduction for 1986 was $5,251 (8.9% × $59,000).

Your deduction for 1987 through 1994 is shown in the following table.

Year	Rate	Deduction
1987	12.1%	$7,139
1988	10.5%	6,195
1989	9.1%	5,369
1990	7.9%	4,661
1991	6.9%	4,071
1992	5.9%	3,481
1993	5.2%	3,068
1994	4.6%	2,714

18–Year Real Property

18–year real property is real property that is recovery property placed in service after March 15, 1984, and before May 9, 1985. It included real property, such as buildings, other than that designated as 5–year, 10–year, 15–year real property, or low-income housing.

The ACRS percentages for 18–year real property depend on when you placed the property in service in your trade or business or for the production of income during your tax year. There are also tables for 18–year real property in Appendix C. Table C–4 shows the percentages for 18–year real property you placed in service after June 22, 1984, and before May 9, 1985. Table C–5 is for 18–year real property placed in service after March 15, 1984, and before June 23, 1984.

Find the month in your tax year that you placed the property in service in a trade or business or for the production of income. Use the percentages listed under that month for each year of the recovery period.

Example. On April 28, 1985, you bought and placed in service a rental house. The house, not including the land, cost $95,000. This is your unadjusted basis for the house. You use the calendar year as your tax year. Because the house was placed in service after June 22, 1984, and before May 9, 1985, it is 18–year real property. You use Table C–4 to figure your deduction for the house. April is the fourth month of your tax year and the percentage for the fourth month is 7%. Your 1985 deduction was $6,650 (7% × $95,000). Your deduction for 1986 through 1994 is shown in the following table.

Year	Rate	Deduction
1986	9.0%	$8,550
1987	8.0%	7,600
1988	7.0%	6,650
1989	7.0%	6,650
1990	6.0%	5,700
1991	5.0%	4,750
1992	5.0%	4,750
1993	5.0%	4,750
1994	5.0%	4,750

19–Year Real Property

19–year real property is real property that is recovery property placed in service after May 8, 1985, and before 1987. It includes all real property, other than that designated as 5–year, 10–year, 15–year, or 18–year real property, or low-income housing.

The ACRS percentages for 19–year real property depend on when you placed the property in service in a trade or business or for the production of income during your tax year. Table C–6 shows the percentages for 19–year real property.

You find the month in your tax year that you placed the property in service. You use the percentages listed under that month for each year of the recovery period.

Recovery Periods

Each item of recovery property is assigned to a class of property. The classes of recovery property establish the recovery periods over which the unadjusted basis of items in a class is recovered. The classes of property are:

- 3–Year property
- 5–Year property
- 10–Year property
- 15–Year real property
- Low-income housing
- 18–Year real property
- 19–Year real property

Alternate ACRS Method

ACRS provides an alternate ACRS method that can be elected. This alternate ACRS method uses a recovery percentage based on a modified straight line method.

This alternate ACRS method generally uses percentages other than those from the tables. If you elected the alternate ACRS method, you determine the recovery period by using the following schedule. This schedule is for other than 18– and 19–year real property and low-income housing:

In the case of:	You could have elected a recovery period of:
3–year property	3, 5, or 12 years
5–year property	5, 12, or 25 years
10–year property	10, 25, or 35 years
15–year real property	15, 35, or 45 years

Percentages. The straight-line percentages for the alternate ACRS method were:

Recovery Period	Percentage
5 years	20.00%
10 years	10.00%
12 years	8.333%
15 years	6.667%
25 years	4.00%
35 years	2.857%

You apply the percentage to the unadjusted basis (defined earlier) of the property to figure your ACRS deduction. There are tables for 18– and 19–year real property later in this publication in Appendix C. For 15–year real property, see *15–year real property,* later.

3–, 5–, and 10–year property. If you elected to use an alternate recovery percentage, you have to use the same recovery percentage for all property in that class that you placed in service in that tax year. This applies throughout the recovery period you select.

Half-year convention. If you elected the alternate method, only a half-year of depreciation was deducted for the year you placed the property in service. This applied regardless of when in the tax year you placed the property in service. For each of the remaining years in the recovery period, you take a full year's deduction. If you hold the property for the entire recovery period, a half-year of depreciation is allowable for the year following the end of the recovery period.

Example. You operate a small upholstery business. On March 19, 1986, you bought and placed in service a $13,000 light-duty panel truck to be used in your business and a $500 electric saw. You elected to use the alternate ACRS method. You did not elect to take a section 179 deduction. You decided to recover the cost of the truck, which is 3–year recovery property, over 5 years. The saw is 5–year property, but you decided to recover its cost over 12 years.

For 1986, your ACRS deduction reflected the half-year convention. In the first year, you deducted half of the amount determined for a full year. Your ACRS deduction for 1986 was as follows:

Light-duty truck	
5 years straight line =20%	
20% × $13,000 =$2,600	
Half-year convention –½ of $2,600=	$1,300.00
Electric saw	
12 years straight line =8.333%	
8.333% × $500 =$41.67	
Half-year convention –½ of $41.67=	20.84
Total ACRS deduction for 1986	$1,320.84

The truck is fully depreciated after 1991. You can continue to depreciate the chain saw through 1998. Your ACRS deduction for the electric saw for 1994 is:

Electric saw	
12 years straight line =8.333%	
8.333% × $500 =	$ 41.67
Total ACRS deduction for 1994	$ 41.67

15–year real property. Under ACRS, you could also elect to use the alternate ACRS method for 15–year real property. The alternate ACRS method allowed you to depreciate your 15–year real property using the straight line ACRS method over the alternate recovery periods of 15, 35, or 45 years. If you selected a 15–year recovery period, you used the percentage (6.667%) from the schedule above. You prorated this percentage for the number of months the property was in service in the first year. If you selected a 35– or 45–year recovery period, you used either Table C–11 or C–15.

Alternate periods for 18–year real property. For 18–year real property, the alternate recovery periods are 18, 35, or 45 years. The percentages for 18–year real property under the alternate method are in Tables C–7, C–8, C–10, C–11, C–14, and C–15 in Appendix C. There are two tables for each alternate recovery period. One table shows the percentage for property placed in service after June 22, 1984. The other table has the percentages for property placed in service after March 15, 1984, and before June 23, 1984.

Alternate periods for 19–year real property. For 19–year real property, the alternate recovery periods are 19, 35, or 45 years. If you selected a 19–year recovery period, use Table C–9 to determine your deduction. If you select a 35– or 45–year recovery period, use either Table C–13 or C–14.

Example. You placed in service an apartment building on August 3, 1986. The building is 19–year real property. The sales contract allocated $300,000 to the building and $100,000 to the land. You use the calendar year as your tax year. You chose the alternate ACRS method over a recovery period of 35 years. For 1986, you figure your ACRS deduction using Table C–13. August is the eighth month of your tax year. The percentage from Table C–13 for the eighth month is 1.1%. Your deduction was $3,300 ($300,000 × 1.1%). The deduction rate from ACRS Table C–13 for years 2 through 20 is 2.9% so that your deduction in 1994 (the 8th year of recovery) is $8,700 ($300,000 × 2.9%).

Alternate periods for low-income housing. For low-income housing, the alternate recovery periods are 15, 35, or 45 years. If you selected a 15–year period for this property, use 6.667% as the percentage. If you selected a 35– or 45–year period, use either Table C–11, C–12, or C–15.

Election. You had to make the election to use the alternate ACRS method by the return due date (including extensions) for the tax year you placed the property in service.

Revocation of election. Your election to use an alternate ACRS method, once made, can be changed only with the consent of the Commissioner. The Commissioner grants consent only in extraordinary circumstances. Any request for a revocation will be considered a request for a ruling that must satisfy the procedures of Revenue Procedure 92-1, in Cumulative Bulletin 1992, Volume 1, on page 516.

ACRS Deduction in Short Tax Year

For a tax year that is less than 12 months, the ACRS deduction is prorated on a 12–month basis. Figure the amount of the ACRS deduction for a short tax year as follows:

1) First, you figure the ACRS deduction for a full year. You figure this by multiplying the unadjusted basis by the recovery percentage.
2) You then multiply the ACRS deduction determined for a full tax year by a fraction.

The numerator (top number) of the fraction is the number of months in the short tax year and the denominator (bottom number) is 12. For example, a corporation placed in service in June 1986 an item of 3–year property with an unadjusted basis of $10,000. The corporation files a tax return, because of a change in its accounting period, for the 6–month short tax year ending June 30, 1986. The full year's ACRS deduction for this item is $2,500 ($10,000 × 25%), the first year percentage from the 3–year table. The ACRS deduction for the short tax year is $1,250 ($2,500 × 6/12).

You use the full ACRS percentages during the remaining years of the recovery period. For the first tax year after the recovery period, the unrecovered basis will be deductible.

Exception. For the tax year in which you place 15–, 18–, or 19–year real property in service or in the tax year you dispose of it, you compute the ACRS deduction for the number of months that the property is in service during that tax year. You compute the number of months using either a full month or mid-month convention. This is true regardless of the number of months in the tax year and the recovery period and method used.

Dispositions

A disposition is the permanent withdrawal of property from use in your trade or business or in the production of income. You can make a withdrawal by sale, exchange, retirement, abandonment, or destruction.

You generally recognize gain or loss on the disposition of an asset by sale. However, nonrecognition rules can allow you to postpone some gain. See Publication 544.

If you physically abandon property, you can deduct as a loss the adjusted basis of the asset at the time of its abandonment. Your intent must be to discard the asset so that you will not use it again or retrieve it for sale, exchange, or other disposition.

Early dispositions. An asset you dispose of before the end of its specified recovery period, is referred to as an early disposition. When an early disposition occurs, the depreciation deduction in the year of disposition depends on the class of property involved.

Early dispositions of ACRS property other than 15–, 18–, or 19–year real property. Generally, you get no ACRS deduction for the tax year in which you dispose of or retire recovery property, except for 15–, 18–, and 19–year real property. This means there is no depreciation deduction under ACRS in the year you dispose of or retire any of your 3–, 5–, or 10–year recovery property.

Dispositions — mass asset accounts. The law provides a special rule to avoid the calculation of gain on the disposition of assets from mass asset accounts. A mass asset account includes items usually minor in value in relation to the group, numerous in quantity, impractical to separately identify, and not usually accounted for on a separate basis, but on a total dollar value. Examples of mass assets include minor items of office, plant, and store furniture and fixtures.

Under the special rule, if you elect to use a mass asset account, you recognize gain to the extent of the proceeds from the disposition of the asset. You leave the unadjusted basis of the property in the account until recovered in future years. If you do this, include the total proceeds realized from the disposition in income on the tax return for the year of disposition.

Early dispositions — 15–year real property. If you dispose of 15–year real property, you base your ACRS deduction for the year of disposition on the number of months in use. You use a ***full-month convention.*** For a disposition at any time during a particular month before the end of the recovery period, no deduction is allowed for the month of disposition. This applies whether you use the regular ACRS method or elect the alternate ACRS method.

Example. You purchased and placed in service a rental house on March 2, 1984, for $98,000 (not including the cost of land). You file your return based on a calendar year. Your rate from Table C–1 for the third month is 10%. Your ACRS deduction for 1984 was $9,800 ($98.000 × 10%). For 1985 through 1988, you figured your ACRS deductions using 11%, 9%, 8%, and 7% ×$98,000. For 1989 through 1992, you figured your ACRS deductions using 6% for each year. The deduction each year was $98,000 × 6%. For 1993, the ACRS deduction is ($98,000 × 5%) $4,900. You sell the house on June 1, 1994.

You figure your ACRS deduction for 1994 for the full year and then prorate that amount for the months of use. The full ACRS deduction for 1994 is $4,900 ($98,000 × 5%). You then prorate this amount to the 5 months in 1994 during which it was rented. Your ACRS deduction for 1994 is $2,042 ($4,900 ×5/12).

Early dispositions — 18– and 19–year real property. If you dispose of 18– or 19–year real property, you base your ACRS deduction for the year of disposition on the number of months in use. For 18–year property placed in service before June 23, 1984, use a full-month convention on a disposition. For 18–year property placed in service after June 22, 1984, and for 19–year property, determine the number of months in use by using the mid-month convention. Under the ***mid-month convention,*** treat real property disposed of any time during a month as disposed of in the middle of that month. Count the month of disposition as half a month of use.

Example. You purchased and placed in service a rental house on July 2, 1984, for $100,000 (not including the cost of land). You file your return based on a calendar year. Your rate from Table C–4 for the seventh month is 4%. You figured your ACRS deduction for 1984 was $4,000 ($100,000 × 4%). In 1985 through 1993, your ACRS deductions were 9%, 8%, 8%, 7%, 6%, 6%, 5%, 5%, and 5% × $100,000. You sell the house on September 24, 1994. Figure your ACRS deduction for 1994 for the months of use. The full ACRS deduction for 1994 is $5,000 ($100,000 × 5%). Prorate this amount for the 8.5 months in 1994 that you held the property. Under the mid-month convention, you count September as half a month. Your ACRS deduction for 1994 is $3,542 ($5,000 × 8.5/12).

Depreciation Recapture

If you dispose of property depreciated under ACRS that is section 1245 recovery property, you will generally recognize gain or loss. Gain recognized on a disposition is ordinary income to the extent of prior depreciation deductions taken. This recapture rule applies to all personal property in the 3–year, 5–year, and 10–year classes. You recapture gain on manufactured homes and theme park structures in the 10–year class as section 1245 property. Section 1245 property generally includes all personal property. See *Section 1245 property* in Chapter 4 of Publication 544 for more information.

You treat dispositions of section 1250 real property on which you have a gain, as section 1245 recovery property. You recognize gain on this property as ordinary income to the extent of prior depreciation deductions taken. Section 1250 property includes most real property. See *Section 1250 property* in Chapter 4 of Publication 544 for more information. This rule applies to all section 1250 real property except the following property:

1) Any 15–, 18–, or 19–year real property that is residential rental property.
2) Any 15–, 18–, or 19–year real property that you elected to depreciate using the alternate ACRS method.
3) Any 15–, 18–, or 19–year real property that is subsidized low-income housing.

For these recapture rules, you treat the section 179 deduction and 50% of the investment credit that reduced your basis as depreciation.

See Publication 544 for further discussion of dispositions of section 1245 and 1250 property.

7. Other Methods of Depreciation

Topics

This chapter discusses:

- How to figure the deduction
- Methods to use
- How to change methods
- Dispositions

Useful Items

You may want to see:

Publication

- ❑ **544** Sales and Other Dispositions of Assets
- ❑ **551** Basis of Assets
- ❑ **583** Taxpayers Starting a Business

Form (and Instructions)

- ❑ **3115** Application for Change in Accounting Method
- ❑ **4562** Depreciation and Amortization
- ❑ **Schedule C (Form 1040)** Profit or Loss From Business

If your property is being depreciated under ACRS or MACRS, you must continue to use rules for depreciation applicable when you placed the property in service. If your property qualified for MACRS, you must depreciate it under MACRS.

However, you cannot use MACRS for certain property because of special rules that exclude it from MACRS. Also, you can elect to exclude certain property from being depreciated under MACRS. Property that you cannot depreciate using MACRS includes:

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

Intangible property. You cannot depreciate intangible property under ACRS or MACRS. You depreciate intangible property using any other reasonable method, usually, the straight line method.

Property depreciated under methods not expressed in a term of years. Certain property depreciated under a method not expressed in a term of years is not depreciated under MACRS.

Public utility property. The law excludes from MACRS any public utility property for which the taxpayer does not use a normalization method of accounting. This type of property is subject to depreciation under a special rule.

How To Figure the Deduction

To figure your deduction for property not under ACRS or MACRS, two other reasonable methods can be used. These methods are straight line and declining balance.

To figure depreciation using these methods, you must generally determine three things about the property you intend to depreciate. They are:

1) The basis,
2) The useful life, and
3) The estimated salvage value at the end of its useful life.

The amount of the deduction in any year also depends on which method of depreciation you choose.

Basis

To deduct the proper amount of depreciation each year, first determine your basis in the property you intend to depreciate. The basis used for figuring depreciation is the same as the basis that would be used for figuring the gain on a sale. Your original basis is usually the purchase price. However, if you acquire property in some other way, such as inheriting it, getting it as a gift, or building it yourself, you have to figure your original basis in a different way.

Adjusted basis. Events will often change the basis of property. When this occurs, the changed basis is called the adjusted basis. Some events, such as improvements you make, increase basis. Events such as deducting casualty losses and depreciation decrease basis. If basis is adjusted, the depreciation deduction may also have to be changed, depending on the reason for the adjustment and the method of depreciation you are using.

Publication 551 explains how to figure basis for property acquired in different ways. It also discusses what items increase and decrease basis, how to figure adjusted basis, and how to allocate cost if you buy several pieces of property at one time.

Useful Life

The useful life of a piece of property is an estimate of how long you can expect to use it in your trade or business, or to produce income. It is the length of time over which you will make yearly depreciation deductions of your basis in the property. It is not how long the property will last but how long it will continue to be useful to you.

Many things affect the useful life of property, such as:

1) Frequency of use,
2) Age when acquired,
3) Your repair policy, and
4) Environmental conditions.

The useful life can also be affected by technological improvements, progress in the arts, reasonably foreseeable economic changes, shifting of business centers, prohibitory laws, and other causes. Consider all these factors before you arrive at a useful life for your property.

The useful life of the same type of property varies from user to user. When you determine the useful life of your property, keep in mind your own experience with similar property. You can use the general experience of the industry you are in until you are able to determine a useful life of your property from your own experience.

Change in useful life. You base your estimate of useful life on certain facts. If these facts change significantly, you can adjust your estimate of the remaining useful life. However, you redetermine the estimated useful life only when the change is substantial and there is a clear reason for making the change.

Salvage Value

It is important for you to accurately determine the correct salvage value of the property you want to depreciate. You generally cannot depreciate property below a reasonable salvage value.

Determining salvage value. Salvage value is the estimated value of property at the end of its useful life. It is what you expect to get for the property if you sell it after you can no longer use it productively. You must estimate the salvage value of a piece of property when you first acquire it.

Salvage value is affected both by how you use the property and how long you use it. If it is your policy to dispose of property that is still in good operating condition, the salvage value can be relatively large. However, if your policy is to use property until it is no longer usable, its salvage value can be its junk value.

Changing salvage value. Once you determine the salvage value for property, you should not change it merely because prices have changed. However, if you redetermine the useful life of property, as discussed earlier under *Change in useful life,* you can also redetermine the salvage value. When you redetermine the salvage value, take into account the facts that exist at the time.

Net salvage. Net salvage is the salvage value of property minus what it costs to remove it when you dispose of it. You can choose either salvage value or net salvage when you figure depreciation. You must consistently use the one you choose and the treatment of the costs of removal must be consistent with the practice adopted. However, if the cost to remove the property is more than the estimated salvage value, then net salvage is zero. Your salvage value can never be less than zero.

Ten percent rule. If you acquire personal property that has a useful life of 3 years or more, you can use an amount for salvage value that is less than your actual estimate. You can subtract from your estimate of salvage value an amount equal to 10% of your basis in the property. If salvage value is less than 10% of basis, you can ignore salvage value when you figure depreciation.

Methods To Use

Two methods of depreciation are the straight line and declining balance methods. If ACRS or MACRS does not apply, you can use one of these methods. The straight line and declining balance methods discussed in this section are not figured in the same way as straight line or declining balance methods under MACRS.

Straight Line Method

Before 1981, you could use a reasonable method for every kind of depreciable property. One of these methods was the straight line method. This method was also used for intangible property. It let you deduct the same amount of depreciation each year.

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

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

Example. In April 1993, Frank bought a franchise for $5,600. It expires in 10 years. This property is intangible property that cannot be depreciated under MACRS. Frank depreciates the franchise under the straight line method, using a 10–year useful life and no salvage value. He takes the $5,600 basis and divides that amount by 10 years ($5,600 ÷ 10 = $560, a full year's use). He must prorate the $560 for his 9 months of use in 1993. This gives him a deduction of $420 ($560 × 9/12). In 1994, Frank can deduct $560 for the full year.

Declining Balance Method

The declining balance method allows you to recover a larger amount of the cost of the property in the early years of your use of the property. The rate cannot be more than twice the straight line rate.

Rate of depreciation. Under this method, you must determine your declining balance rate of depreciation. The initial step is to:

1) Divide the number 1 by the useful life of your property to get a straight line rate. (For example, if property has a useful life of 5 years, its normal straight line rate of depreciation is 1/5, or 20%.)
2) Multiply this straight line rate by a number that is more than 1 but not more than 2 to determine the declining balance rate.

Unless there is a change in the useful life during the time you depreciate the property, the rate of depreciation generally will not change.

Depreciation deductions. After you determine the rate of depreciation, multiply the adjusted basis of the property by it. This gives you the amount of your deduction. For example, if your adjusted basis at the beginning of the first year is $10,000, and your declining balance rate is 20%, your depreciation deduction for the first year is $2,000 ($10,000 × 20%). To figure your depreciation deduction in the second year, you must first adjust the basis for the amount of depreciation you deducted in the first year. Subtract the previous year's depreciation from your basis ($10,000 – $2,000 = $8,000). Multiply this amount by the rate of depreciation ($8,000 × 20% = $1,600). Your depreciation deduction for the second year is $1,600.

As you can see from this example, your adjusted basis in the property gets smaller each year. Also, under this method, deductions are larger in the earlier years and smaller in the later years. You can make a change to the straight line method without consent.

Salvage value. Do not subtract salvage value when you figure your yearly depreciation deductions under the declining balance method. However, you cannot depreciate the property below its reasonable salvage value. Determine salvage value using the rules discussed earlier, including the special 10% rule.

Example. If your adjusted basis is down to $1,000 and the rate of depreciation is 20%, your depreciation deduction should be $200. But if your estimate of salvage value was $900, you can only deduct $100. This is because $100 is the amount that would lower your adjusted basis to equal salvage value.

How To Change Methods

In some cases, you may change your method of depreciation for property depreciated under a reasonable method. If you change your method of depreciation, it is generally a change in your method of accounting. You must get IRS consent before making the change. However, you do not need permission for certain changes in your method of depreciation. The rules discussed in this section do not apply to property depreciated under ACRS or MACRS.

The various elections made under MACRS, once made, cannot be changed. For information on ACRS elections, see *Revocation of election,* in Chapter 6 under *Alternate ACRS Method.*

Change to the straight line method. You can change from the declining balance method to the straight line method at any time during the useful life of your property without IRS consent. However, if you have a written agreement with the IRS that prohibits a change, you must first get IRS permission. When the change is made, figure depreciation based on your adjusted basis in the property at that time. Your adjusted basis takes into account all previous depreciation deductions. Use the estimated remaining useful life of your property at the time of change and its estimated salvage value.

You can change from the declining balance method to straight line only on the original tax return for the year you first use the straight line method. You cannot make the change on an amended return filed after the due date of the original return (including extensions).

When you make the change, attach a statement to your tax return showing:

1) When you acquired the property,
2) Its original cost or other original basis,
3) The total amount claimed for depreciation and other allowances since you acquired it,
4) Its salvage value and remaining useful life, and
5) A description of the property and its use.

After you change to straight line, you cannot change back to the declining balance method or to any other method for a period of 10 years without written permission from the IRS.

Changes that require permission. For most other changes in method of depreciation, you must get permission from the IRS. To request a change in method of depreciation, file Form 3115. File the application within the first 180 days of the tax year the change is to become effective. In most cases, there is a user fee that must accompany Form 3115. See the instructions for Form 3115 to determine if a fee is required.

Changes granted automatically. The IRS automatically approves certain changes of a method of depreciation. But, you must file Form 3115 for these automatic changes.

However, IRS can deny permission if Form 3115 is not filed on time. For more information on automatic changes, see Revenue Procedure 74-11, 1974-1 C.B. 420.

Changes for which approval is not automatic. The automatic change procedures do not apply to:

1) Property or an account where you made a change in depreciation within the last 10 tax years (unless the change was made under the Class Life System),
2) Class Life Asset Depreciation Range System, and
3) Public utility property.

You must request and receive permission for these changes. To make the request, file Form 3115 during the first 180 days of the tax year for which you want the change to be effective.

Change from an improper method. If the IRS disallows the method you are using, you do not need permission to change to a proper method. You can adopt the straight line method, or any other method that would have been permitted if you had used it from the beginning. If you file your tax return using an improper method, but later file an amended return, you can use a proper method on the amended return without getting IRS permission. However, you must file the amended return before the filing date for the next tax year.

Dispositions

Retirement is the permanent withdrawal of depreciable property from use in your trade or business or for the production of income. You can do this by selling, exchanging, or abandoning the item of property. You can also withdraw it from use without disposing of it. For example, you could place it in a supplies or scrap account. Retirements can be either normal or abnormal depending on all facts and circumstances. The rules discussed next do not apply to MACRS and ACRS property.

Normal retirement. A normal retirement is a permanent withdrawal of depreciable property from use if the following apply:

1) The retirement is made within the useful life you estimated originally, and
2) The property has reached a condition at which you customarily retire or would retire similar property from use.

A retirement is generally considered normal unless you can show that you retired the property because of a reason you did not consider when you originally estimated the useful life of the property.

Abnormal retirement. A retirement can be abnormal if you withdraw the property early or under other circumstances. For example, if the property is damaged by a fire or suddenly becomes obsolete and is now useless.

Gain or loss on retirement. There are special rules for figuring the gain or loss on retirement of property. The gain or loss will depend on several factors. These include the type of withdrawal, if the withdrawal was from a single property or multiple property account, and if the retirement was normal or abnormal. A single property account contains only one item of property. A multiple property account is one in which several items have been combined with a single rate of depreciation assigned to the entire account.

Sale or exchange. If property is retired by sale or exchange, you figure gain or loss by the usual rules that apply to sales or other dispositions of property. See Publication 544.

Property not disposed of or abandoned. If property is retired permanently, but not disposed of or physically abandoned, you do not recognize gain. You are allowed a loss in such a case, but only if the retirement is:

1) An abnormal retirement,
2) A normal retirement from a single property account in which you determined the life of each item of property separately, or
3) A normal retirement from a multiple property account in which the depreciation rate is based on the maximum expected life of the longest lived item of property and the loss occurs before the expiration of the full useful life. However, you are not allowed a loss if the depreciation rate is based on the average useful life of the items of property in the account.

To figure your loss, subtract the estimated salvage or fair market value of the property at the date of retirement, whichever is more, from its adjusted basis.

Special rule for normal retirements from item accounts. You can generally deduct losses upon retirement of a few depreciable items of property with similar useful lives, if:

1) You account for each one in a separate account, and
2) You use the average useful life to figure depreciation.

However, you cannot deduct losses if you use the average useful life to figure depreciation and they have a wide range of useful lives.

If you have a large number of depreciable property items and use average useful lives to figure depreciation, you cannot deduct the losses upon normal retirements from these accounts.

Abandoned property. If you physically abandon property, you can deduct as a loss the adjusted basis of the property at the time of its abandonment. However, your intent must be to discard the property so that you will not use it again or retrieve it for sale, exchange, or other disposition.

Basis of property retired. The basis for figuring gain or loss on the retirement of property is its adjusted basis at the time of retirement, as determined in the following discussions.

Single item accounts. If an item of property is accounted for in a single item account, the adjusted basis is the basis you would use to figure gain or loss for a sale or exchange of the property. This is generally the cost or other basis of the item of property less depreciation. See Publication 551.

Multiple property account. For a normal retirement from a multiple property account, if you figured depreciation using the average expected useful life, the adjusted basis is the salvage value estimated for the item of property when it was originally acquired. If you figured depreciation using the maximum expected useful life of the longest lived item of property in the account, you must use the depreciation method used for the multiple property account and a rate based on the maximum expected useful life of the item of property retired.

You make the adjustment for depreciation for an abnormal retirement from a multiple property account at the rate that would be proper if the item of property was depreciated in a single property account. The method of depreciation used for the multiple property account is used. You base the rate on either the average expected useful life or the maximum expected useful life of the retired item of property, depending on the method used to determine the depreciation rate for the multiple property account.

Appendix

The following tables are for use in figuring depreciation deductions under the MACRS system.

Depreciation Worksheet

Description of Property	Date Placed in Service	Cost or Other Basis	Business/ Investment Use %	Section 179 Deduction	Depreciation Prior Years	Basis for Depreciation	Method/ Convention	Recovery Period	Rate or Table %	Depreciation Deduction
Building	2/2/91	$65,000	100%		$5,933.20	$65,000	SL/MM	GDS 31.5	3.175%	$2,063.25
Desk and Chair	2/2/91	600	100%	$ 600	-0-	-0-				-0-
Refrigeration Equipment	2/2/91	4,500	100%		2,532.15	4,500	200DB/HY	GDS/7	12.49%	562.05
Worktables	2/2/91	1,200	100%		675.24	1,200	200DB/HY	GDS/7	12.49%	149.88
Cash Register	2/2/91	270	100%		151.92	270	200DB/HY	GDS/7	12.49%	33.72
Subtotal - 1991 Property										2,809.40
Delivery Truck	4/16/92	23,500	100%	10,000	5,467.50	13,500	150DB/HY	ADS/5	17.85%	2,409.75
Typewriter	7/3/92	300	100%		103.14	300	150DB/HY	ADS/6	16.41%	49.23
Subtotal - 1992 Property										2,458.98
Computer	6/21/94	3,000	100%		-0-	3,000	200DB/MQ	GDS/5	25.00%	750.00
File Cabinets	9/9/94	475	100%		-0-	475	SL/MQ	ADS/10	3.75%	17.81
Store Counters	11/1/94	1,870	100%		-0-	1,870	SL/MQ	ADS/12	1.04%	19.45
Van	11/16/94	24,800	100%	17,500	-0-	7,300	200DB/MQ	GDS/5	5.00%	365.00
Subtotal - 1994 Property				17,500						1,152.26
Grand Total - 1994				$17,500						$6,420.64

Form **4562** — **Depreciation and Amortization**
(Including Information on Listed Property)

Department of the Treasury Internal Revenue Service (T)

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

OMB No. 1545-0172 | **1994** | Attachment Sequence No. 67

Name(s) shown on return: Fields of Flowers, Inc.

Identifying number: 10-1787889

Business or activity to which this form relates: Retail Florist

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

1	Maximum dollar limitation (If an enterprise zone business, see instructions.)	1	$17,500
2	Total cost of section 179 property placed in service during the tax year (see instructions)	2	30,145
3	Threshold cost of section 179 property before reduction in limitation	3	$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	-0-
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. (If married filing separately, see instructions.)	5	17,500

	(a) Description of property	(b) Cost	(c) Elected cost
6			
7	Listed property. Enter amount from line 26	7	17,500

8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	17,500
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	17,500
10	Carryover of disallowed deduction from 1993 (see instructions)	10	-0-
11	Taxable income limitation. Enter the smaller of taxable income (not less than zero) or line 5 (see instructions)	11	17,500
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	17,500
13	Carryover of disallowed deduction to 1995. Add lines 9 and 10, less line 12 ▶	13	-0-

Note: *Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.*

Part II — MACRS Depreciation For Assets Placed in Service ONLY During Your 1994 Tax Year (Do Not Include Listed Property)

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
Section A—General Depreciation System (GDS) (see instructions)						
14a 3-year property						
b 5-year property		3,000	5 YRS	MQ	200DB	750.00
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
h Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	
Section B—Alternative Depreciation System (ADS) (see instructions)						
15a Class life		475	10 YRS	MQ	S/L	17.81
b 12-year		1,870	12 yrs.	MQ	S/L	19.45
c 40-year			40 yrs.	MM	S/L	

Part III — Other Depreciation (Do Not Include Listed Property)

16	GDS and ADS deductions for assets placed in service in tax years beginning before 1994 (see instructions)	16	5,268.38
17	Property subject to section 168(f)(1) election (see instructions)	17	
18	ACRS and other depreciation (see instructions)	18	

Part IV — Summary

19	Listed property. Enter amount from line 25	19	365.00
20	**Total.** Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	23,920.64
21	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	-0-

For Paperwork Reduction Act Notice, see page 1 of the separate instructions. Cat. No. 12906N Form **4562** (1994)

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

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

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

22a Do you have evidence to support the business/investment use claimed? ☑ Yes ☐ No | 22b If "Yes," is the evidence written? ☑ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
23 Property used more than 50% in a qualified business use (see instructions):								
USA 280F Van	11-16-94	100 %	24,800	7,300	5	200DB/MQ	365.00	17,500
		%						
		%						
24 Property used 50% or less in a qualified business use (see instructions):								
		%				S/L -		
		%				S/L -		
		%				S/L -		

25 Add amounts in column (h). Enter the total here and on line 19, page 1 . . . . . . **25** 365.00

26 Add amounts in column (i). Enter the total here and on line 7, page 1 . . . . **26** 17,500

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

- *Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.*
- *If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.*

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
27 Total business/investment miles driven during the year (DO NOT include commuting miles)												
28 Total commuting miles driven during the year												
29 Total other personal (noncommuting) miles driven												
30 Total miles driven during the year. Add lines 27 through 29.												
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
31 Was the vehicle available for personal use during off-duty hours?												
32 Was the vehicle used primarily by a more than 5% owner or related person?												
33 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.*

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

Note: *If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.*

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1994 tax year:					

40 Amortization of costs that began before 1994 . . . . **40**

41 **Total.** Enter here and on "Other Deductions" or "Other Expenses" line of your return . . . **41**

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Appendix A
MACRS Percentage Table Guide
General Depreciation System (GDS)
Alternative Depreciation System (ADS)

Chart 1. *Use this chart to find the correct percentage table to use for any property other than residential rental and nonresidential real property. Use Chart 2 for residential rental and nonresidential real property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	200%	GDS/3,5,7,10 (Nonfarm)	Half-Year	3,5,7,10	Any	A-1
GDS	200%	GDS/3,5,7,10 (Nonfarm)	Mid-Quarter	3,5,7,10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS	150%	GDS/3,5,7,10 (Farm)	Half-Year	3,5,7,10	Any	A-14
GDS	150%	GDS/3,5,7,10 (Farm)	Mid-Quarter	3,5,7,10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18
GDS	150%	GDS/15,20	Half-Year	15 & 20	Any	A-1
GDS	150%	GDS/15,20	Mid-Quarter	15 & 20	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS ADS	SL	GDS ADS	Half-Year	All	Any	A-8
GDS ADS	SL	GDS ADS	Mid-Quarter	All	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-9 A-10 A-11 A-12
ADS	150%	ADS	Half-Year	Any	Any	A-14
ADS	150%	ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18

Chart 2. *Use this chart to find the correct percentage table to use for residential rental and nonresidential real property. Use Chart 1 for all other property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	SL	GDS/27.5	Mid-Month	Residential Rental	Any	A-6
GDS	SL SL	GDS/31.5 GDS/39	Mid-Month	Nonresidential Real	Any	A-7 A-7a
ADS	SL	ADS/40	Mid-Month	Residential Rental and Nonresidential Real	Any	A-13

Chart 3. **Income Inclusion Amount Rates for MACRS Leased Listed Property**

	Table
Amount A Percentages	A-19
Amount B Percentages	A-20

Table A-1. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Half-Year Convention**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

Table A-2. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in First Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	58.33%	35.00%	25.00%	17.50%	8.75%	6.563%
2	27.78	26.00	21.43	16.50	9.13	7.000
3	12.35	15.60	15.31	13.20	8.21	6.482
4	1.54	11.01	10.93	10.56	7.39	5.996
5		11.01	8.75	8.45	6.65	5.546
6		1.38	8.74	6.76	5.99	5.130
7			8.75	6.55	5.90	4.746
8			1.09	6.55	5.91	4.459
9				6.56	5.90	4.459
10				6.55	5.91	4.459
11				0.82	5.90	4.459
12					5.91	4.460
13					5.90	4.459
14					5.91	4.460
15					5.90	4.459
16					0.74	4.460
17						4.459
18						4.460
19						4.459
20						4.460
21						0.557

Table A-3. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Second Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	41.67%	25.00%	17.85%	12.50%	6.25%	4.688%
2	38.89	30.00	23.47	17.50	9.38	7.148
3	14.14	18.00	16.76	14.00	8.44	6.612
4	5.30	11.37	11.97	11.20	7.59	6.116
5		11.37	8.87	8.96	6.83	5.658
6		4.26	8.87	7.17	6.15	5.233
7			8.87	6.55	5.91	4.841
8			3.33	6.55	5.90	4.478
9				6.56	5.91	4.463
10				6.55	5.90	4.463
11				2.46	5.91	4.463
12					5.90	4.463
13					5.91	4.463
14					5.90	4.463
15					5.91	4.462
16					2.21	4.463
17						4.462
18						4.463
19						4.462
20						4.463
21						1.673

Table A-4. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Third Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	25.00%	15.00%	10.71%	7.50%	3.75%	2.813%
2	50.00	34.00	25.51	18.50	9.63	7.289
3	16.67	20.40	18.22	14.80	8.66	6.742
4	8.33	12.24	13.02	11.84	7.80	6.237
5		11.30	9.30	9.47	7.02	5.769
6		7.06	8.85	7.58	6.31	5.336
7			8.86	6.55	5.90	4.936
8			5.53	6.55	5.90	4.566
9				6.56	5.91	4.460
10				6.55	5.90	4.460
11				4.10	5.91	4.460
12					5.90	4.460
13					5.91	4.461
14					5.90	4.460
15					5.91	4.461
16					3.69	4.460
17						4.461
18						4.460
19						4.461
20						4.460
21						2.788

Table A-5. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Fourth Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	8.33%	5.00%	3.57%	2.50%	1.25%	0.938%
2	61.11	38.00	27.55	19.50	9.88	7.430
3	20.37	22.80	19.68	15.60	8.89	6.872
4	10.19	13.68	14.06	12.48	8.00	6.357
5		10.94	10.04	9.98	7.20	5.880
6		9.58	8.73	7.99	6.48	5.439
7			8.73	6.55	5.90	5.031
8			7.64	6.55	5.90	4.654
9				6.56	5.90	4.458
10				6.55	5.91	4.458
11				5.74	5.90	4.458
12					5.91	4.458
13					5.90	4.458
14					5.91	4.458
15					5.90	4.458
16					5.17	4.458
17						4.458
18						4.459
19						4.458
20						4.459
21						3.901

Table A-6. **Residential Rental Property Mid-Month Convention Straight Line—27.5 Years**

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2-9	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636
10	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
11	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
12	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
13	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
14	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
15	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
16	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
17	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
18	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
19	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
20	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
21	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
22	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
23	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
24	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
25	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
26	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
27	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
28	1.97	2.273	2.576	2.879	3.182	3.485	3.636	3.636	3.636	3.636	3.636	3.636
29							0.152	0.455	0.758	1.061	1.364	1.667

Table A-7. **Nonresidential Real Property Mid-Month Convention Straight Line—31.5 Years**

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.042%	2.778%	2.513%	2.249%	1.984%	1.720%	1.455%	1.190%	0.926%	0.661%	0.397%	0.132%
2-7	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175
8	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.175	3.175	3.175	3.175	3.175
9	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
10	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
11	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
12	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
13	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
14	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
15	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
16	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
17	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
18	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
19	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
20	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
21	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
22	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
23	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
24	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
25	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
26	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
27	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
28	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
29	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
30	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
31	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
32	1.720	1.984	2.249	2.513	2.778	3.042	3.175	3.174	3.175	3.174	3.175	3.174
33							0.132	0.397	0.661	0.926	1.190	1.455

Table A-7a. **Nonresidential Real Property Mid-Month Convention Straight Line—39 Years**

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
2-39	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564
40	0.107	0.321	0.535	0.749	0.963	1.177	1.391	1.605	1.819	2.033	2.247	2.461

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

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

Table A-8. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%
2	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
10	10.0	9.53	9.09	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
11	5.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
12			4.55	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
13					4.17	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
14							3.85	7.40	7.15	6.66	6.25	6.06	5.88
15									3.57	6.67	6.25	6.06	5.89
16										3.33	6.25	6.06	5.88
17											3.12	6.07	5.89
18													2.94

Table A-8. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	2.78%	2.63%	2.5%	2.273%	2.083%	2.0%	1.887%	1.786%	1.667%	1.429%	1.25%	1.111%	1.0%
2	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
3	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
4	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
5	5.56	5.26	5.0	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
6	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
7	5.56	5.26	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
8	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
9	5.56	5.27	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
10	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
11	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
12	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
13	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.334	2.857	2.50	2.222	2.0
14	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
15	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
16	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
17	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
18	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
19	2.78	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
20		2.63	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
21			2.5	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
22				4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
23				2.273	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
24					4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
25					2.083	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
26						2.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
27							3.774	3.572	3.334	2.857	2.50	2.223	2.0
28								3.571	3.333	2.858	2.50	2.222	2.0
29								1.786	3.334	2.857	2.50	2.223	2.0
30									3.333	2.858	2.50	2.222	2.0
31									1.667	2.857	2.50	2.223	2.0
32										2.858	2.50	2.222	2.0
33										2.857	2.50	2.223	2.0
34										2.858	2.50	2.222	2.0
35										2.857	2.50	2.223	2.0
36										1.429	2.50	2.222	2.0
37											2.50	2.223	2.0
38											2.50	2.222	2.0
39											2.50	2.223	2.0
40											2.50	2.222	2.0
41											1.25	2.223	2.0
42												2.222	2.0
43												2.223	2.0
44												2.222	2.0
45												2.223	2.0
46												1.111	2.0
47-50													2.0
51													1.0

Table A-9. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in First Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	35.0%	29.17%	25.00%	21.88%	17.5%	14.58%	13.46%	12.50%	11.67%	10.94%	10.29%	9.72%	9.21%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	25.0	33.33	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.76	11.11	10.53
4		4.17	17.86	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
5				3.12	20.0	16.66	15.39	14.28	13.34	12.50	11.76	11.11	10.52
6					2.5	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
7						2.08	9.62	14.28	13.34	12.50	11.76	11.11	10.52
8								1.79	8.33	12.50	11.77	11.12	10.53
9										1.56	7.35	11.11	10.52
10												1.39	6.58

Table A-9. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	8.75%	8.33%	7.95%	7.61%	7.29%	7.0%	6.73%	6.48%	6.25%	5.83%	5.47%	5.30%	5.15%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.00	9.52	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
10	10.00	9.53	9.10	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
11	1.25	5.95	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
12			1.14	5.43	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.89
13					1.04	5.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
14							0.96	4.63	7.15	6.66	6.25	6.06	5.89
15									0.89	6.67	6.25	6.06	5.88
16										0.83	6.25	6.07	5.89
17											0.78	3.79	5.88
18													0.74

Table A-9. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	4.86%	4.61%	4.375%	3.977%	3.646%	3.5%	3.302%	3.125%	2.917%	2.500%	2.188%	1.944%	1.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
19	0.69	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
20		0.66	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
21			0.625	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
23				0.568	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
25					0.521	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
26						0.5	3.774	3.572	3.333	2.857	2.500	2.223	2.00
27							2.358	3.571	3.334	2.858	2.500	2.222	2.00
28								3.572	3.333	2.857	2.500	2.223	2.00
29								0.446	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									0.417	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										0.357	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											0.312	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												0.278	2.00
47-50													2.00
51													0.25

Table A-10. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	25.0%	20.83%	17.86%	15.63%	12.5%	10.42%	9.62%	8.93%	8.33%	7.81%	7.35%	6.94%	6.58%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	35.0	33.34	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.53
4		12.50	25.00	25.00	20.0	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
5				9.37	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.52
6					7.5	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
7						6.25	13.46	14.28	13.33	12.50	11.76	11.11	10.52
8								5.36	11.67	12.50	11.77	11.12	10.53
9										4.69	10.29	11.11	10.52
10												4.17	9.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	6.25%	5.95%	5.68%	5.43%	5.21%	5.0%	4.81%	4.63%	4.46%	4.17%	3.91%	3.79%	3.68%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
8	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
9	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
10	10.00	9.53	9.09	8.70	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
11	3.75	8.33	9.10	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
12			3.41	7.61	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.89
13					3.13	7.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
14							2.89	6.48	7.14	6.67	6.25	6.06	5.89
15									2.68	6.66	6.25	6.06	5.88
16										2.50	6.25	6.06	5.89
17											2.34	5.31	5.88
18													2.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	3.47%	3.29%	3.125%	2.841%	2.604%	2.5%	2.358%	2.232%	2.083%	1.786%	1.563%	1.389%	1.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
19	2.08	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
20		1.97	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
21			1.875	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
23				1.705	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
25					1.562	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
26						1.5	3.773	3.572	3.334	2.857	2.500	2.222	2.00
27							3.302	3.571	3.333	2.857	2.500	2.223	2.00
28								3.572	3.334	2.858	2.500	2.222	2.00
29								1.339	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									1.250	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.072	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											0.937	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												0.833	2.00
47-50													2.00
51													0.75

Table A-11. **Straight Line Method Mid-Quarter Convention Placed in Service in Third Quarter**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	15.0%	12.50%	10.71%	9.38%	7.5%	6.25%	5.77%	5.36%	5.00%	4.69%	4.41%	4.17%	3.95%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.34	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
4	5.0	20.83	28.58	25.00	20.0	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
5			3.57	15.62	20.0	16.67	15.39	14.28	13.34	12.50	11.77	11.11	10.53
6					12.5	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
7						10.42	15.39	14.28	13.34	12.50	11.77	11.11	10.53
8							1.92	8.93	13.33	12.50	11.76	11.11	10.52
9									1.67	7.81	11.77	11.11	10.53
10											1.47	6.95	10.52
11													1.32

Table A-11. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	3.75%	3.57%	3.41%	3.26%	3.13%	3.0%	2.88%	2.78%	2.68%	2.50%	2.34%	2.27%	2.21%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.66	6.25	6.06	5.88
8	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
9	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
10	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
11	6.25	9.53	9.10	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
12		1.19	5.68	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.89
13				1.09	5.21	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
14						1.0	4.81	7.40	7.14	6.67	6.25	6.06	5.89
15								0.93	4.47	6.66	6.25	6.06	5.88
16										4.17	6.25	6.07	5.89
17											3.91	6.06	5.88
18												0.76	3.68

Table A-11. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	2.08%	1.97%	1.875%	1.705%	1.563%	1.5%	1.415%	1.339%	1.250%	1.071%	0.938%	0.833%	0.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
19	3.47	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
20		3.29	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
21			3.125	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
23				2.841	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
25					2.604	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
26						2.5	3.774	3.572	3.334	2.858	2.500	2.222	2.00
27							3.773	3.571	3.333	2.857	2.500	2.223	2.00
28							0.472	3.572	3.334	2.858	2.500	2.222	2.00
29								2.232	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									2.083	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.786	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											1.562	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												1.389	2.00
47-50													2.00
51													1.25

Table A-12. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Fourth Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	5.0%	4.17%	3.57%	3.13%	2.5%	2.08%	1.92%	1.79%	1.67%	1.56%	1.47%	1.39%	1.32%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.77	11.11	10.53
4	15.0	29.17	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.52
5			10.72	21.87	20.0	16.66	15.38	14.28	13.33	12.50	11.77	11.11	10.53
6					17.5	16.67	15.39	14.29	13.34	12.50	11.76	11.11	10.52
7						14.58	15.38	14.28	13.33	12.50	11.77	11.11	10.53
8							5.77	12.50	13.34	12.50	11.76	11.11	10.52
9									5.00	10.94	11.77	11.11	10.53
10											4.41	9.73	10.52
11													3.95

Table A-12. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	1.25%	1.19%	1.14%	1.09%	1.04%	1.0%	0.96%	0.93%	0.89%	0.83%	0.78%	0.76%	0.74%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
9	10.00	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
10	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
11	8.75	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
12		3.57	7.96	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.89
13				3.26	7.29	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
14						3.0	6.73	7.40	7.15	6.66	6.25	6.06	5.89
15								2.78	6.25	6.67	6.25	6.06	5.88
16										5.83	6.25	6.06	5.89
17											5.47	6.07	5.88
18												2.27	5.15

Table A-12. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	0.69%	0.66%	0.625%	0.568%	0.521%	0.5%	0.472%	0.446%	0.417%	0.357%	0.313%	0.278%	0.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
19	4.86	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
20		4.61	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
21			4.375	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
23				3.977	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
25					3.646	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
26						3.5	3.773	3.572	3.333	2.857	2.500	2.222	2.00
27							3.774	3.571	3.334	2.858	2.500	2.222	2.00
28							1.415	3.572	3.333	2.857	2.500	2.223	2.00
29								3.125	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									2.917	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										2.500	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											2.187	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												1.945	2.00
47-50													2.00
51													1.75

Table A-13. **Straight Line Mid-Month Convention**

Year	Month property placed in service											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	2.396%	2.188%	1.979%	1.771%	1.563%	1.354%	1.146%	0.938%	0.729%	0.521%	0.313%	0.104%
2-40	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500
41	0.104	0.312	0.521	0.729	0.937	1.146	1.354	1.562	1.771	1.979	2.187	2.396

Table A-14. **150% Declining Balance Method Half-Year Convention**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	30.0%	25.0%	21.43%	18.75%	15.00%	12.50%	11.54%	10.71%	10.00%	9.38%	8.82%	8.33%	7.89%
2	42.0	37.5	33.67	30.47	25.50	21.88	20.41	19.13	18.00	16.99	16.09	15.28	14.54
3	28.0	25.0	22.45	20.31	17.85	16.41	15.70	15.03	14.40	13.81	13.25	12.73	12.25
4		12.5	22.45	20.31	16.66	14.06	13.09	12.25	11.52	11.22	10.91	10.61	10.31
5				10.16	16.66	14.06	13.09	12.25	11.52	10.80	10.19	9.65	9.17
6					8.33	14.06	13.09	12.25	11.52	10.80	10.19	9.64	9.17
7						7.03	13.08	12.25	11.52	10.80	10.18	9.65	9.17
8								6.13	11.52	10.80	10.19	9.64	9.17
9										5.40	10.18	9.65	9.17
10												4.82	9.16

Table A-14. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	7.50%	7.14%	6.82%	6.52%	6.25%	6.00%	5.77%	5.56%	5.36%	5.00%	4.69%	4.55%	4.41%
2	13.88	13.27	12.71	12.19	11.72	11.28	10.87	10.49	10.14	9.50	8.94	8.68	8.43
3	11.79	11.37	10.97	10.60	10.25	9.93	9.62	9.33	9.05	8.55	8.10	7.89	7.69
4	10.02	9.75	9.48	9.22	8.97	8.73	8.51	8.29	8.08	7.70	7.34	7.17	7.01
5	8.74	8.35	8.18	8.02	7.85	7.69	7.53	7.37	7.22	6.93	6.65	6.52	6.39
6	8.74	8.35	7.98	7.64	7.33	7.05	6.79	6.55	6.44	6.23	6.03	5.93	5.83
7	8.74	8.35	7.97	7.64	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.32
8	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
9	8.74	8.36	7.97	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
11	4.37	8.36	7.97	7.64	7.32	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12			3.99	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
13					3.66	7.04	6.79	6.56	6.32	5.91	5.54	5.38	5.23
14							3.39	6.55	6.31	5.90	5.55	5.39	5.23
15									3.16	5.91	5.54	5.38	5.23
16										2.95	5.55	5.39	5.23
17											2.77	5.38	5.23
18													2.62

Table A-14. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	4.17%	3.95%	3.750%	3.409%	3.125%	3.000%	2.830%	2.679%	2.500%	2.143%	1.875%	1.667%	1.500%
2	7.99	7.58	7.219	6.586	6.055	5.820	5.500	5.214	4.875	4.194	3.680	3.278	2.955
3	7.32	6.98	6.677	6.137	5.676	5.471	5.189	4.934	4.631	4.014	3.542	3.169	2.866
4	6.71	6.43	6.177	5.718	5.322	5.143	4.895	4.670	4.400	3.842	3.409	3.063	2.780
5	6.15	5.93	5.713	5.328	4.989	4.834	4.618	4.420	4.180	3.677	3.281	2.961	2.697
6	5.64	5.46	5.285	4.965	4.677	4.544	4.357	4.183	3.971	3.520	3.158	2.862	2.616
7	5.17	5.03	4.888	4.627	4.385	4.271	4.110	3.959	3.772	3.369	3.040	2.767	2.538
8	4.94	4.69	4.522	4.311	4.111	4.015	3.877	3.747	3.584	3.225	2.926	2.674	2.461
9	4.94	4.69	4.462	4.063	3.854	3.774	3.658	3.546	3.404	3.086	2.816	2.585	2.388
10	4.94	4.69	4.461	4.063	3.729	3.584	3.451	3.356	3.234	2.954	2.710	2.499	2.316
11	4.94	4.69	4.462	4.063	3.729	3.583	3.383	3.205	3.072	2.828	2.609	2.416	2.246
12	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.706	2.511	2.335	2.179
13	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.590	2.417	2.257	2.114
14	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.326	2.182	2.050
15	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.110	1.989
16	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.039	1.929
17	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.871
18	4.95	4.70	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.815
19	2.47	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.35	4.461	4.463	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
21			2.231	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.063	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
23				2.032	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.004	1.806
25					1.865	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
26						1.792	3.384	3.205	2.993	2.571	2.253	2.004	1.806
27							3.383	3.205	2.994	2.571	2.253	2.005	1.806
28								3.205	2.993	2.572	2.253	2.004	1.806
29								1.602	2.994	2.571	2.253	2.005	1.806
30									2.993	2.572	2.253	2.004	1.806
31									1.497	2.571	2.253	2.005	1.806
32										2.572	2.253	2.004	1.806
33										2.571	2.252	2.005	1.806
34										2.572	2.253	2.004	1.806
35										2.571	2.252	2.005	1.806
36										1.286	2.253	2.004	1.806
37											2.252	2.005	1.806
38											2.253	2.004	1.806
39											2.252	2.005	1.806
40											2.253	2.004	1.806
41											1.126	2.005	1.806
42												2.004	1.805
43												2.005	1.806
44												2.004	1.805
45												2.005	1.806
46												1.002	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.903

Table A-15. **150% Declining Balance Method Mid-Quarter Convention Property Placed in Service in First Quarter**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	52.50%	43.75%	37.50%	32.81%	26.25%	21.88%	20.19%	18.75%	17.50%	16.41%	15.44%	14.58%	13.82%
2	29.23	28.13	26.79	25.20	22.13	19.53	18.42	17.41	16.50	15.67	14.92	14.24	13.61
3	18.27	25.00	21.98	19.76	16.52	14.65	14.17	13.68	13.20	12.74	12.29	11.86	11.46
4		3.12	13.73	19.76	16.52	14.06	13.03	12.16	11.42	10.77	10.20	9.89	9.65
5				2.47	16.52	14.06	13.02	12.16	11.42	10.77	10.19	9.64	9.15
6					2.06	14.06	13.03	12.16	11.41	10.76	10.20	9.65	9.15
7						1.76	8.14	12.16	11.42	10.77	10.19	9.64	9.15
8								1.52	7.13	10.76	10.20	9.65	9.15
9										1.35	6.37	9.64	9.14
10												1.21	5.72

Table A-15. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	13.13%	12.50%	11.93%	11.41%	10.94%	10.50%	10.10%	9.72%	9.38%	8.75%	8.20%	7.95%	7.72%
2	13.03	12.50	12.01	11.56	11.13	10.74	10.37	10.03	9.71	9.13	8.61	8.37	8.14
3	11.08	10.71	10.37	10.05	9.74	9.45	9.18	8.92	8.67	8.21	7.80	7.61	7.42
4	9.41	9.18	8.96	8.74	8.52	8.32	8.12	7.93	7.74	7.39	7.07	6.92	6.77
5	8.71	8.32	7.96	7.64	7.46	7.32	7.18	7.04	6.91	6.65	6.41	6.29	6.17
6	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.99	5.80	5.71	5.63
7	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
8	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
9	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
10	8.71	8.31	7.97	7.63	7.32	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
11	1.09	5.20	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
12			1.00	4.77	7.32	7.03	6.78	6.53	6.31	5.91	5.54	5.38	5.22
13					0.92	4.40	6.77	6.54	6.32	5.90	5.54	5.38	5.23
14							0.85	4.08	6.31	5.91	5.55	5.38	5.22
15									0.79	5.90	5.54	5.38	5.23
16										0.74	5.55	5.37	5.22
17											0.69	3.36	5.23
18													0.65

Table A-15. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	7.29%	6.91%	6.563%	5.966%	5.469%	5.250%	4.953%	4.688%	4.375%	3.750%	3.281%	2.917%	2.625%
2	7.73	7.35	7.008	6.411	5.908	5.685	5.380	5.106	4.781	4.125	3.627	3.236	2.921
3	7.08	6.77	6.482	5.974	5.539	5.344	5.075	4.832	4.542	3.948	3.491	3.128	2.834
4	6.49	6.23	5.996	5.567	5.193	5.023	4.788	4.574	4.315	3.779	3.360	3.024	2.749
5	5.95	5.74	5.546	5.187	4.868	4.722	4.517	4.329	4.099	3.617	3.234	2.923	2.666
6	5.45	5.29	5.130	4.834	4.564	4.439	4.262	4.097	3.894	3.462	3.113	2.826	2.586
7	5.00	4.87	4.746	4.504	4.279	4.172	4.020	3.877	3.700	3.314	2.996	2.732	2.509
8	4.94	4.69	4.459	4.197	4.011	3.922	3.793	3.669	3.515	3.172	2.884	2.640	2.433
9	4.95	4.69	4.459	4.061	3.761	3.687	3.578	3.473	3.339	3.036	2.776	2.552	2.360
10	4.94	4.69	4.459	4.061	3.729	3.582	3.383	3.287	3.172	2.906	2.671	2.467	2.290
11	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	3.013	2.781	2.571	2.385	2.221
12	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.662	2.475	2.306	2.154
13	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.382	2.229	2.090
14	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.293	2.154	2.027
15	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.252	2.083	1.966
16	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.013	1.907
17	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.253	2.005	1.850
18	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
19	0.62	4.68	4.459	4.061	3.729	3.581	3.384	3.204	2.994	2.571	2.253	2.005	1.806
20		0.59	4.460	4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
21			0.557	4.061	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
22				4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
23				0.508	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
24					3.730	3.582	3.383	3.204	2.994	2.570	2.252	2.005	1.806
25					0.466	3.581	3.384	3.203	2.993	2.571	2.253	2.004	1.806
26						0.448	3.383	3.204	2.994	2.570	2.252	2.005	1.806
27							2.115	3.203	2.993	2.571	2.253	2.004	1.806
28								3.204	2.994	2.570	2.252	2.005	1.805
29								0.400	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									0.374	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										0.321	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											0.282	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												0.251	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.226

Table A-16. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	37.50%	31.25%	26.79%	23.44%	18.75%	15.63%	14.42%	13.39%	12.50%	11.72%	11.03%	10.42%	9.87%
2	37.50	34.38	31.38	28.71	24.38	21.09	19.75	18.56	17.50	16.55	15.70	14.93	14.23
3	25.00	25.00	22.31	20.15	17.06	15.82	15.19	14.58	14.00	13.45	12.93	12.44	11.98
4		9.37	19.52	20.15	16.76	14.06	13.07	12.22	11.49	10.93	10.65	10.37	10.09
5				7.55	16.76	14.06	13.07	12.22	11.49	10.82	10.19	9.64	9.16
6					6.29	14.07	13.07	12.22	11.49	10.82	10.19	9.65	9.16
7						5.27	11.43	12.23	11.48	10.83	10.19	9.64	9.16
8								4.58	10.05	10.82	10.20	9.65	9.17
9										4.06	8.92	9.64	9.16
10												3.62	8.02

Table A-16. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	9.38%	8.93%	8.52%	8.15%	7.81%	7.50%	7.21%	6.94%	6.70%	6.25%	5.86%	5.68%	5.51%
2	13.59	13.01	12.47	11.98	11.52	11.10	10.71	10.34	10.00	9.38	8.83	8.57	8.34
3	11.55	11.15	10.77	10.42	10.08	9.77	9.47	9.19	8.92	8.44	8.00	7.80	7.60
4	9.82	9.56	9.31	9.06	8.82	8.60	8.38	8.17	7.97	7.59	7.25	7.09	6.93
5	8.73	8.34	8.04	7.88	7.72	7.56	7.41	7.26	7.12	6.83	6.57	6.44	6.32
6	8.73	8.34	7.98	7.64	7.33	7.04	6.78	6.55	6.35	6.15	5.95	5.86	5.76
7	8.73	8.34	7.98	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.38	5.25
8	8.73	8.34	7.98	7.64	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
9	8.73	8.34	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
10	8.73	8.35	7.98	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
11	3.28	7.30	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
12			2.99	6.68	7.32	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
13					2.75	6.16	6.79	6.54	6.32	5.91	5.55	5.38	5.24
14							2.54	5.73	6.33	5.90	5.54	5.39	5.23
15									2.37	5.91	5.55	5.38	5.24
16										2.21	5.54	5.39	5.23
17											2.08	4.71	5.24
18													1.96

Table A-16. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	5.21%	4.93%	4.688%	4.261%	3.906%	3.750%	3.538%	3.348%	3.125%	2.679%	2.344%	2.083%	1.875%
2	7.90	7.51	7.148	6.528	6.006	5.775	5.460	5.178	4.844	4.171	3.662	3.264	2.944
3	7.24	6.91	6.612	6.083	5.631	5.429	5.151	4.900	4.602	3.992	3.525	3.155	2.855
4	6.64	6.37	6.116	5.668	5.279	5.103	4.859	4.638	4.371	3.821	3.393	3.050	2.770
5	6.08	5.86	5.658	5.281	4.949	4.797	4.584	4.389	4.153	3.657	3.265	2.948	2.687
6	5.58	5.40	5.233	4.921	4.639	4.509	4.325	4.154	3.945	3.501	3.143	2.850	2.606
7	5.11	4.98	4.841	4.586	4.349	4.238	4.080	3.932	3.748	3.351	3.025	2.755	2.528
8	4.94	4.69	4.478	4.273	4.078	3.984	3.849	3.721	3.561	3.207	2.912	2.663	2.452
9	4.94	4.69	4.463	4.063	3.823	3.745	3.631	3.522	3.383	3.069	2.802	2.574	2.378
10	4.95	4.69	4.463	4.063	3.729	3.583	3.426	3.333	3.213	2.938	2.697	2.489	2.307
11	4.94	4.69	4.463	4.062	3.729	3.583	3.384	3.205	3.053	2.812	2.596	2.406	2.238
12	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.692	2.499	2.325	2.171
13	4.94	4.69	4.463	4.062	3.730	3.583	3.384	3.205	2.994	2.576	2.405	2.248	2.106
14	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.571	2.315	2.173	2.042
15	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.101	1.981
16	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.994	2.571	2.253	2.031	1.922
17	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.864
18	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.808
19	1.85	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.806
20		1.76	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
21			1.673	4.062	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.005	1.806
22				4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
23				1.523	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
24					3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
25					1.399	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
26						1.343	3.383	3.204	2.993	2.571	2.253	2.005	1.806
27							2.961	3.205	2.994	2.572	2.253	2.004	1.806
28								3.204	2.993	2.571	2.253	2.005	1.806
29								1.202	2.994	2.572	2.253	2.004	1.806
30									2.993	2.571	2.252	2.005	1.806
31									1.123	2.572	2.253	2.004	1.806
32										2.571	2.252	2.005	1.806
33										2.572	2.253	2.004	1.806
34										2.571	2.252	2.005	1.806
35										2.572	2.253	2.004	1.806
36										0.964	2.252	2.005	1.806
37											2.253	2.004	1.806
38											2.252	2.005	1.806
39											2.253	2.004	1.806
40											2.252	2.005	1.806
41											0.845	2.004	1.806
42												2.005	1.806
43												2.004	1.806
44												2.005	1.806
45												2.004	1.805
46												0.752	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													0.677

Table A-17. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Third Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	22.50%	18.75%	16.07%	14.06%	11.25%	9.38%	8.65%	8.04%	7.50%	7.03%	6.62%	6.25%	5.92%
2	46.50	40.63	35.97	32.23	26.63	22.66	21.08	19.71	18.50	17.43	16.48	15.63	14.85
3	27.56	25.00	22.57	20.46	18.64	16.99	16.22	15.48	14.80	14.16	13.57	13.02	12.51
4	3.44	15.62	22.57	20.46	16.56	14.06	13.10	12.27	11.84	11.51	11.18	10.85	10.53
5			2.82	12.79	16.57	14.06	13.10	12.28	11.48	10.78	10.18	9.64	9.17
6					10.35	14.06	13.11	12.27	11.48	10.78	10.17	9.65	9.17
7						8.79	13.10	12.28	11.48	10.78	10.18	9.64	9.18
8							1.64	7.67	11.48	10.79	10.17	9.65	9.17
9									1.44	6.74	10.18	9.64	9.18
10											1.27	6.03	9.17
11													1.15

Table A-17. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.63%	5.36%	5.11%	4.89%	4.69%	4.50%	4.33%	4.17%	4.02%	3.75%	3.52%	3.41%	3.31%
2	14.16	13.52	12.94	12.41	11.91	11.46	11.04	10.65	10.28	9.63	9.05	8.78	8.53
3	12.03	11.59	11.18	10.79	10.43	10.08	9.77	9.46	9.18	8.66	8.20	7.98	7.78
4	10.23	9.93	9.65	9.38	9.12	8.88	8.64	8.41	8.20	7.80	7.43	7.26	7.09
5	8.75	8.51	8.33	8.16	7.98	7.81	7.64	7.48	7.32	7.02	6.73	6.60	6.47
6	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.65	6.54	6.31	6.10	6.00	5.90
7	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.31	5.90	5.55	5.45	5.38
8	8.74	8.34	7.97	7.63	7.33	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
9	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.34	7.97	7.63	7.32	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
11	5.47	8.35	7.96	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12		1.04	4.98	7.64	7.32	7.04	6.80	6.54	6.31	5.90	5.55	5.38	5.23
13				0.95	4.58	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.22
14						0.88	4.25	6.54	6.31	5.90	5.55	5.38	5.23
15								0.82	3.95	5.91	5.55	5.39	5.22
16										3.69	5.55	5.38	5.23
17											3.47	5.39	5.22
18												0.67	3.27

Table A-17. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	3.13%	2.96%	2.813%	2.557%	2.344%	2.250%	2.123%	2.009%	1.875%	1.607%	1.406%	1.250%	1.125%
2	8.07	7.66	7.289	6.644	6.104	5.865	5.540	5.250	4.906	4.217	3.697	3.292	2.966
3	7.40	7.06	6.742	6.191	5.722	5.513	5.227	4.968	4.661	4.036	3.559	3.182	2.877
4	6.78	6.50	6.237	5.769	5.364	5.182	4.931	4.702	4.428	3.863	3.425	3.076	2.791
5	6.22	5.99	5.769	5.375	5.029	4.871	4.652	4.450	4.207	3.698	3.297	2.973	2.707
6	5.70	5.51	5.336	5.009	4.715	4.579	4.388	4.212	3.996	3.539	3.173	2.874	2.626
7	5.23	5.08	4.936	4.667	4.420	4.304	4.140	3.986	3.796	3.387	3.054	2.778	2.547
8	4.94	4.69	4.566	4.349	4.144	4.046	3.906	3.773	3.607	3.242	2.940	2.686	2.471
9	4.94	4.69	4.460	4.064	3.885	3.803	3.685	3.571	3.426	3.103	2.829	2.596	2.397
10	4.94	4.69	4.460	4.064	3.729	3.584	3.476	3.379	3.255	2.970	2.723	2.510	2.325
11	4.94	4.69	4.460	4.064	3.730	3.584	3.383	3.205	3.092	2.843	2.621	2.426	2.255
12	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.721	2.523	2.345	2.187
13	4.94	4.69	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.605	2.428	2.267	2.122
14	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.571	2.337	2.192	2.058
15	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.118	1.996
16	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.048	1.937
17	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.878
18	4.95	4.69	4.460	4.065	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.005	1.822
19	3.09	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.93	4.460	4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
21			2.788	4.064	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
23				2.540	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
25					2.331	3.585	3.382	3.205	2.994	2.571	2.253	2.004	1.806
26						2.240	3.383	3.206	2.993	2.571	2.253	2.005	1.806
27							3.382	3.205	2.994	2.571	2.253	2.004	1.806
28							0.423	3.206	2.993	2.571	2.253	2.005	1.806
29								2.003	2.994	2.571	2.253	2.004	1.806
30									2.993	2.571	2.253	2.005	1.806
31									1.871	2.571	2.253	2.004	1.806
32										2.571	2.253	2.005	1.806
33										2.571	2.253	2.004	1.806
34										2.571	2.253	2.005	1.806
35										2.571	2.253	2.004	1.806
36										1.607	2.253	2.005	1.806
37											2.253	2.004	1.805
38											2.254	2.005	1.806
39											2.253	2.004	1.805
40											2.254	2.005	1.806
41											1.408	2.004	1.805
42												2.005	1.806
43												2.004	1.805
44												2.005	1.806
45												2.004	1.805
46												1.253	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													1.128

Table A-18. **150% Declining Balance Method Mid-Quarter Convention Property Placed in Service in Fourth Quarter**

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	7.50%	6.25%	5.36%	4.69%	3.75%	3.13%	2.88%	2.68%	2.50%	2.34%	2.21%	2.08%	1.97%
2	55.50	46.88	40.56	35.74	28.88	24.22	22.41	20.85	19.50	18.31	17.26	16.32	15.48
3	26.91	25.00	23.18	22.34	20.21	18.16	17.24	16.39	15.60	14.88	14.21	13.60	13.03
4	10.09	21.87	22.47	19.86	16.40	14.06	13.26	12.87	12.48	12.09	11.70	11.33	10.98
5			8.43	17.37	16.41	14.06	13.10	12.18	11.41	10.74	10.16	9.65	9.24
6					14.35	14.06	13.10	12.18	11.41	10.75	10.16	9.65	9.17
7						12.31	13.10	12.19	11.41	10.74	10.16	9.64	9.17
8							4.91	10.66	11.41	10.75	10.16	9.65	9.17
9									4.28	9.40	10.17	9.64	9.17
10											3.81	8.44	9.18
11													3.44

Table A-18. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	1.88%	1.79%	1.70%	1.63%	1.56%	1.50%	1.44%	1.39%	1.34%	1.25%	1.17%	1.14%	1.10%
2	14.72	14.03	13.40	12.83	12.31	11.82	11.37	10.96	10.57	9.88	9.27	8.99	8.73
3	12.51	12.03	11.58	11.16	10.77	10.40	10.06	9.74	9.44	8.89	8.40	8.17	7.96
4	10.63	10.31	10.00	9.70	9.42	9.15	8.90	8.66	8.43	8.00	7.61	7.43	7.25
5	9.04	8.83	8.63	8.44	8.24	8.06	7.87	7.69	7.52	7.20	6.90	6.75	6.61
6	8.72	8.32	7.95	7.63	7.33	7.09	6.96	6.84	6.72	6.48	6.25	6.14	6.03
7	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.66	5.58	5.50
8	8.72	8.32	7.95	7.62	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.22
9	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
10	8.71	8.32	7.95	7.62	7.32	7.05	6.78	6.54	6.31	5.91	5.54	5.38	5.22
11	7.63	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
12		3.12	6.96	7.62	7.32	7.04	6.78	6.54	6.30	5.91	5.55	5.38	5.22
13				2.86	6.41	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
14						2.64	5.94	6.54	6.30	5.91	5.55	5.38	5.22
15								2.45	5.52	5.90	5.54	5.37	5.23
16										5.17	5.55	5.38	5.22
17											4.85	5.37	5.23
18												2.02	4.57

Table A-18. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	1.04%	0.99%	0.938%	0.852%	0.781%	0.750%	0.708%	0.670%	0.625%	0.536%	0.469%	0.417%	0.375%
2	8.25	7.82	7.430	6.760	6.201	5.955	5.620	5.321	4.969	4.263	3.732	3.319	2.989
3	7.56	7.20	6.872	6.299	5.814	5.598	5.302	5.036	4.720	4.080	3.592	3.209	2.899
4	6.93	6.63	6.357	5.870	5.450	5.262	5.002	4.766	4.484	3.905	3.458	3.102	2.812
5	6.35	6.11	5.880	5.469	5.110	4.946	4.719	4.511	4.260	3.738	3.328	2.998	2.728
6	5.82	5.63	5.439	5.097	4.790	4.649	4.452	4.269	4.047	3.578	3.203	2.898	2.646
7	5.34	5.18	5.031	4.749	4.491	4.370	4.200	4.041	3.845	3.424	3.083	2.802	2.567
8	4.94	4.77	4.654	4.425	4.210	4.108	3.962	3.824	3.653	3.278	2.968	2.708	2.490
9	4.94	4.69	4.458	4.124	3.947	3.862	3.738	3.619	3.470	3.137	2.856	2.618	2.415
10	4.94	4.69	4.458	4.062	3.730	3.630	3.526	3.426	3.296	3.003	2.749	2.531	2.342
11	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.242	3.132	2.874	2.646	2.447	2.272
12	4.94	4.69	4.458	4.062	3.730	3.582	3.382	3.204	2.994	2.751	2.547	2.365	2.204
13	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.633	2.451	2.286	2.138
14	4.94	4.69	4.458	4.061	3.730	3.582	3.382	3.204	2.994	2.570	2.359	2.210	2.074
15	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.271	2.136	2.011
16	4.94	4.69	4.458	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.065	1.951
17	4.95	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.253	2.005	1.893
18	4.94	4.69	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.836
19	4.33	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
20		4.10	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
21			3.901	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
22				4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
23				3.554	3.729	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
24					3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.805
25					3.263	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
26						3.135	3.382	3.204	2.994	2.570	2.252	2.005	1.805
27							3.383	3.205	2.993	2.571	2.253	2.004	1.806
28							1.268	3.204	2.994	2.570	2.252	2.005	1.805
29								2.804	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									2.619	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										2.249	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											1.971	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												1.754	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													1.580

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

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use Is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	2.1%	–7.2%	–19.8%	–20.1%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%
7 to 10 years	3.9%	–3.8%	–17.7%	–25.1%	–27.8%	–27.2%	–27.1%	–27.6%	–23.7%	–14.7%	–14.7%	–14.7%
More than 10 years	6.6%	–1.6%	–16.9%	–25.6%	–29.9%	–31.1%	–32.8%	–35.1%	–33.3%	–26.7%	–19.7%	–12.2%

Table A-20. **Amount B Percentages**

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use Is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	0.0%	10.0%	22.0%	21.2%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
7 to 10 years	0.0%	9.3%	23.8%	31.3%	33.8%	32.7%	31.6%	30.5%	25.0%	15.0%	15.0%	15.0%
More than 10 years	0.0%	10.1%	26.3%	35.4%	39.6%	40.2%	40.8%	41.4%	37.5%	29.2%	20.8%	12.5%

Appendix B

The *Table of Class Lives and Recovery Periods* has two sections. The first section, *Specific Depreciable Assets Used In All Business Activities, Except As Noted:,* generally lists assets used in all business activities. The second section, *Depreciable Assets Used In The Following Activities:,* describes assets used only in certain activities.

How To Use the Table

The first section is shown as Table B–1 and the second section is shown as B–2.

Table B–1

You read the bold headings in the first section to see if your property is listed. Then you look under each heading for a description of the assets included in the asset class. To the right of this description you will see three figures. The first figure is the class life of the property included in that asset class. The second figure is the recovery period for the property under GDS. It is also the MACRS property class for the property. The third figure is the recovery period under ADS, discussed earlier. If you find your property described in an asset class, use the second figure after the description. This is the property class and recovery period for the property. The class life figure is generally the same as the recovery period under ADS. However, it differs for a few items of property because the law specifies the recovery period for them.

Table B–2

If your property is not described in the first section, Table B–1, use the second section, Table B–2. This section is based on various activities and the type of property used in those activities. This section is like the first except that the asset classes are based on activities. If you do not find your property listed in the first section, Table B–1, read the bold headings in the second section to see if your activity is listed. A description of the type of property included in the asset class for an activity is shown under each heading. The three figures after the dotted line are the class life, recovery period under GDS and the recovery period under ADS.

Property not in table. Any property not described in either the first section, Table B–1, or the second section, Table B–2, is assigned to the 7–year property class for GDS and a 12–year recovery period for ADS.

Example 1. Richard Green bought a desk to use in his business. He reads the headings and descriptions in the first section, Table B–1. He finds ''desks''in the description of asset class 00.11 *Office Furniture, Fixtures, and Equipment.* The property in this asset class is 7–year property and has a recovery period of 7 years for GDS. If he elects to use the ADS method, the recovery period is 10 years, which is the third figure in the table.

Example 2. Sam Plower is a building contractor. In 1994, he buys and places a backhoe in service in his business. Reading the tables, Sam comes to asset class 15.0 for construction assets. The backhoe is in the 5–year property class. The GDS recovery period for the backhoe is 5 years and the ADS recovery period is 6 years.

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

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

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

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

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

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

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

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

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (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 Textured Yarns:** Includes assets used in the processing of yarns to impart bulk and/or stretch properties to the yarn. The principal machines involved are falsetwist, draw, beam-to-beam, and stuffer box texturing equipment and related highspeed twisters and winders. Assets, as described above, which are used to further process man-made fibers are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	8	5	8
22.5	**Manufacture of Nonwoven Fabrics:** Includes assets used in the production of nonwoven fabrics, felt goods including felt hats, padding, batting, wadding, oakum, and fillings, from new materials and from textile mill waste. Nonwoven fabrics are defined as fabrics (other than reinforced and laminated composites consisting of nonwovens and other products) manufactured by bonding natural and/or synthetic fibers and/or filaments by means of induced mechanical interlocking, fluid entanglement, chemical adhesion, thermal or solvent reaction, or by combination thereof other than natural hydration bonding as occurs with natural cellulose fibers. Such means include resin bonding, web bonding, and melt bonding. Specifically includes assets used to make flocked and needle punched products other than carpets and rugs. Assets, as described above, which are used to manufacture nonwovens are elsewhere classified when located in the same plant in an integrated operation with man-made fiber producing assets. Assets used to manufacture man-made fibers and assets used in bleaching, dyeing, printing, and other similar finishing processes, are elsewhere classified.	10	7	10
23.0	**Manufacture of Apparel and Other Finished Products:** Includes assets used in the production of clothing and fabricated textile products by the cutting and sewing of woven fabrics, other textile products, and furs; but does not include assets used in the manufacture of apparel from rubber and leather.	9	5	9
24.1	**Cutting of Timber:** Includes logging machinery and equipment and roadbuilding equipment used by logging and sawmill operators and pulp manufacturers for their own account.	6	5	6
24.2	**Sawing of Dimensional Stock from Logs:** Includes machinery and equipment installed in permanent or well established sawmills.	10	7	10
24.3	**Sawing of Dimensional Stock from Logs:** Includes machinery and equipment in sawmills characterized by temporary foundations and a lack, or minimum amount, of lumberhandling, drying, and residue disposal equipment and facilities.	6	5	6
24.4	**Manufacture of Wood Products, and Furniture:** Includes assets used in the production of plywood, hardboard, flooring, veneers, furniture, and other wood products, including the treatment of poles and timber.	10	7	10
26.1	**Manufacture of Pulp and Paper:** Includes assets for pulp materials handling and storage, pulp mill processing, bleach processing, paper and paperboard manufacturing, and on-line finishing. Includes pollution control assets and all land improvements associated with the factory site or production process such as effluent ponds and canals, provided such improvements are depreciable but does not include buildings and structural components as defined in section 1.48–1(e)(1) of the regulations. Includes steam and chemical recovery boiler systems, with any rated capacity, used for the recovery and regeneration of chemicals used in manufacturing. Does not include assets used either in pulpwood logging, or in the manufacture of hardboard.	13	7	13

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

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

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

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
33.2	**Manufacture of Primary Nonferrous Metals:** Includes assets used in the smelting, refining, and electrolysis of nonferrous metals from ore, pig, or scrap, the rolling, drawing, and alloying of nonferrous metals; the manufacture of castings, forgings, and other basic products of nonferrous metals; and the manufacture of nails, spikes, structural shapes, tubing, wire, and cable.	14	7	14
33.21	**Manufacture of Primary Nonferrous Metals—Special Tools:** Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and drawings concerning such special tools used in the activities as defined in class 33.2, Manufacture of Primary Nonferrous Metals. Special tools are specifically designed for the production or processing of particular products or parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices. Rolls, mandrels and refractories are not included in class 33.21 but are included in class 33.2.	6.5	5	6.5
33.3	**Manufacture of Foundry Products:** Includes assets used in the casting of iron and steel, including related operations such as molding and coremaking. Also includes assets used in the finishing of castings and patternmaking when performed at the foundry, all special tools and related land improvements.	14	7	14
33.4	**Manufacture of Primary Steel Mill Products:** Includes assets used in the smelting, reduction, and refining of iron and steel from ore, pig, or scrap; the rolling, drawing and alloying of steel; the manufacture of nails, spikes, structural shapes, tubing, wire, and cable. Includes assets used by steel service centers, ferrous metal forges, and assets used in coke production, regardless of ownership. Also includes related land improvements and all special tools used in the above activities.	15	7	15
34.0	**Manufacture of Fabricated Metal Products:** Includes assets used in the production of metal cans, tinware, fabricated structural metal products, metal stampings, and other ferrous and nonferrous metal and wire products not elsewhere classified. Does not include assets used to manufacture non-electric heating apparatus.	12	7	12
34.01	**Manufacture of Fabricated Metal Products—Special Tools:** Includes assets defined as special tools such as dies, jigs, molds, patterns, fixtures, gauges, and returnable containers and drawings concerning such special tools used in the activities as defined in class 34.0. Special tools are specifically designed for the production or processing of particular machine components, products, or parts, and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools. Does not include general 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
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 in products and systems defined above such as electron tubes, capacitors, coils, resistors, printed circuit substrates, switches, harness cables, lasers, fiber optic devices, and magnetic media devices. Specifically excludes assets used to manufacture electronic products and components, photocopiers, typewriters, postage meters and other electromechanical and mechanical business machines and instruments that are elsewhere classified. Does not include semiconductor manufacturing equipment included in class 36.1.	6	5	6
36.1	**Any Semiconductor Manufacturing Equipment** Includes equipment used in the manufacturing of semiconductors if the primary use of the semiconductors so produced is in products and systems of the type defined in class 36.0.	5	5	5

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

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

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

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

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

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

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

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

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

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

Asset class	Description of assets included	Recovery Periods (in years) Class Life (in years)	GDS (MACRS)	ADS
49.3	**Water Utilities:** Includes assets used in the gathering, treatment, and commercial distribution of water.	50	20	50
49.4	**Central Steam Utility Production and Distribution:** Includes assets used in the production and distribution of steam for sale. Does not include assets used in waste reduction and resource recovery plants which are elsewhere classified.	28	20	28
49.5	**Waste Reduction and Resource Recovery Plants:** Includes assets used in the conversion of refuse or other solid waste or biomass to heat or to a solid, liquid, or gaseous fuel. Also includes all process plant equipment and structures at the site used to receive, handle, collect, and process refuse or other solid waste or biomass to a solid, liquid, or gaseous fuel or to handle and burn refuse or other solid waste or biomass in a waterwall combusion system, oil or gas pyrolysis system, or refuse derived fuel system to create hot water, gas, steam and electricity. Includes material recovery and support assets used in refuse or solid refuse or solid waste receiving, collecting, handling, sorting, shredding, classifying, and separation systems. Does not include any package boilers, or electric generators and related assets such as electricity, hot water, steam and manufactured gas production plants classified in classes 00.4, 49.13, 49.221, and 49.4. Does include, however, all other utilities such as water supply and treatment facilities, ash handling and other related land improvements of a waste reduction and resource recovery plant.	10	7	10
50.	**Municipal Wastewater Treatment Plant**	24	15	24
51.	**Municipal Sewer**	50	20	50
57.0	**Distributive Trades and Services:** Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.	9	5	9*
57.1	**Distributive Trades and Services-Billboard, Service Station Buildings and Petroleum Marketing Land Improvements:** Includes section 1250 assets, including service station buildings and depreciable land improvements, whether section 1245 property or section 1250 property, used in the marketing of petroleum and petroleum products, but not including any of these facilities related to petroleum and natural gas trunk pipelines. Includes car wash buildings and related land improvements. Includes billboards, whether such assets are section 1245 property or section 1250 property. Excludes all other land improvements, buildings and structural components as defined in section 1.48–1(e) of the regulations.	20	15	20
79.0	**Recreation:** Includes assets used in the provision of entertainment services on payment of a fee or admission charge, as in the operation of bowling alleys, billiard and pool establishments, theaters, concert halls, and miniature golf courses. Does not include amusement and theme parks and assets which consist primarily of specialized land improvements or structures, such as golf courses, sports stadia, race tracks, ski slopes, and buildings which house the assets used in entertainment services.	10	7	10
80.0	**Theme and Amusement Parks:** Includes assets used in the provision of rides, attractions, and amusements in activities defined as theme and amusement parks, and includes appurtenances associated with a ride, attraction, amusement or theme setting within the park such as ticket booths, facades, shop interiors, and props, special purpose structures, and buildings other than warehouses, administration buildings, hotels, and motels. Includes all land improvements for or in support of park activities, (e.g., parking lots, sidewalks, waterways, bridges, fences, landscaping, etc.) and support functions (e.g., food and beverage retailing, souvenir vending and other nonlodging accommodations) if owned by the park and provided exclusively for the benefit of park patrons. Theme and amusement parks are defined as combinations of amusements, rides, and attractions which are permanently situated on park land and open to the public for the price of admission. This guideline class is a composite of all assets used in this industry except transportation equipment (general purpose trucks, cars, airplanes, etc., which are included in asset guideline classes with the prefix 00.2), assets used in the provision of administrative services (asset classes with the prefix 00.1), and warehouses, administration buildings, hotels and motels.	12.5	7	12.5
	Certain Property for Which Recovery Periods Assigned			
	A. Personal Property With No Class Life		7	12
	Section 1245 Real Property With No Class Life		7	40
	B. Qualified Technological Equipment, as defined in section 168(i)(2).	**	5	5
	C. Property Used in Connection with Research and Experimentation referred to in section 168(e)(3)(B).	**	5	class life if no class life-12
	D. Alternative Energy Property described in sections 48(1)(3)(viii) or (iv), or section 48(1)(4) of the Code.	**	5	class life if no class life-12
	E. Biomass property described in section 48(1)(15) and is a qualifying small production facility within the meaning of section 3(17)(c) of the Federal Power Act, (16 U.S.C. 796(17)(C)), as in effect on September 1, 1986.	**	5	class life if no class life-12

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

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

Appendix C

The following tables are for use in figuring depreciation deductions under the ACRS system.

Appendix C

ACRS PERCENTAGE TABLES

Table C-1. **15-Year Real Property* (Other Than Low-Income Housing)**

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	12.0%	11.0%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	1.0%
2nd	10.0	10.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	12.0
3rd	9.0	9.0	9.0	9.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
4th	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0	9.0	9.0	9.0	9.0
5th	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.0	8.0	8.0	8.0	8.0
6th	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
7th	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
8th	6.0	6.0	6.0	6.0	6.0	6.0	5.0	6.0	6.0	6.0	6.0	6.0
9th	6.0	6.0	6.0	6.0	5.0	6.0	5.0	5.0	5.0	6.0	6.0	6.0
10th	5.0	6.0	5.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	6.0	5.0
11th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
13th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
14th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
15th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
16th	—	—	1.0	1.0	2.0	2.0	3.0	3.0	4.0	4.0	4.0	5.0

* Placed In Service After 1980 and Before March 16, 1984

Table C-2. **Low-Income Housing***

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	13.0%	12.0%	11.0%	10.0%	9.0%	8.0%	7.0%	6.0%	4.0%	3.0%	2.0%	1.0%
2nd	12.0	12.0	12.0	12.0	12.0	12.0	12.0	13.0	13.0	13.0	13.0	13.0
3rd	10.0	10.0	10.0	10.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
4th	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	10.0	10.0	10.0	10.0
5th	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0
6th	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
7th	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
8th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.0	6.0
9th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
10th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
11th	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12th	4.0	4.0	4.0	5.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
13th	4.0	4.0	4.0	4.0	4.0	4.0	5.0	4.0	5.0	5.0	5.0	5.0
14th	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	4.0	4.0
15th	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
16th	—	—	1.0	1.0	2.0	2.0	2.0	3.0	3.0	3.0	4.0	4.0

* Placed In Service After 1980 and Before May 9, 1985

Table C-3. **Low-Income Housing***

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	13.3%	12.2%	11.1%	10.0%	8.9%	7.8%	6.6%	5.6%	4.4%	3.3%	2.2%	1.1%
2nd	11.6	11.7	11.9	12.0	12.1	12.3	12.5	12.6	12.7	12.9	13.0	13.2
3rd	10.0	10.1	10.2	10.4	10.5	10.7	10.8	10.9	11.1	11.2	11.3	11.4
4th	8.7	8.8	8.9	9.0	9.1	9.2	9.3	9.5	9.6	9.7	9.8	9.9
5th	7.5	7.6	7.7	7.8	7.9	8.0	8.1	8.2	8.3	8.4	8.5	8.6
6th	6.5	6.6	6.7	6.8	6.9	6.9	7.0	7.1	7.2	7.3	7.4	7.4
7th	5.7	5.7	5.8	5.9	5.9	6.0	6.1	6.1	6.2	6.3	6.4	6.5
8th	4.9	5.0	5.0	5.1	5.2	5.2	5.3	5.3	5.4	5.5	5.5	5.6
9th	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.8	4.8
10th	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
11th	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
12th	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
13th	4.5	4.5	4.6	4.5	4.6	4.6	4.6	4.6	4.6	4.5	4.6	4.6
14th	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.5	4.5	4.5
15th	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
16th		0.4	0.7	1.1	1.5	1.9	2.3	2.6	3.0	3.4	3.7	4.1

* Placed In Service After May 8, 1985, and Before 1987

ACRS PERCENTAGE TABLES

Table C-4. **18-Year Real Property***

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	9.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	4.0%	3.0%	2.0%	1.0%	0.4%
2nd	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	10.0	10.0	10.0
3rd	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0	9.0	9.0
4th	7.0	7.0	7.0	7.0	7.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
5th	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
6th	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
7th	5.0	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
8-12th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
13th	4.0	4.0	4.0	5.0	4.0	4.0	5.0	4.0	4.0	4.0	5.0	5.0
14-17th	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
18th	4.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
19th		1.0	1.0	1.0	2.0	2.0	2.0	3.0	3.0	3.0	3.0	3.6

* Placed In Service After June 22, 1984, and Before May 9, 1985

Table C-5. **18-Year Real Property***

Year	Month Placed in Service										
	1	2	3	4	5	6	7	8	9	10-11	12
1st	10.0%	9.0%	8.0%	7.0%	6.0%	6.0%	5.0%	4.0%	3.0%	2.0%	1.0%
2nd	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	10.0	10.0
3rd	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0	9.0
4th	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.0	8.0	8.0	8.0
5th	6.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
6th	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
7th	5.0	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
8-12th	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
13th	4.0	4.0	4.0	5.0	5.0	4.0	4.0	5.0	4.0	4.0	4.0
14-18th	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
19th			1.0	1.0	1.0	2.0	2.0	2.0	3.0	3.0	4.0

* Placed In Service After March 15 and Before June 23, 1984

Table C-6. **19-Year Real Property***

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	8.8%	8.1%	7.3%	6.5%	5.8%	5.0%	4.2%	3.5%	2.7%	1.9%	1.1%	0.4%
2nd	8.4	8.5	8.5	8.6	8.7	8.8	8.8	8.9	9.0	9.0	9.1	9.2
3rd	7.6	7.7	7.7	7.8	7.9	7.9	8.0	8.1	8.1	8.2	8.3	8.3
4th	6.9	7.0	7.0	7.1	7.1	7.2	7.3	7.3	7.4	7.4	7.5	7.6
5th	6.3	6.3	6.4	6.4	6.5	6.5	6.6	6.6	6.7	6.8	6.8	6.9
6th	5.7	5.7	5.8	5.9	5.9	5.9	6.0	6.0	6.1	6.1	6.2	6.2
7th	5.2	5.2	5.3	5.3	5.3	5.4	5.4	5.5	5.5	5.6	5.6	5.6
8th	4.7	4.7	4.8	4.8	4.8	4.9	4.9	5.0	5.0	5.1	5.1	5.1
9th	4.2	4.3	4.3	4.4	4.4	4.5	4.5	4.5	4.5	4.6	4.6	4.7
10-19th	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
20th	0.2	0.5	0.9	1.2	1.6	1.9	2.3	2.6	3.0	3.3	3.7	4.0

* Placed In Service After May 8, 1985, and Before 1987

Table C-7. **18-Year Real Property***

Year	Month Placed in Service					
	1-2	3-4	5-7	8-9	10-11	12
1st	5.0%	4.0%	3.0%	2.0%	1.0%	0.2%
2-10th	6.0	6.0	6.0	6.0	6.0	6.0
11th	5.0	5.0	5.0	5.0	5.0	5.8
12-18th	5.0	5.0	5.0	5.0	5.0	5.0
19th	1.0	2.0	3.0	4.0	5.0	5.0

* Placed In Service After June 22, 1984
If Alternate ACRS Method Elected Over 18-Year Period

Table C-8. **18-Year Real Property***

Year	Month Placed in Service						
	1	2-3	4-5	6-7	8-9	10-11	12
1st	6.0%	5.0%	4.0%	3.0%	2.0%	1.0%	0.5%
2-10th	6.0	6.0	6.0	6.0	6.0	6.0	6.0
11th	5.0	5.0	5.0	5.0	5.0	5.0	5.5
12-18th	5.0	5.0	5.0	5.0	5.0	5.0	5.0
19th		1.0	2.0	3.0	4.0	5.0	5.0

* Placed In Service After March 15 and Before June 23, 1984
If Alternate ACRS Method Elected Over 18-Year Period

Table C-9. **19-Year Real Property***

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	5.0%	4.6%	4.2%	3.7%	3.3%	2.9%	2.4%	2.0%	1.5%	1.1%	0.7%	0.2%
2-13th	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
14-19th	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
20th	0.2	0.6	1.0	1.5	1.9	2.3	2.8	3.2	3.7	4.1	4.5	5.0

* If Alternate ACRS Method Elected Over 19-Year Period

Table C-10. **18-Year Real Property***

Year	Month Placed in Service				
	1-2	**3-6**	**7-10**	**11**	**12**
1st	3.0%	2.0%	1.0%	0.4%	0.1%
2-30th	3.0	3.0	3.0	3.0	3.0
31st	2.0	2.0	2.0	2.6	2.9
32-35th	2.0	2.0	2.0	2.0	2.0
36th		1.0	2.0	2.0	2.0

* Placed In Service After June 22, 1984
If Alternate ACRS Method Elected Over 35-Year Period

Table C-11. **18-Year Real Property**[1]
15-Year Real Property and Low-Income Housing[2]

Year	Month Placed in Service		
	1-2	**3-6**	**7-12**
1st	3.0%	2.0%	1.0%
2-30th	3.0	3.0	3.0
31-35th	2.0	2.0	2.0
36th		1.0	2.0

[1] Placed In Service After March 15 and Before June 23, 1984
[2] Placed In Service Before May 9, 1985
If Alternate ACRS Method Elected Over 35-Year Period

Table C-12. **Low-Income Housing***

Year	Month Placed in Service											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1st	2.9%	2.6%	2.4%	2.1%	1.9%	1.7%	1.4%	1.2%	1.0%	0.7%	0.5%	0.2%
2-20th	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
21-35th	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
36th		0.3	0.5	0.8	1.0	1.2	1.5	1.7	1.9	2.2	2.4	2.7

*Placed In Service after May 8, 1985
If Alternate ACRS Method Elected Over 35-Year Period

Table C-13. **19-Year Real Property***

Year	Month Placed in Service											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1st	2.7%	2.5%	2.3%	2.0%	1.8%	1.5%	1.3%	1.1%	0.8%	0.6%	0.4%	0.1%
2-20th	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
21-35th	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
36th	0.2	0.4	0.6	0.9	1.1	1.4	1.6	1.8	2.1	2.3	2.5	2.8

*If Alternate ACRS Method Elected Over 35-Year Period

Table C-14. **18-Year Real Property[1]**
19-Year Real Property[2]

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	2.1%	1.9%	1.8%	1.6%	1.4%	1.2%	1.0%	0.8%	0.6%	0.5%	0.3%	0.1%
2-11th	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
12-45th	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
46th	0.1	0.3	0.4	0.6	0.8	1.0	1.2	1.4	1.6	1.7	1.9	2.1

[1]Placed In Service After June 22, 1984
[2]If Alternate ACRS Method Elected Over a 45-Year Period

Table C-15. **18-Year Real Property[1]**
15-Year Real Property and Low-Income Housing[2]

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	2.3%	2.0%	1.9%	1.7%	1.5%	1.3%	1.2%	0.9%	0.7%	0.6%	0.4%	0.2%
2-10th	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
11-45th	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
46th		0.3	0.4	0.6	0.8	1.0	1.1	1.4	1.6	1.7	1.9	2.1

[1]Placed In Service After March 15 and Before June 23, 1984
[2]Placed In Service After December 31, 1980
If Alternate ACRS Method Elected Over a 45-Year Period

Table C-16. **Listed Property Not Used Predominantly (Other Than 18 or 19 Year Real Property)**

Year	Recovery Period		
	5	12	25
1st	10.0%	4.0%	2.0%
2nd-5th	20.0	9.0	4.0
6th	10.0	8.0	4.0
7th-12th	—	8.0	4.0
13th	—	4.0	4.0
14th-25th	—	—	4.0
26th	—	—	2.0

Table C-17. **40-Year Recovery Period (For 18- or 19-Year Listed Property Not Used Predominantly)**

Year	Month Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	2.4%	2.2%	2.0%	1.8%	1.6%	1.4%	1.1%	0.9%	0.7%	0.5%	0.3%	0.1%
2-40th	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
41st	0.1	0.3	0.5	0.7	0.9	1.1	1.4	1.6	1.8	2.0	2.2	2.4

Rented Listed Property Tables

Table C-18. **3-Year Recovery Property**

Lease Term	Tax year during the lease term that the business percentage decreases to 50% or less					
	1	2	3	4	5	6 and later
1 Year	3.00%					
2 Years	6.00	1.25%				
3 Years	10.20	6.20	2.25%			
4 Years or more	13.20	10.40	6.50	1.70%	0.50%	0.00%

Table C-19. **5-Year Recovery Property**

Lease Term	Tax year during the lease term that the business percentage decreases to 50% or less											
	1	2	3	4	5	6	7	8	9	10	11	12
1 Year	2.7%											
2 Years	5.3	1.2%										
3 Years	9.9	6.1	1.6%									
4 Years	14.4	11.1	7.3	2.3%								
5 Years	18.4	15.7	12.4	8.2	3.0%							
6 Years or more	21.8	19.6	16.7	13.5	9.6	5.25%	4.4%	3.6%	2.8%	1.8%	1.0%	0%

Table C-20. **10-Year Recovery Property**

Lease Term	Tax year during the lease term that the business percentage decreases to 50% or less														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Year	2.5%														
2 Years	5.1	0.6%													
3 Years	9.8	5.6	1.0%												
4 Years	14.0	10.3	6.2	1.4%											
5 Years	17.9	14.5	10.9	6.7	1.8%										
6 Years	21.3	18.3	15.1	11.4	7.1	2.1%									
7 Years	21.9	19.0	15.9	12.4	8.4	3.9	2.4%								
8 Years	22.4	19.6	16.7	13.4	9.7	5.5	4.5	2.7%							
9 Years	22.9	20.2	17.4	14.3	10.9	7.0	6.4	5.1	3.0%						
10 Years	23.5	20.9	18.2	15.2	11.9	8.3	8.1	7.2	5.7	3.3%					
11 Years	23.9	21.4	18.8	16.0	12.8	9.3	9.4	8.9	7.7	5.9	3.1%				
12 Years	24.3	21.9	19.3	16.5	13.4	10.1	10.3	10.0	9.3	7.8	5.5	2.9%			
13 Years	24.7	22.2	19.7	16.9	14.0	10.7	11.1	11.0	10.4	9.2	7.4	5.2	2.7%		
14 Years	25.0	22.5	20.1	17.3	14.4	11.1	11.6	11.7	11.3	10.3	8.8	6.9	4.8	2.5%	
15 Years or more	25.3	22.8	20.3	17.5	14.7	11.5	12.0	12.2	11.9	11.1	9.8	8.2	6.5	4.5	2.3%