

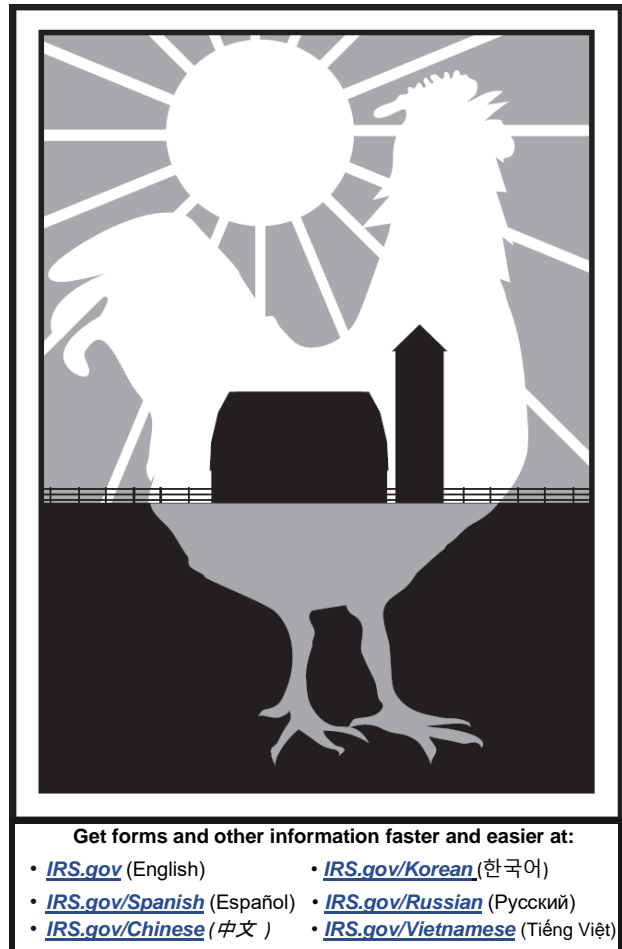
# Publication 225

## Farmers Tax Guide

For use in preparing

**2024** Returns

Volume 5 of 11



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The tax also does not apply if you transfer the property to a member of your family and certain requirements are met.

You can elect to increase your basis in special-use valuation property if it becomes subject to the additional estate tax. To increase your basis, you must make an irrevocable election and pay interest on the additional estate tax figured from the date 9 months after the decedent's death until the date of payment of the additional estate tax. If you meet these requirements, increase your basis in the property to its FMV on the date of the decedent's death or the alternate valuation date. The increase in your basis is considered to have occurred immediately before the event that resulted in the additional estate tax.

You make the election by filing, with Form 706-A, United States Additional Estate Tax Return, a statement that:

- Contains your (and the estate's) name, address, and taxpayer identification number;
- Identifies the election as an election under section 1016(c) of the Internal Revenue Code;
- Specifies the property for which you are making the election; and
- Provides any additional information required by the Form 706-A instructions.

For more information, see Form 706; Form 706-A; and the related instructions.

## **Property Distributed From a Partnership or Corporation**

The following rules apply to determine a partner's basis and a shareholder's basis in property distributed respectively from a partnership to the partner with respect to the partner's interest in the partnership and from a corporation to the shareholder with respect

to the shareholder's ownership of stock in the corporation.

**Partner's basis.** Unless there is a complete liquidation of a partner's interest, the basis of property (other than money) distributed by a partnership to the partner is its adjusted basis to the partnership immediately before the distribution. However, the basis of the property to the partner cannot be more than the adjusted basis of his or her interest in the partnership reduced by any money received in the same transaction.

For more information, see *Partner's Basis for Distributed Property* in Pub. 541, Partnerships.

**Shareholder's basis.** The basis of property distributed by a corporation to a shareholder is its FMV. For more information about corporate distributions, see *Distributions to Shareholders* in Pub. 542, Corporations.

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# 7.

## Depreciation, Depletion, and Amortization

### What's New for 2024

**Increased section 179 expense deduction dollar limits.** The maximum amount you can elect to deduct for most section 179 property you placed in service in 2024 is \$1,220,000. This limit is reduced by the amount by which the cost of the property placed in service during the tax year exceeds \$3,050,000. Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2024 is \$30,500. See Dollar Limits under Section 179 Expense Deduction, later. **Phase down of special depreciation allowance.** The special depreciation allowance is 60% for certain qualified property acquired after September 27, 2017, and placed in service

after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft). For certain property with a long production period and certain aircraft placed in service after December 31, 2023, and before January 1, 2025, the special depreciation allowance is 80%. The special depreciation allowance is also 60% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025. See Certain qualified property acquired after September 27, 2017 and Certain specified plants under What Is Qualified Property, later.

## **What's New for 2025**

**Phase down of special depreciation allowance.** The special depreciation allowance is 40% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2024, and before January 1, 2026 (other than



certain property with a long production period and certain aircraft). For certain property with a long production period and certain aircraft placed in service after December 31, 2024, and before January 1, 2026, the special depreciation allowance is 60%. The special depreciation allowance is also 40% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2024, and before January 1, 2026. See Certain qualified property acquired after September 27, 2017 and Certain specified plants under What Is Qualified Property, later.

## **Introduction**

If you buy or make improvements to farm property, such as machinery, equipment, livestock, or a structure with a useful life of more than a year, you generally cannot deduct its entire cost in 1 year. Instead, you must spread the cost over the time you use the property and deduct part of it each year.

For most types of property, this is called depreciation.

This chapter gives information on depreciation methods that generally apply to property placed in service after 1986. For information on depreciating pre-1987 property, see Pub. 534, *Depreciating Property Placed in Service Before 1987*.

## **Topics**

This chapter discusses:

- Overview of depreciation
- Section 179 expense deduction
- Special depreciation allowance
- Modified Accelerated Cost Recovery System (MACRS)
- Listed property
- Basic information on cost depletion (including timber depletion) and percentage depletion

- Amortization of the costs of going into business, reforestation costs, the costs of pollution control facilities, and the costs of section 197 intangibles

## Useful Items

You may want to see:

### Publication

- ☐ **463** Travel, Gift, and Car Expenses
- ☐ **534** Depreciating Property Placed in Service Before 1987
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **551** Basis of Assets
- ☐ **946** How To Depreciate Property
- ☐ **Form (and Instructions)**
- ☐ **T** (Timber), Forest Activities Schedule
- ☐ **3115** Application for Change in Accounting Method
- ☐ **4562** Depreciation and Amortization
- ☐ **4797** Sales of Business Property

See [How To Get Tax Help](#) for information about getting publications and forms.



It is important to keep good records for property you depreciate. Do not file these records with your return.

Instead, you should keep them as part of the permanent records of the depreciated property. They will help you verify the accuracy of the depreciation of assets placed in service in the current and previous tax years. For general information on recordkeeping, see Pub. 583, *Starting a Business and Keeping Records*. For specific information on keeping records for section 179 property and listed property, see Pub. 946.

## **Overview of Depreciation**

This overview discusses basic information on the following.

- What property can be depreciated.
- What property cannot be depreciated.

- When depreciation begins and ends.
- Whether MACRS can be used to figure depreciation.
- What is the basis of your depreciable property.
- How to treat repairs and improvements.
- When you must file Form 4562.
- How you can correct depreciation claimed incorrectly.

## **What Property Can Be Depreciated?**

You can depreciate most types of tangible property (except land), such as buildings, machinery, equipment, vehicles, certain livestock, and furniture. You can also depreciate certain intangible property, such as copyrights, patents, and computer software. To be depreciable, the property must meet all the following requirements.

- It must be property you own.

- It must be used in your business or income-producing activity.
- It must have a determinable useful life.
- It must have a useful life that extends substantially beyond the year you place it in service.

## **Property You Own**

To claim depreciation, you must usually be the owner of the property. You are considered as owning property even if it is subject to a debt.

**Leased property.** You can depreciate leased property only if you retain the incidents of ownership in the property (explained below). This means you bear the burden of exhaustion of the capital investment in the property.

If you lease property from someone to use in your trade or business or for the production of income, you generally cannot depreciate its

cost because you do not have the incidents of ownership. You can, however, depreciate any capital improvements you make to the leased property. See *Additions and Improvements* under *Which Recovery Period Applies?* in chapter 4 of Pub. 946.

You can generally depreciate the cost of property you lease to someone even if the lessee (the person leasing from you) has agreed to preserve, replace, renew, and maintain the property. However, you cannot depreciate the cost of the property if the lease provides that the lessee is to maintain the property and return to you the same property or its equivalent in value at the expiration of the lease in as good condition and value as when leased.

***Incidents of ownership.*** Incidents of ownership in property include the following.

- The legal title to the property.

- The legal obligation to pay for the property.
- The responsibility to pay maintenance and operating expenses.
- The duty to pay any taxes on the property.
- The risk of loss if the property is destroyed, condemned, or diminished in value through obsolescence or exhaustion.

**Life tenant.** Generally, if you hold business or investment property as a life tenant, you can depreciate it as if you were the absolute owner of the property. See Certain term interests in property, later, for an exception.

## **Property Used in Your Business or Income-Producing Activity**

To claim depreciation on property, you must use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be



taxable. You cannot depreciate property that you use solely for personal activities.

However, if you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the percentage of business or investment use.

***Example 1.*** If you use your car for farm business, you can deduct depreciation based on its percentage of use in farming. If you also use it for investment purposes, you can depreciate it based on its percentage of investment use.

***Example 2.*** If you use part of your home for business, you may be able to deduct depreciation on that part based on its business use. For more information, see *Business Use of Your Home* in chapter 4.



*You may be able to use the simplified method to determine your business use of the home deduction. If you choose to use the simplified method, you cannot also deduct depreciation on the part of the home used for business. For more information about the simplified method, see Pub. 587, Business Use of Your Home.*

**Inventory.** You can never depreciate inventory because it is not held for use in your business. Inventory is any property you hold primarily for sale to customers in the ordinary course of your business. For example, livestock or poultry purchased to grow and resell is inventory.

**Livestock.** Livestock purchased for draft, breeding, or dairy purposes can be depreciated only if they are not kept in an inventory account. Livestock you raise usually has no depreciable basis because the costs of raising them are deducted and not added to their basis. However, see *Immature livestock*

under *When Does Depreciation Begin and End*, later, for a special rule.

## **Property Having a Determinable Useful Life**

To be depreciable, your property must have a determinable useful life. This means it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

### **Irrigation systems and water wells.**

Irrigation systems and water wells used in a trade or business can be depreciated if their useful life can be determined. You can depreciate irrigation systems and water wells composed of masonry, concrete, tile (including drainage tile), metal, or wood. In addition, you can depreciate costs for moving dirt to construct irrigation systems and water wells composed of these materials. However, land preparation costs for center pivot irrigation systems are not depreciable.

**Dams, ponds, and terraces.** In general, you cannot depreciate earthen dams, ponds, and terraces unless the structures have a determinable useful life.

## **What Property Cannot Be Depreciated?**

Certain property cannot be depreciated, even if the requirements explained earlier are met. This includes the following.

- **Land.** You can never depreciate the cost of land because land does not wear out, become obsolete, or get used up. The cost of land generally includes the cost of clearing, grading, planting, and landscaping. Although you cannot depreciate land, you can depreciate certain costs incurred in preparing land for business use. See chapter 1 of Pub. 946.
- **Property placed in service and disposed of in the same year.** Determining when

property is placed in service is explained later.

- Equipment used to build capital improvements. You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements.
- Intangible property such as section 197 intangibles. This property does not have a determinable useful life and generally cannot be depreciated. However, see Amortization, later. Special rules apply to computer software (discussed below).
- Certain term interests (discussed below).

**Computer software.** Computer software is generally not a section 197 intangible even if acquired in connection with the acquisition of a business, if it meets all of the following tests.

- It is readily available for purchase by the general public.

- It is subject to a nonexclusive license.
- It has not been substantially modified.

If the software meets the tests above, it can be depreciated and may qualify for the section 179 expense deduction and the special depreciation allowance (if applicable), discussed later.

**Certain term interests in property.** You cannot depreciate a term interest in property created or acquired after July 27, 1989, for any period during which the remainder interest is held, directly or indirectly, by a person related to you. This rule does not apply to the holder of a term interest in property acquired by gift, bequest, or inheritance. For more information, see chapter 1 of Pub. 946.

**Example.** You retain a life interest in a dairy facility but transfer the remainder interest to your daughter. Your term interest in the dairy

facility is not depreciable even though you may still be using it in your dairy operation.

## **When Does Depreciation Begin and End?**

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 fully recovered your cost or other basis or when you retire it from service, whichever happens first.

### **Placed in Service**

Property is placed in service when it is ready and available for a specific use, whether in a business activity, an income-producing activity, a tax-exempt activity, or a personal activity. Even if you are not using the property, it is in service when it is ready and available for its specific use even if you paid for the property in a prior tax year.

**Example.** You bought a planter for use in your farm business that was delivered and assembled in December 2023 after harvest was over. You begin to depreciate the planter in 2023 because it was ready and available for its specific use in 2023, even though it will not be used until the spring of 2024.

If your planter comes unassembled in December 2023 and is put together in February 2024, it is not placed in service until 2024. You begin to depreciate it in 2024.

**Fruit or nut trees and vines.** If you acquire an orchard, grove, or vineyard before the trees or vines have reached the income-producing stage, and they have a preproductive period of more than 2 years, you must capitalize the preproductive-period costs under the uniform capitalization rules (unless you meet the small business taxpayer exception or elect not to use these rules). See chapter 6 for information about the uniform capitalization rules. Your depreciation begins



when the trees and vines reach the income-producing stage (that is, when they bear fruits, nuts, or grapes in quantities sufficient to commercially warrant harvesting). For information on claiming the special depreciation allowance for certain specified plants bearing fruits and nuts, see *Certain specified plants*, later.

**Note.** Any farming business that has average annual gross receipts of \$30 million or less for the 3 preceding tax years and is not a tax shelter is not subject to the uniform capitalization rules.

**Immature livestock.** Depreciation for livestock begins when the livestock reaches the age of maturity. If you bought immature livestock for drafting purposes, depreciation begins when they can be worked. If you bought immature livestock for breeding or dairy purposes, depreciation begins when they can be bred. Your basis for depreciation is your initial cost for the immature livestock.

## **Idle Property**

Continue to claim a deduction for depreciation on property used in your business or for the production of income even if it is temporarily idle. For example, if you stop using a machine because there is a temporary lack of a market for a product made with that machine, continue to deduct depreciation on the machine.

## **Cost or Other Basis Fully Recovered**

You stop depreciating property when you have fully recovered your cost or other basis. This happens when your section 179 and allowed or allowable depreciation deductions equal your cost or investment in the property.

## **Retired From Service**

You stop depreciating property when you retire it from service, even if you have not fully recovered its cost or other basis. You retire property from service when you permanently withdraw it from use in a trade

or business or from use in the production of income because of any of the following events.

- You sell or exchange the property.
- You convert the property to personal use.
- You abandon the property.
- You transfer the property to a supplies or scrap account.
- The property is destroyed.

For information on abandonment of property, see chapter 8. For information on destroyed property, see chapter 11, and Pub. 547, Casualties, Disasters, and Thefts.

## **Can You Use MACRS To Depreciate Your Property?**

You must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate most business and investment property placed in

service after 1986. MACRS is explained later under *Figuring Depreciation Under MACRS*.

You cannot use MACRS to depreciate the following property.

- Property you placed in service before 1987. Use the methods discussed in Pub. 534.
- Certain property owned or used in 1986. See chapter 1 of Pub. 946.
- Intangible property.
- Films, videotapes, and recordings.
- Certain corporate or partnership property acquired in a nontaxable transfer.
- Property you elected to exclude from MACRS.

For more information, see chapter 1 of Pub. 946.

## **What Is the Basis of Your Depreciable Property?**

To figure your depreciation deduction, you must determine the basis of your property. To determine basis, you need to know the cost or other basis of your property.

**Cost or other basis.** The basis of property you buy is usually its cost plus amounts you paid for items such as sales tax, freight charges, and installation and testing fees. The cost includes the amount you pay in cash, debt obligations, other property, or services. For more information, see chapter 6.

There are times when you cannot use cost as basis. In these situations, the fair market value (FMV) or the adjusted basis of the property may be used.

**Adjusted basis.** To find your property's basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the property for

events occurring between the time you acquired the property and the time you placed it in service.

### **Basis adjustment for depreciation**

**allowed or allowable.** After you place your property in service, you must reduce the basis of the property by the depreciation allowed or allowable, whichever is greater. Depreciation allowed is depreciation you actually deducted (from which you received a tax benefit). Depreciation allowable is depreciation you are entitled to deduct.

If you do not claim depreciation you are entitled to deduct, you must still reduce the basis of the property by the full amount of depreciation allowable.

If you deduct more depreciation than you should, you must reduce your basis by any amount deducted from which you received a tax benefit (the depreciation allowed).

For more information, see chapter 6.

## How Do You Treat Repairs and Improvements?

If you improve depreciable property, you must treat the improvement as separate depreciable property. Improvement means an addition to or partial replacement of property that is a betterment to the property, restores the property, or adapts it to a new or different use. See Regulations section 1.263(a)-3.

You generally deduct the cost of repairing business property in the same way as any other business expense. However, if the cost is for a betterment to the property, restores the property, or adapts it to a new or different use, you must treat it as an improvement and depreciate it. See chapter 1 of Pub. 946 for more information.

***Example.*** You repair a small section on a corner of the roof of a barn that you rent to others. You deduct the cost of the repair as a

business expense. However, if you replace the entire roof, the new roof is considered to be an improvement because it increases the value and lengthens the life of the property. You depreciate the cost of the new roof.

**Improvements to rented property.** You can depreciate permanent improvements you make to business property you rent from someone else.

**Example.** You rent 100 acres from your landlord on a 5-year term. You install \$25,000 of drainage tile. The recovery period for drainage tile is 15 years, not the term of the lease. You may be able to take a section 179 expense deduction, special depreciation allowance, or depreciation expense under MACRS for the drainage tile. See Section 179 Expense Deduction, Claiming the Special Depreciation Allowance, Figuring Depreciation Under MACRS, later.



## **Do You Have To File Form 4562?**

Use Form 4562 to claim your deduction for depreciation and amortization. You must complete and attach Form 4562 to your tax return if you are claiming any of the following.

- A section 179 expense deduction for the current year or a section 179 carryover from a prior year.
- Depreciation for property placed in service during the current year.
- Depreciation on any vehicle or other listed property, regardless of when it was placed in service.
- Amortization of costs that began in the current year.

For more information, see the Instructions for Form 4562.

## **How Do You Correct Depreciation Deductions?**

If you deducted an incorrect amount of depreciation in any year, you may be able to make a correction by filing an amended return for that year. You can file an amended return to correct the amount of depreciation claimed for any property in any of the following situations.

- You claimed the incorrect amount because of a mathematical error made in any year.
- You claimed the incorrect amount because of a posting error made in any year (for example, omitting an asset from the depreciation schedule).
- You have not adopted a method of accounting for the property placed in service by you in tax years ending after December 29, 2003.

- You claimed the incorrect amount on property placed in service by you in tax years ending before December 30, 2003.

**Note.** You have adopted a method of accounting if you used the same incorrect method of depreciation for two or more consecutively filed returns.

If you are not allowed to make the correction on an amended return, you may be able to change your accounting method to claim the correct amount of depreciation. See the Instructions for Form 3115.

## **Section 179 Expense Deduction**

You can elect to recover all or part of the cost of certain qualifying property, up to a limit, by deducting it in the year you place the property in service. This is the section 179 expense deduction. You can elect the section 179 expense deduction instead of recovering the cost by taking depreciation deductions.

This part of the chapter explains the rules for the section 179 expense deduction. It explains what property qualifies for the deduction, what property does not qualify for the deduction, the limits that may apply, how to elect the deduction, and when you may have to recapture the deduction.

For more information, see chapter 2 of Pub. 946.

## **What Property Qualifies?**

To qualify for the section 179 expense deduction, your property must meet all the following requirements.

- It must be eligible property.
- It must be acquired primarily for business use.
- It must have been acquired by purchase.

## **Eligible Property**

To qualify for the section 179 expense deduction, your property must be one of the following types of depreciable property.

1. Tangible personal property.
2. Other tangible property (except 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 used in connection with any of the activities in (a) above; or
  - c. A facility used in connection with any of the activities in (a) for the

bulk storage of fungible commodities.

3. Single-purpose agricultural (livestock) or horticultural structures.
4. Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
5. Qualified real property. (Special rules apply to qualified real property that you elect to treat as qualified section 179 real property. For more information, see chapter 2 of Pub. 946, and section 179(f) of the Internal Revenue Code.)
6. Off-the-shelf computer software that is readily available for purchase by the general public, is subject to a nonexclusive lease, and has not been substantially modified.

**Tangible personal property.** Tangible personal property is any tangible property that is not real property. It includes the following property.

- Machinery and equipment.
- Property contained in or attached to a building (other than structural components), such as milk tanks, automatic feeders, barn cleaners, and office equipment.
- Gasoline storage tanks and pumps at retail service stations.
- Livestock, including horses, cattle, hogs, sheep, and goat used for draft, breeding or dairy purposes.
- Mink and other fur-bearing animals.

**Facility used for the bulk storage of fungible commodities.** A facility used for the bulk storage of fungible commodities is qualifying property for purposes of the section

179 expense deduction if it is used in connection with any of the activities listed earlier in item 2c under Eligible Property. Bulk storage means the storage of a commodity in a large mass before it is used.

**Grain bins.** A grain bin is an example of a storage facility that is qualifying section 179 property. It is a facility used in connection with the production of grain or livestock for the bulk storage of fungible commodities.

**Single-purpose agricultural or horticultural structures.** A single-purpose agricultural (livestock) or horticultural structure is qualifying property for purposes of the section 179 expense deduction.

**Agricultural structure.** A single-purpose agricultural (livestock) structure is any building or enclosure specifically designed, constructed, and used for both the following reasons.



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

For this purpose, livestock includes poultry.

Single-purpose structures are qualifying property if used, for example, 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 either of the following.

- A greenhouse specifically designed, constructed, and used for the commercial production of plants.

- 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 that qualified it. For example, a hog barn will not be qualifying property if you use it to house poultry. Similarly, using part of your greenhouse to sell plants will make the greenhouse nonqualifying property.

If a structure includes work space, the work space can be used only for the following activities.

- Stocking, caring for, or collecting livestock or plants or their produce.
- Maintaining the enclosure or structure.
- Maintaining or replacing the equipment or stock enclosed or housed in the structure.

**Note.** Recent legislation has changed the treatment of qualified improvement property

placed in service after December 31, 2017, to 15-year property under MACRS. See chapter 3 of Pub. 946 for more information.

***Qualified real property.*** Qualified real property is any qualified improvement property described in section 168(e)(6), and any of the following improvements to nonresidential real property placed in service after the date such qualified real property was first placed in service.

- Roofs.
- Heating, ventilation, and air conditioning.
- Fire protection and alarms.
- Security systems.

## **Property Acquired by Purchase**

To qualify for the section 179 expense deduction, your property must have been acquired by purchase. For example, property acquired by gift or inheritance does not qualify. Property acquired from a related

person (that is, your spouse, ancestors, or lineal descendants) is not considered acquired by purchase. New or used equipment you acquired by purchase during the current tax year qualifies for the section 179 deduction.

**Example.** You are a farmer. You purchased two tractors, one from your sibling and one from your parent. You placed both tractors in service in the same year you bought them. The tractor purchased from your parent does not qualify for the section 179 expense deduction because you are a related person (as defined above). The tractor purchased from your sibling does qualify for the deduction because you are not a related person (as defined above).

## **What Property Does Not Qualify?**

**Land and improvements.** Land and land improvements do not qualify as section 179 property. Land improvements include swimming pools, paved parking areas,

wharves, docks, bridges, and nonagricultural fences. However, certain additions to agricultural land are considered to be an integral part of agricultural production so they may qualify as section 179 property. For example, agricultural fences used to confine livestock do qualify as section 179 property. Similarly, field drainage tile also qualifies as section 179 property.

**Excepted property.** Even if the requirements explained in the preceding discussions are met, farmers cannot elect the section 179 expense deduction for the following property.

- Certain property you lease to others (if you are a noncorporate lessor).
- Certain property used predominantly to furnish lodging or in connection with the furnishing of lodging.
- Property used by a tax-exempt organization (other than a tax-exempt

farmers' cooperative) unless the property is used mainly in a taxable unrelated trade or business.

- Property used by governmental units or foreign persons or entities (except property used under a lease with a term of less than 6 months).

## **How Much Can You Deduct?**

Your section 179 expense deduction is generally the cost of the qualifying property. However, the total amount you can elect to deduct under section 179 is subject to a dollar limit and a business income limit. These limits apply to each taxpayer, not to each business. However, see Married individuals under Dollar Limits, later. Also, see the special rules for applying the limits for partnerships and S corporations under Partnerships and S Corporations, later.

If you deduct only part of the cost of qualifying property as a section 179 expense deduction, you can generally depreciate the cost you do not deduct.

Use Part I of Form 4562 to figure your section 179 expense deduction.

**Partial business use.** When you use property for business and nonbusiness purposes, you can elect the section 179 expense deduction only if you use it more than 50% for business in the year you place it in service. If you used the property more than 50% for business, multiply the cost of the property by the percentage of business use. Use the resulting business cost to figure your section 179 expense deduction.

**Trade-in of other property and like-kind exchanges.** If you acquire qualified property in a like-kind exchange, only the excess basis of the acquired property is eligible for the section 179 deduction. For more information, see Pub. 551.



*Like-kind exchanges beginning after December 31, 2017, are generally limited to exchanges of real property not held for sale. Treasury regulations section 1.168(i)-6 does not reflect this change in law.*

If you buy qualifying property with cash and a trade-in, its cost for purposes of the section 179 expense deduction includes only the cash you paid.

**Example.** Adyo Farms traded real property X having a total adjusted basis of \$6,800 for new real property Z costing \$13,200. They received an \$8,000 trade-in allowance for the old real property X, and paid \$5,200 in cash for the new real property Z.

For purposes of the section 179 expense deduction, only the cash paid by Adyo qualifies for the section 179 expense deduction. Adyo's business costs that qualify for a section 179 expense deduction are \$5,200. For information on the maximum



amount you can elect to deduct, see *Dollar Limits* next.

## **Dollar Limits**

The total amount you can elect to deduct under section 179 for most property placed in service in 2024 is \$1,220,000. If you acquire and place in service more than one item of qualifying property during the year, you can allocate the section 179 expense deduction among the items in any way, as long as the total deduction is not more than \$1,220,000. You cannot carry costs in excess of the \$1,220,000 limit over to future years.

**Reduced dollar limit for cost exceeding \$3,050,000.** If the cost of your qualifying section 179 property placed in service in 2024 is over \$3,050,000, you must reduce the dollar limit (but not below zero) by the amount of cost over \$3,050,000. If the cost of your section 179 property placed in service during 2024 is \$4,270,000 or more, you cannot take a section 179 expense deduction

and you cannot carry over any of the cost that is more than \$4,270,000.

**Example.** This year, George Thomas placed in service machinery costing \$3,150,000. Because this cost is \$100,000 more than \$3,050,000, George must reduce the dollar limit to \$1,120,000 (\$1,220,000 – \$100,000). George cannot carry over any of the costs that exceed the \$1,120,000 reduced limit. The remaining cost of the machinery not allowed as a section 179 expense deduction is eligible for a depreciation expense under MACRS. See Figuring Depreciation Under MACRS, later.

**Limits for sport utility vehicles.** The total amount you can elect to deduct for certain sport utility vehicles and certain other vehicles placed in service in 2024 is \$30,500. This rule applies to any 4-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, and highways that is rated at more than 6,000

pounds gross vehicle weight and not more than 14,000 pounds gross vehicle weight.

For more information, see chapter 2 of Pub. 946.

**Limits for passenger automobiles.** For a passenger automobile that is placed in service in 2024, the total section 179 and depreciation deduction is limited. See *Do the Passenger Automobile Limits Apply*, later.

**Married individuals.** If you are married, how you figure your section 179 expense deduction depends on whether you file jointly or separately. If you file a joint return, you and your spouse are treated as one taxpayer in determining any reduction to the dollar limit, regardless of which of you purchased the property or placed it in service. If you and your spouse file separate returns, you are treated as one taxpayer for the dollar limit, including the reduction for costs over \$3,050,000. You must allocate the dollar limit (after any reduction) equally between you,

unless you both elect a different allocation. If the percentages elected by each of you do not total 100%, 50% will be allocated to each of you.

***Joint return after separate returns.*** If you and your spouse elect to amend your separate returns by filing a joint return after the due date for filing your return, the dollar limit on the joint return is the lesser of the following amounts.

- The dollar limit (after reduction for any cost of section 179 property over \$3,050,000).
- The total cost of section 179 property you and your spouse elected to expense on your separate returns.

## **Business Income Limit**

The total cost you can deduct each year after you apply the dollar limit is limited to the taxable income from the active conduct of any trade or business during the 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.

Any cost not deductible in one year under section 179 because of this limit can be carried to the next year. See Carryover of disallowed deduction, later.

**Taxable income.** In general, figure taxable income for this purpose by totaling the net income and losses from all trades and businesses you actively conducted during the year. In addition to net income or loss from a sole proprietorship, partnership, or S corporation, net income or loss derived from a trade or business also includes the following items.

- Section 1231 gains (or losses) as discussed in chapter 9.
- Interest from working capital of your trade or business.

- Wages, salaries, tips, or other pay earned by you (or your spouse if you file a joint return) as an employee of any employer.

In addition, figure taxable income without regard to any of the following.

- The section 179 expense deduction.
- The self-employment tax deduction.
- Any net operating loss carryback or carryforward.
- Any unreimbursed employee business expenses.

Also, see chapter 2 of Pub. 946.

**Two different taxable income limits.** In addition to the business income limit for your section 179 expense deduction, you may have a taxable income limit for some other deduction (for example, charitable contributions). You may have to figure the limit for this other deduction taking into

account the section 179 expense deduction. If so, complete the following steps.

<b>Step</b>	<b>Action</b>
1	Figure taxable income without the section 179 expense deduction or the other deduction.
2	Figure a hypothetical section 179 expense deduction using the taxable income figured in Step 1.
3	Subtract the hypothetical section 179 expense deduction figured in Step 2 from the taxable income figured in Step 1.
4	Figure a hypothetical amount for the other deduction using the amount figured in Step 3 as taxable income.

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

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6 Figure your actual section 179 expense deduction using the taxable income figured in Step 5.

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

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

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**Example.** On February 1, 2024, the XYZ farm corporation purchased and placed in service qualifying section 179 property that cost \$500,000. It elects to expense the entire \$500,000 cost under section 179. In June, the corporation gave a charitable contribution



of \$100,000. A corporation's limit on charitable contributions is figured after subtracting any section 179 expense deduction. The business income limit for the section 179 expense deduction is figured after subtracting any allowable charitable contributions. XYZ's taxable income figured without the section 179 expense deduction or the deduction for charitable contributions is \$700,000. XYZ figures its section 179 expense deduction and its deduction for charitable contributions as follows.

**Step 1.** Taxable income figured without either deduction is \$700,000.

**Step 2.** Using \$700,000 as taxable income, XYZ's hypothetical section 179 expense deduction is \$500,000.

**Step 3.** \$200,000 (\$700,000 – \$500,000).

**Step 4.** Using \$200,000 (from Step 3) as taxable income, XYZ's hypothetical

charitable contribution (limited to 10% of taxable income) is \$20,000.

**Step 5.** \$680,000 (\$700,000 – \$20,000).

**Step 6.** Using \$680,000 (from Step 5) as taxable income, XYZ figures the actual section 179 expense deduction. Because the taxable income is at least \$500,000, XYZ can take a \$500,000 section 179 expense deduction.

**Step 7.** \$200,000 (\$700,000 – \$500,000).

**Step 8.** Using \$200,000 (from Step 7) as taxable income, XYZ's actual charitable contribution (limited to 10% of taxable income) is \$20,000.

**Carryover of disallowed deduction.** You can carry over for an unlimited number of years the cost of any section 179 property you elected to expense but were unable to deduct because of the business income limit.

The amount you carry over is used in determining your section 179 expense deduction in the next year. However, it is subject to the limits in that year. If you place more than one property in service in a year, you can select the properties for which all or a part of the cost will be carried forward. Your selections must be shown in your books and records.

**Example.** Last year, you placed in service a machine that cost \$100,000 and elected to deduct all \$100,000 under section 179. The taxable income from your business (determined without regard to both a section 179 expense deduction for the cost of the machine and the self-employment tax deduction) was \$80,000. Your section 179 expense deduction was limited to \$80,000. The \$20,000 cost that was not allowed as a section 179 expense deduction (because of the business income limit) is carried to this year.

This year, you placed another machine in service that cost \$110,000. Your taxable income from business (determined without regard to both a section 179 expense deduction for the cost of the machine and the self-employment tax deduction) is \$125,000. You can deduct the full cost of the machine (\$110,000) but only \$15,000 of the carryover from last year because of the business income limit. You can carry over the balance of \$5,000 to next year.

## **Partnerships and S Corporations**

The section 179 expense deduction limits apply both to the partnership or S corporation and to each partner or shareholder. The partnership or S corporation determines its section 179 expense deduction subject to the limits. It then allocates the deduction among its partners or shareholders.

If you are a partner in a partnership or shareholder of an S corporation, you add the amount allocated from the partnership or S

corporation to any section 179 costs not related to the partnership or S corporation and then apply the dollar limit to this total. To determine any reduction in the dollar limit for costs over \$3,050,000, you do not include any of the cost of section 179 property placed in service by the partnership or S corporation. After you apply the dollar limit, you apply the business income limit to any remaining section 179 costs. For more information, see chapter 2 of Pub. 946.

**Example.** In 2024, Partnership P placed in service section 179 property with a total cost of \$3,150,000. P must reduce its dollar limit by \$100,000 ( $\$3,150,000 - \$3,050,000$ ). Its maximum section 179 expense deduction is \$1,120,000 ( $\$1,220,000 - \$100,000$ ), and it elects to expense that amount. Because P's taxable income from the active conduct of all its trades or businesses for the year was \$2,000,000, it can deduct the full \$1,120,000. P allocates \$265,000 of its

section 179 expense deduction and \$500,000 of its taxable income to John, one of its partners.

John also conducts a business as a sole proprietor and, in 2024, placed in service in that business, section 179 property costing \$800,000. John's taxable income from that business was \$200,000. In addition to the \$265,000 allocated from P, John elects to expense \$550,000 of the sole proprietorship's section 179 costs. However, John's deduction is limited to the business taxable income of \$700,000 (\$500,000 from P plus \$200,000 from the sole proprietorship). John carries over \$115,000 (\$815,000 – \$700,000) of the elected section 179 costs to 2025.

## **How Do You Elect the Deduction?**

You elect to take the section 179 expense deduction by completing Part I of Form 4562.



*If you elect the deduction for listed property, complete Part V of Form 4562 before completing Part I.*

File Form 4562 with either of the following.

- Your original tax return (whether or not you filed it timely).
- An amended return filed within the time prescribed by law. An election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each such item to be taken into account. The amended return must also include any resulting adjustments to taxable income.

**Revoking an election.** An election (or any specification made in the election) to take a section 179 expense deduction for 2024 can be revoked without IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law. The amended return must also include any

resulting adjustments to taxable income (for example, allowable depreciation in that tax year for the item of section 179 property for which the election pertains). Once made, the revocation is irrevocable.

## **When Must You Recapture the Deduction?**

You may have to recapture the section 179 expense deduction if, in any year during the property's recovery period, the percentage of business use drops to 50% or less. In the year the business use drops to 50% or less, you include the recapture amount as ordinary income. You also increase the basis of the property by the recapture amount. Recovery periods for property are discussed later.



*If you sell, exchange, or otherwise dispose of the property, do not figure the recapture amount under the rules explained in this discussion. Instead, use the rules for recapturing depreciation explained under Section 1245 Property in chapter 9.*





*If the property is listed property, do not figure the recapture amount under the rules explained in this discussion when the percentage of business use drops to 50% or less. Instead, use the rules for recapturing depreciation explained under Recapture of Excess Depreciation in chapter 5 of Pub. 946.*

**Figuring the recapture amount.** To figure the amount to recapture, take the following steps.

1. Figure the allowable depreciation for the section 179 expense deduction you claimed. Begin with the year you placed the property in service and include the year of recapture.
2. Subtract the depreciation figured in (1) from the section 179 expense deduction you actually claimed. The result is the amount you must recapture.

**Example.** In January 2022, you are a calendar year taxpayer. You bought and placed in service section 179 property costing \$10,000. The property is 3-year property and is depreciated under MACRS and a half-year convention. The property is not listed property. You elected a \$5,000 section 179 expense deduction for the property and also elected not to claim a special depreciation allowance. You used the property only for business in 2022 and 2023. During 2024, you used the property 40% for business and 60% for personal use. You figure the recapture amount as follows.

Section 179 expense deduction claimed (2022)	\$5,000
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**Minus:** Allowable depreciation (instead of section 179 expense deduction):

2022	\$1,250
2023	1,875

2024 ( $\$1,250 \times 40\%$   
(business)

500      3,625

**2024 — Recapture amount                      \$1,375**

You must include \$1,375 in income for 2024.

**Where to report recapture.** Report any recapture of the section 179 expense deduction as ordinary income in Part IV of Form 4797 and include it in income on Schedule F (Form 1040).

**Recapture for qualified section 179 GO Zone property.** If any qualified section 179 GO Zone property ceases to be used in the GO Zone in a later year, you must recapture the benefit of the increased section 179 expense deduction as “other income.”

## **Claiming the Special Depreciation Allowance**

For qualified property (defined below) placed in service in 2024, you can take a special depreciation allowance depending on the date

you acquired the qualified property. The allowance is an additional deduction you can take after the elected section 179 deduction and before you figure regular depreciation under MACRS. Figure the special depreciation allowance by multiplying the depreciable basis of the qualified property by the applicable percentage.

## **What Is Qualified Property?**

For farmers, qualified property is certain property acquired after September 27, 2017, and certain specified plants.

**Certain qualified property acquired after September 27, 2017.** You can elect to take a 60% special depreciation allowance for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft). For certain qualified property acquired after September 27, 2017, and placed in service

after December 31, 2024, and before January 1, 2026 (other than certain property with a long production period and certain aircraft), you can elect to take a 40% special depreciation allowance.

You can elect to take an 80% special depreciation allowance for certain property with a long production period and certain aircraft acquired and placed in service after September 27, 2017, and before January 1, 2025. For certain property with a long production period and certain aircraft acquired after September 27, 2017, and placed in service after December 31, 2024, and before January 1, 2026, you can elect to take an 60% special depreciation allowance.

Your property is qualified property if it meets the following requirements.

1. It is one of the following types of property.

2. Tangible property depreciated under MACRS with a recovery period of 20 years or less.
  - a. Water utility property depreciated under MACRS.
  - b. Computer software defined in and depreciated under section 167(f)(1) of the Internal Revenue Code.
  - c. Qualified property can be either new property or certain used property.
3. It is not excepted property (defined next).

For more information, see chapter 3 of Pub. 946.

***Excepted property.*** Qualified property acquired after September 27, 2017, does not include any of the following.

- Property placed in service, or planted or grafted and disposed of in the same tax year.
- Property converted from business use to personal use in the same tax year acquired. Property converted from personal use to business use in the same or later tax year may be qualified property.
- Property required to be depreciated under the Alternative Depreciation System (ADS). This includes listed property used 50% or less in a qualified business use. For other property required to be depreciated using ADS, see Required use of ADS under Which Depreciation System (GDS or ADS) Applies later.
- Property for which you elected not to claim any special depreciation allowance (discussed later).

- Property described in section 168(k)(9)(A) of the Internal Revenue Code and placed in service in any tax year beginning after December 31, 2017.
- Property described in section 168(k)(9)(B) of the Internal Revenue Code and placed in service in any tax year beginning after December 31, 2017.

**Certain specified plants.** You can elect to claim a 60% special depreciation allowance for the adjusted basis of certain specified plants (defined later) bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025. For certain specified plants bearing fruits and nuts planted or grafted after December 31, 2024, and before January 1, 2026, you can elect to claim a 40% special allowance. A specified plant is:

- Any tree or vine that bears fruits or nuts, and



- Any other plant that will have more than one yield of fruits or nuts and generally has a pre-productive period of more than 2 years from planting and grafting to the time it begins bearing fruits or nuts.

Any property planted or grafted outside the United States does not qualify as a specified plant.

If you elect to claim the special depreciation allowance for any specified plant, the plant will not be treated as qualified property eligible for the special depreciation allowance in the subsequent tax year in which it is placed in service.

To make the election, attach a statement to your timely filed return (including extensions) for the tax year in which you plant or graft the specified plant(s) indicating you are electing to apply section 168(k)(5) and identifying the specified plant(s) for which you are making the election. Once made, the

election cannot be revoked without IRS consent.

See section 168(k)(5) of the Internal Revenue Code.

## **How Can You Elect Not To Claim the Allowance?**

You can elect, for any class of property, not to deduct the special depreciation allowance for all property in such class placed in service during the tax year. To make the election, attach a statement to your return indicating the class of property for which you are making the election.

Generally, you must make the election on a timely filed tax return (including extensions) for the year in which you place the property in service. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within 6 months of the due date of the original return (not

including extensions). Attach the election statement to the amended return. On the amended return, write "Filed pursuant to section 301.9100-2."

Once made, the election may not be revoked without IRS consent.



*If you elect not to have the special depreciation allowance apply, the property may be subject to an alternative minimum tax adjustment for depreciation.*

## **When Must You Recapture an Allowance?**

When you dispose of property for which you claimed a special depreciation allowance, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the special depreciation allowance previously allowed or allowable. For more information, see chapter 3 of Pub. 946.

## Figuring Depreciation Under MACRS

MACRS is used to recover the basis of most business and investment property placed in service after 1986. MACRS consists of two depreciation systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). Generally, these systems provide different methods and recovery periods to use in figuring depreciation deductions.



*To be sure you can use MACRS to figure depreciation for your property, see Can You Use MACRS To Depreciate Your Property, earlier.*

This part explains how to determine which MACRS depreciation system applies to your property. It also discusses the following information that you need to know before you can figure depreciation under MACRS.

- Property's recovery class.
- Placed-in-service date.

- Basis for depreciation.
- Recovery period.
- Convention.
- Depreciation method.

Finally, this part explains how to use this information to figure your depreciation deduction.

## **Which Depreciation System (GDS or ADS) Applies?**

Your use of either GDS or ADS to depreciate property under MACRS determines what depreciation method and recovery period you use. You must generally use GDS unless you are specifically required by law to use ADS or you elect to use ADS.

**Required use of ADS.** You must use ADS for the following property.

- All property used predominantly in a farming business and placed in service in

any tax year during which an election not to apply the uniform capitalization rules to certain farming costs is in effect.

- Listed property used 50% or less in a qualified business use. See *Additional Rules for Listed Property*, later.
- Any tax-exempt use property.
- Any tax-exempt bond-financed property.
- Any property imported from a foreign country for which an Executive order is in effect because the country maintains trade restrictions or engages in other discriminatory acts.
- Any tangible property used predominantly outside the United States during the year.

**Note.** You must use ADS if you are required to file Form 8990 and you elect to expense farming interest expense.



*If you are required to use ADS to depreciate your property, you cannot claim the special depreciation allowance.*

**Electing ADS.** Although your property may qualify for GDS, you can elect to use ADS. The election must generally cover all property in the same property class you placed in service during the year. However, the election for residential rental property and nonresidential real property can be made on a property-by-property basis. Once you make this election, you can never revoke it.

You make the election by completing line 20 in Part III of Form 4562.

## **Which Property Class Applies Under GDS?**

The following is a list of the nine property classes under GDS.

1. 3-year property.

2. 5-year property.
3. 7-year property.
4. 10-year property.
5. 15-year property.
6. 20-year property.
7. 25-year property.
8. Residential rental property.
9. Nonresidential real property.

See *Which Property Class Applies Under GDS?* in chapter 4 of Pub. 946 for examples of the types of property included in each class.

## **What Is the Placed-in-Service Date?**

You begin to claim depreciation when your property is placed in service for use either in a trade or business or for the production of income. The placed-in-service date for your property is the date the property is ready and available for a specific use. It is therefore not



necessarily the date it is first used. If you converted property held for personal use to use in a trade or business or for the production of income, treat the property as being placed in service on the conversion date. See Placed in Service under When Does Depreciation Begin and End, earlier, for examples illustrating when property is placed in service.

Also, see Certain specified plants, earlier, for information on the placed-in-service date for specified plants bearing fruits and nuts for which you elect to claim the special depreciation allowance.

## **What Is the Basis for Depreciation?**

The basis for depreciation of MACRS property is the property's cost or other basis multiplied by the percentage of business/investment use. Reduce that amount by any credits and deductions allocable to the property. The

following are examples of some of the credits and deductions that reduce basis.

- Any deduction for section 179 property.
- Any deduction for removal of barriers to the disabled and the elderly.
- Any disabled access credit, enhanced oil recovery credit, and credit for employer-provided childcare facilities and services.
- Any special depreciation allowance.
- Basis adjustment for investment credit property under section 50(c) of the Internal Revenue Code.

For information about how to determine the cost or other basis of property, see *What Is the Basis of Your Depreciable Property*, earlier. Also, see chapter 6.

For additional credits and deductions that affect basis, see section 1016 of the Internal Revenue Code.

Table 7-1. Farm Property Recovery Periods

Assets	Recovery Period in Years	
	GDS	ADS
Agricultural structures (single purpose)	10	15
Automobiles	5	5
Calculators and copiers	5	6
Cattle (dairy or breeding)	5	7
Communication equipment <sup>1</sup>	7	10
Computer and peripheral equipment	5	5
Drainage facilities	15	20
Farm buildings <sup>2</sup>	20	25
New farm machinery and equipment <sup>3</sup>	5	10
Used farm machinery and equipment	7	10
Fences (agricultural)	7	10
Goats and sheep (breeding)	5	5
Grain bin	7	10
Hogs (breeding)	3	3
Horses (age when placed in service)		
Breeding and working (12 years or less)	7	10
Breeding and working (more than 12 years)	3	10
Racing horses (more than 2 years)	3	12
Horticultural structures (single purpose)	10	15
Logging machinery and equipment <sup>4</sup>	5	6
Nonresidential real property	39 <sup>5</sup>	40
Office furniture, fixtures, and equipment (not calculators, copiers, or typewriters)	7	10
Paved lots	15	20
Residential rental property	27.5	40
Tractor units (over-the-road)	3	4
Trees or vines bearing fruits or nuts	10	20
Truck (heavy duty, unloaded weight 13,000 lbs. or more)	5	6
Truck (actual weight less than 13,000 lbs.)	5	5
Water wells	15	20

<sup>1</sup> Not including communication equipment listed in other classes.

<sup>2</sup> Not including single-purpose agricultural or horticultural structures.

<sup>3</sup> Not including grain bin, cotton ginning, asset fence, or other land improvement and the original use starts with you and placed in service after December 31, 2017.

<sup>4</sup> Used by logging and sawmill operators for cutting of timber.

<sup>5</sup> For property placed in service after May 12, 1993; for property placed in service before May 13, 1993, the recovery period is 31.5 years.

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## **Which Recovery Period Applies?**

The recovery period of property is the number of years over which you recover its cost or other basis. It is determined based on the depreciation system (GDS or ADS) used. See Table 7-1 for recovery periods under both GDS and ADS for some commonly used assets. For a complete list of recovery periods, see the Table of Class Lives and Recovery Periods in Appendix B of Pub. 946.

***House trailers for farm laborers.*** To depreciate a house trailer you supply as housing for those who work on your farm, use one of the following recovery periods if the house trailer is mobile (it has wheels and a history of movement).

- A 7-year recovery period under GDS.
- A 10-year recovery period under ADS.

However, if the house trailer is not mobile (its wheels have been removed and permanent

utilities and pipes attached to it), use one of the following recovery periods.

- A 20-year recovery period under GDS.
- A 25-year recovery period under ADS.

***Water wells.*** Water wells used to provide water for raising poultry and livestock are land improvements. If they are depreciable, use one of the following recovery periods.

- A 15-year recovery period under GDS.
- A 20-year recovery period under ADS.

The types of water wells that can be depreciated were discussed earlier in *Irrigation systems and water wells* under *Property Having a Determinable Useful Life*.

## **Which Convention Applies?**

Under MACRS, averaging conventions establish when the recovery period begins and ends. The convention you use determines the number of months for which you can

claim depreciation in the year you place property in service and in the year you dispose of the property. Use one of the following conventions.

- The half-year convention.
- The mid-month convention.
- The mid-quarter convention.

For a detailed explanation of each convention, see *Which Convention Applies?* in chapter 4 of Pub. 946. Also, see the Instructions for Form 4562.

## **Which Depreciation Method Applies?**

MACRS provides three depreciation methods under GDS and one depreciation method under ADS.

- The 200% declining balance method over a GDS recovery period.
- The 150% declining balance method over a GDS recovery period.

- The straight line method over a GDS recovery period.
- The straight line method over an ADS recovery period.

**Depreciation Table.** The following table lists the types of property you can depreciate under each method. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.

### **Depreciation Table System/Method Type of Property**

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GDS using 150% DB	<ul style="list-style-type: none"> <li>• All 15- and 20-year property</li> <li>• Farm or Nonfarm 3-, 5-, 7-, and 10-year property<sup>1</sup></li> </ul>
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GDS using SL	<ul style="list-style-type: none"> <li>• Nonresidential real property</li> <li>• Residential rental property</li> <li>• Trees or vines bearing fruits or nuts</li> </ul>
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	<ul style="list-style-type: none"> <li>• All 3-, 5-, 7-, 10-, 15-, and 20-year property<sup>1</sup></li> </ul>
ADS using SL	<ul style="list-style-type: none"> <li>• Property used predominantly outside the United States</li> <li>• Farm property used when an election not to apply the uniform capitalization rules is in effect</li> <li>• Tax-exempt property</li> <li>• Tax-exempt bond-financed property</li> <li>• Imported property<sup>2</sup></li> <li>• Any property for which you elect to use this method<sup>1</sup></li> </ul>
GDS using 200% DB	<ul style="list-style-type: none"> <li>• Nonfarm 3-, 5-, 7-, and 10-year property</li> <li>• Farm 3-, 5-, 7-, and 10-year property placed in service after 2017</li> </ul>

<sup>1</sup>Elective method.

<sup>2</sup>See section 168(g)(6) of the Internal Revenue Code.

**Property used in farming business.** For 3-, 5-, 7-, or 10-year property used in a farming business and placed in service after 2017, the 150% declining balance method is no longer required, but may be elected. However, for 15- or 20-year property placed in service in a farming business, you must use the 150% declining balance method over a GDS recovery period or you can elect one of the following methods.

- The straight line method over a GDS recovery period.
- The straight line method over an ADS recovery period.