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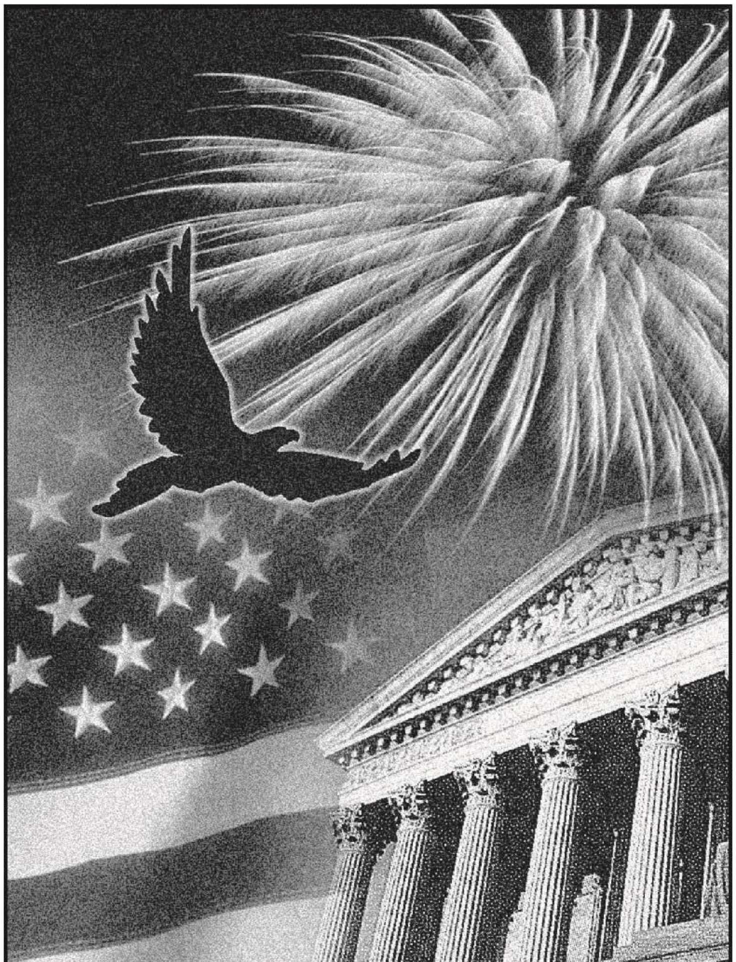
Depreciating Property Placed in Service Before 1987

Volume 2 of 2



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Chapter 2.

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** Starting a Business and Keeping Records
- **946** How To Depreciate Property

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, you must continue to use rules for depreciation that applied when you placed the property in service. If your property qualified for MACRS, you must depreciate it under MACRS. See Pub. 946.

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.

Note. The cost of certain intangible property that you acquire after August 10, 1993, must be amortized over a 15-year period. For more information, see chapter 8 of Pub. 535.

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.

Videocassettes. If you are in the videocassette rental business, you can depreciate those videocassettes purchased for rental. 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 later under *Methods To Use.* 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.

How To Figure the Deduction

Two other reasonable methods can be used to figure your deduction for property not covered under ACRS or MACRS. 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.

Pub. 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 how long it will continue to be useful to you, not how long the property will last.

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.

10% 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 any 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 lets 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 1994, 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 10year 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 1994. This gives him a deduction of $420 ($560 × 9/12). In 1995, 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 has been decreased 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.

Income Forecast Method

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 60358 in Cumulative Bulletin 1960, Volume 2, on page 68.

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.

For information on ACRS elections, see Revocation of election in chapter 1 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. See the Instructions for Form 3115 for more information.

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, the IRS can deny permission if Form 3115 is not filed on time. For more information on automatic changes, see the Instructions for Form 3115.

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.
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

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 Pub. 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

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 Pub. 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.

Chapter 3.

Listed Property

Topics

This chapter discusses:

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

Useful Items

You may want to see: **Publication**

- **463** Travel, Entertainment, Gift, and Car Expenses
- **587** Business Use of Your Home
- **946** How To Depreciate Property

Form (and Instructions)

- **2106EZ** Unreimbursed Employee Business Expenses
- **2106** Employee Business Expenses

- **4255** Recapture of Investment Credit
- **4562** Depreciation and Amortization

This chapter discusses some special rules and recordkeeping requirements for listed property. For complete coverage of the rules, including the rules concerning passenger automobiles, see Pub. 946.

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 the straight line method.

Listed Property Defined

Listed property is any of the following.

1. Any passenger automobile (defined 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 (defined later), if, and only if, that portion is used both regularly and exclusively for business as discussed in Pub. 587.

Passenger Automobile Defined

A passenger automobile is any fourwheeled 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 ambulancehearse 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.

Dwelling Unit

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.

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.

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 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 property	40 years
19-year property	40 years

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

Listed property placed in service after 1986. For information on listed property placed in service after 1986, see Pub. 946.

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. 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 parttime 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 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 point 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 1 in Pub. 946.

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) for its use are deductible as ordinary and necessary business expenses. See Pub. 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.

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 purposes of item (3).

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.

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.

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 the straight line method.

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.

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.
2. Figure any excess depreciation on the property and add it to:
   a. Your gross income, and
   b. The adjusted basis of your property. See *Recapture of excess depreciation* next.

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 16 or 17.

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

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 chapter 4 of Pub. 463.

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 chapter 4 of Pub. 463 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 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) 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.

Inclusion amount for property leased 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 Table 19 or 20 in the Appendix.

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 be more than 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.

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.

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).

Adequate Records

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

Elements of Expenditure or Use

The records or other documentary evidence must support:

1. The amount of each separate expenditure, such as the cost of acquiring the item, maintenance and repair costs, capital improvement costs, lease payments, and any other expenses;

2. The amount of each business and investment use (based on an appropriate measure, such as mileage for vehicles and time for other listed property), and the total use of the property for the tax year;
3. The date of the expenditure or use; and
4. The business or investment purpose for the expenditure or use.

Written documents of your expenditure or use are generally better evidence than oral statements alone. A written record prepared at or near the time of the expenditure or use has greater value as proof of the expenditure or use. A daily log is not required. However, some type of record containing the elements of an expenditure or the business or investment 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 or investment use. The amount of detail required to support the use depends on the facts and circumstances. For example, a taxpayer whose only business use of a truck is to make customer deliveries on an established route can satisfy the requirement by recording the length of the route, including the total number of miles driven during the tax year and the date of each trip at or near the time of the trips.

Although 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 divide 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 if it is recorded at or near the time of the expenditure or use. It must be kept elsewhere and made available as support to the district director on request.

Substantial Compliance

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

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

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

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

Sampling

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

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 de- preciation) must use Form 2106 instead of Part V of Form 4562. Employees claiming the stand- ard mileage rate may be able to use Form 2106EZ.

Employer who provides vehicles to employees. An employer who provides vehicles to employees must obtain enough information from those employees to provide the requested information on Form 4562.

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

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

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

See the Instructions for Form 4562.

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 Pub. 463.

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $54,000 or less, persons with disabilities, the elderly, and limitedEnglishspeaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov and click on the Filing tab to see your options for preparing and filing your return which include the following.

- **Free File.** Go to *IRS.gov/freefile*. See if you qualify to use brandname software to prepare and *e-file* your federal tax return for free.

- **VITA.** Go to *IRS.gov/vita*, download the free IRS2Go app, or call 1-800-906-9887 to find the nearest VITA location for free tax preparation.

- **TCE.** Go to *IRS.gov/tce*, download the free IRS2Go app, or call 1-888-227-7669 to find the nearest TCE location for free tax preparation.

Getting answers to your tax law questions. On IRS.gov get answers to your tax questions anytime, anywhere.

- Go to *IRS.gov/help* or *IRS.gov/letushelp* pages for a variety of tools that will help you get answers to some of the most common tax questions.

- Go to *IRS.gov/ita* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.

- Go to *IRS.gov/pub17* to get Pub. 17, Your Federal Income Tax for Individuals, which features details on taxsaving opportunities, tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML or as a PDF or, better yet, download it to your mobile device to enjoy eBook features.

- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to *IRS.gov/forms* to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or, you can go to *IRS.gov/orderforms* to place an order and have forms mailed to you within 10 business days.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. IRS issues more than 90% of refunds in less than 21 days.

Delayed refund for returns claiming certain credits. Due to changes in the law, the IRS can't issue refunds before February 15, 2017, for 2016 returns that claim the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to *IRS.gov/transcripts*. Click on either “Get Transcript Online” or “Get Transcript by Mail” to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 1-800-908-9946.
- Mail Form 4506T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to *IRS.gov/tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/eic*) determines if you are eligible for the EIC.
- The *Online EIN Application* (*IRS.gov/ein*) helps you get an employer identification number.
- The *IRS Withholding Calculator* (*IRS.gov/w4app*) estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The *First Time Homebuyer Credit Account Look-up* (*IRS.gov/homebuyer*) tool provides information on your repayments and account balance.

- The *Sales Tax Deduction Calculator* (*IRS.gov/salestax*) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to *IRS.gov/idprotection* for information and videos.
- If your SSN has been lost or stolen or you suspect you are a victim of taxrelated identity theft, visit *IRS.gov/id* to learn what steps you should take.

Checking on the status of your refund.

- Go to *IRS.gov/refunds*.
- Due to changes in the law, the IRS can't issue refunds before February 15, 2017, for 2016 returns that claim the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.

- Download the official IRS2Go app to your
- mobile device to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to *IRS.gov/payments* to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.

- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** If cash is your only option, you may be able to pay your taxes at a participating retail store.
- **What if I can't pay now?** Go to *IRS.gov/ payments* for more information about your options.
- Apply for an *online payment agreement* (*IRS.gov/opa*) to meet your tax obligation
- in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the *Offer in Compromise Pre-Qualifier* (*IRS.gov/oic*) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to IRS.gov and click on *Where's My Amended Return?* (*IRS.gov/wmar*) under the "Tools" bar to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it show up in our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to *IRS.gov/notices* to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be resolved on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to *IRS.gov/letushelp* for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without waiting. Before you visit, go to *IRS.gov/taclocator* to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

Watching IRS videos. The IRS Video portal (*IRSvideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/spanish*).
- *Chinese* (*IRS.gov/chinese*).
- *Vietnamese* (*IRS.gov/vietnamese*).
- *Korean* (*IRS.gov/korean*).
- *Russian* (*IRS.gov/russian*).

The IRS TACs provide overthephone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service Is Here To Help You

What is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

What Can the Taxpayer Advocate Service Do For You?

We can help you resolve problems that you can't resolve with the IRS. And our service is free. If you qualify for our assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business,
- You face (or your business is facing) an immediate threat of adverse action, or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach Us?

We have offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *taxpayeradvocate.irs.gov*. You can also call us at 1-877-777-4778.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at taxpayeradvocate.irs.gov can help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve largescale problems that affect many taxpayers. If you know of one of these broad issues, please report it to us at *IRS.gov/sams*.

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) serve individuals whose income is below a certain level and need to resolve tax problems such as audits, appeals, and tax collection disputes. Some clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. To find a clinic near you, visit *IRS.gov/litc* or see IRS Publication 4134, *Low Income Taxpayer Clinic List*.

Appendix

The following tables are for use in figuring depreciation deductions under the ACRS system.

ACRS Percentage Tables

Table 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	12.00%	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 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 3. **Low-Income Housing***

	Month Placed in Service											
Year	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

Table 4. **18-Year Real Property***

	Month Placed in Service											
Year	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 5. **18-Year Real Property***

	Month Placed in Service										
Year	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 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 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 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 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 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 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 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 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 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 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 16. **Listed Property Not Used Predominantly (Other Than 18- or 19- Year Real Property)**

Year	Recovery Period 5	Recovery Period 12	Recovery Period 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 17. **40-Year Recovery Period (For 18- or 19-Year Listed Property Not Used Predominantly)**

	Month Placed in Service											
Year	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

Table 18. **3-Year Recovery Property**

	Tax year during the lease term that the business percentage decreases to 50% or less					
Lease Term	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 19. **5-Year Recovery Property**

	Tax year during the lease term that the business percentage decreases to 50% or less											
Lease Term	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 20. **10-Year Recovery Property**

	Tax year during the lease term that the business percentage decreases to 50% or less														
Lease Term	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%

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