Department of the Treasury
Internal Revenue Service

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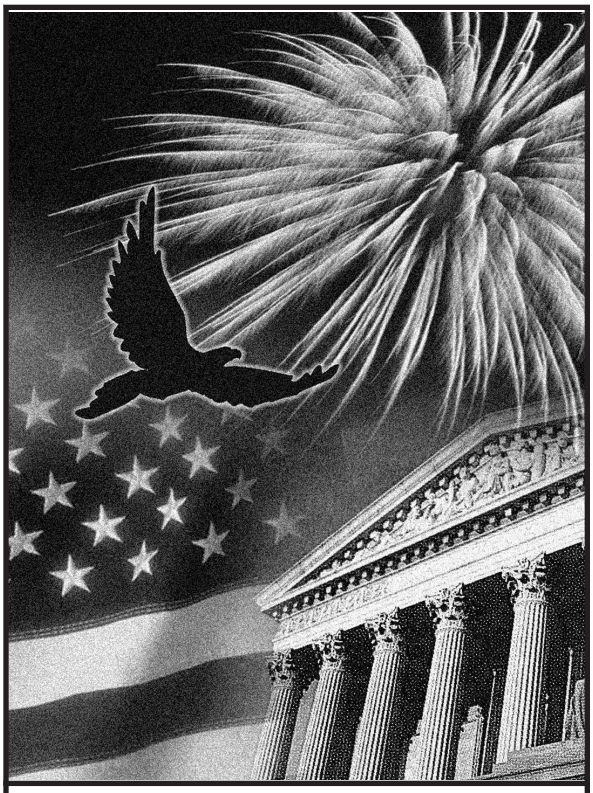
How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2016 Returns



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Contents

Future Developments 2

What's New for 2016 2

What's New for 2017 2

Reminders 2

Introduction 2

Chapter 1. Overview of Depreciation 3
- What Property Can Be Depreciated? 4
- What Property Cannot Be Depreciated? 6
- When Does Depreciation Begin and End? 7
- What Method Can You Use To Depreciate Your Property? 8
- What Is the Basis of Your Depreciable Property? 11
- How Do You Treat Repairs and Improvements? 13
- Do You Have To File Form 4562? 13
- How Do You Correct Depreciation Deductions? 13

Chapter 2. Electing the Section 179 Deduction 15
- What Property Qualifies? 15
- What Property Does Not Qualify? 17
- How Much Can You Deduct? 18
- How Do You Elect the Deduction? 22
- When Must You Recapture the Deduction? 23

Chapter 3. Claiming the Special Depreciation Allowance 24
- What Is Qualified Property? 24
- Election to Accelerate Certain Credits in Lieu of the Special Depreciation Allowance 27
- How Much Can You Deduct? 27
- How Can You Elect Not To Claim an Allowance? 28
- When Must You Recapture an Allowance? 28

Chapter 4. Figuring Depreciation Under MACRS 28
- Which Depreciation System (GDS or ADS) Applies? 29
- Which Property Class Applies Under GDS? 30
- What Is the Placed in Service Date? 33
- What Is the Basis for Depreciation? 33
- Which Recovery Period Applies? 33
- Which Convention Applies? 36
- Which Depreciation Method Applies? 36
- How Is the Depreciation Deduction Figured? 37
- How Do You Use General Asset Accounts? 49
- When Do You Recapture MACRS Depreciation? 53

Chapter 5. Additional Rules for Listed Property 53
What Is Listed Property? 54
Can Employees Claim a Deduction? 55
What Is the Business-Use Requirement? 56
Do the Passenger Automobile Limits Apply? 60
What Records Must Be Kept? 64
How Is Listed Property Information Reported? 66

Chapter 6. How To Get Tax Help 66

Appendix A 70

Appendix B 98

Glossary 110

Index 112

Future Developments

For the latest information about developments related to Pub. 946, such as legislation enacted after this publication was published, go to *www.irs.gov/pub946*.

What's New for 2016

Increased section 179 deduction dollar limits. The maximum amount you can elect to deduct for most section 179 property you placed in service in tax years beginning in 2016 is $500,000 ($535,000 for qualified enterprise zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $2,010,000. See *Dollar Limits* in chapter 2.

Special depreciation allowance for qualified second generation biofuel plant property. The special depreciation allowance will not apply to qualified second generation biofuel plant property placed in service after December 31, 2016. See *Qualified Second Generation Biofuel Plant Property* in chapter 3.

Special depreciation allowance for certain plants. You can elect to claim the special depreciation allowance for certain specified plants bearing fruits and nuts for the tax year in which the specified plants are planted or grafted. This election applies to specified plants planted or grafted after December 31, 2015. See *Certain plants bearing fruits and nuts* in chapter 3.

Certain race horses. The 3-year recovery period for race horses two years old or younger will not apply to horses placed in service after December 31, 2016. See *Which Property Class Applies Under GDS* in chapter 4.

Qualified motor sports entertainment complexes. Qualified motor sports entertainment complex property placed in service after December 31, 2016, will not be treated as 7-year property under MACRS. See *Which Property Class Applies Under GDS* in chapter 4.

Accelerated depreciation for qualified Indian reservation property. The accelerated depreciation of property on an Indian reservation will not apply to property placed in service after December 31, 2016, or, if you make an irrevocable election out of all property in a class of property that is placed in service in a tax year beginning after December 31, 2015. See *Indian Reservation Property* in chapter 4.

Depreciation limits on business vehicles. The total section 179 deduction and depreciation you can deduct for a passenger automobile (that is not a truck or van) you use in your business and first placed in service in 2016 is $3,160, if the special depreciation allowance does not apply. The maximum deduction you can take for a truck or van you use in your business and first placed in service in 2016 is $3,560, if the special depreciation allowance does not apply. See *Maximum Depreciation Deduction* in chapter 5.

What's New for 2017

Section 179 deduction dollar limits. The maximum amount you can elect to deduct for most section 179 property you placed in service in tax years beginning in 2017 is $510,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $2,030,000.

Reminders

Photographs of missing children. The Internal Revenue Service is a proud partner with the *National Center for Missing & Exploited Children® (NCMEC)*. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains how you can recover the cost of business or income-producing property through deductions for depreciation (for example, the special depreciation allowance and deductions under the Modified Accelerated Cost Recovery System (MACRS)). It also explains how you can elect to take a section 179 deduction, instead of depreciation deductions, for certain property, and the additional rules for listed property.

CAUTION *The depreciation methods discussed in this publication generally do not apply to property placed in service before 1987. For more information, see Pub. 534, Depreciating Property Placed in Service Before 1987.*

Definitions. Many of the terms used in this publication are defined in the *Glossary* near the end of the publication. Glossary terms used in each discussion under the major headings are listed before the beginning of each discussion throughout the publication.

Do you need a different publication? The following table shows where you can get more detailed information when depreciating certain types of property.

For information on depreciating:	See Publication:
A car	463, Travel, Entertainment, Gift, and Car Expenses
Residential rental property	527, Residential Rental Property (Including Rental of Vacation Home)
Office space in your home	587, Business Use of Your Home (Including Use by Daycare Providers)
Farm property	225, Farmer's Tax Guide

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments from www.irs.gov/formspubs. Click on "More Information" and then on "Give us feedback. " Or you can write to:

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit www.irs.gov/formspubs/ to download forms and publications. Otherwise, you can go to www.irs.gov/orderforms to order current and prior-year forms and instructions. Your order should arrive within 10 business days.

Tax questions. If you have a tax question not answered by this publication, check IRS.gov and How To Get Tax Help at the end of this publication.

1.

Overview of Depreciation

Introduction

Depreciation is an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, deterioration, or obsolescence of the property.

This chapter discusses the general rules for depreciating property and answers the following questions.

- What property can be depreciated?
- What property cannot be depreciated?
- When does depreciation begin and end?
- What method can you use to depreciate your property?
- What is the basis of your depreciable property?
- How do you treat repairs and improvements?
- Do you have to file Form 4562?
- How do you correct depreciation deductions?

Useful Items

You may want to see:

Publication

- ❑ **534** Depreciating Property Placed in Service Before 1987
- ❑ **535** Business Expenses
- ❑ **538** Accounting Periods and Methods
- ❑ **551** Basis of Assets

Form (and Instructions)

- ❑ **Sch C (Form 1040)** Profit or Loss From Business
- ❑ **Sch C-EZ (Form 1040)** Net Profit From Business
- ❑ **2106** Employee Business Expenses
- ❑ **2106-EZ** Unreimbursed Employee Business Expenses
- ❑ **3115** Application for Change in Accounting Method
- ❑ **4562** Depreciation and Amortization

See chapter 6 for information about getting publications and forms.

What Property Can Be Depreciated?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Commuting

Disposition

Fair market value

Intangible property

Listed property

Placed in service

Tangible property

Term interest

Useful life

You can depreciate most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment. You also can depreciate certain intangible property, such as patents, copyrights, 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 be expected to last more than one year.

The following discussions provide information about these requirements.

Property You Own

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

Example 1. You made a down payment to purchase rental property and assumed the previous owner's mortgage. You own the property and you can depreciate it.

Example 2. You bought a new van that you will use only for your courier business. You will be making payments on the van over the next 5 years. You own the van and you can depreciate it.

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. Therefore, 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 retain the incidents of ownership. You can, however, depreciate any capital improvements you make to the property. See *How Do You Treat Repairs and Improvements* later in this chapter, and *Additions and Improvements* under *Which Recovery Period Applies* in chapter 4.

If you lease property to someone, you generally can depreciate its cost even if the lessee (the person leasing from you) has agreed to preserve, replace, renew, and maintain the property. However, 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, you cannot depreciate the cost of the property.

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. However, see *Certain term interests in property* under *Excepted Property*, later.

Cooperative apartments. If you are a tenant-stockholder in a cooperative housing corporation and use your cooperative apartment in your business or for the production of income, you can depreciate your stock in the corporation, even though the corporation owns the apartment.

Figure your depreciation deduction as follows.

1. Figure the depreciation for all the depreciable real property owned by the corporation in which you have a proprietary lease or right of tenancy. If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.
   a. Multiply your cost per share by the total number of outstanding shares, including any shares held by the corporation.
   b. Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.
   c. Subtract from the amount figured in (b) any mortgage debt that is not for the depreciable real property, such as the part for the land.

2. Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but cannot be lived in by tenant-stockholders.
3. Divide the number of your shares of stock by the total number of outstanding shares, including any shares held by the corporation.
4. Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year cannot be more than the part of your adjusted basis in the stock of the corporation that is allocable to your business or income-producing property. You must also reduce your depreciation deduction if only a portion of the property is used in a business or for the production of income.

Example. You figure your share of the cooperative housing corporation's depreciation to be $30,000. Your adjusted basis in the stock of the corporation is $50,000. You use one half of your apartment solely for business purposes. Your depreciation deduction for the stock for the year cannot be more than $25,000 (½ of $50,000).

Change to business use. If you change your cooperative apartment to business use, figure your allowable depreciation as explained earlier. The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

- The fair market value of the property on the date you change your apartment to business use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.
- The corporation's adjusted basis in the property on that date. Do not subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) above. The fair market value of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.

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

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.

Partial business or investment use. If you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the business or investment use. For example, you cannot deduct depreciation on a car used only for commuting, personal shopping trips, family vacations, driving children to and from school, or similar activities.

RECORDS You must keep records showing the business, investment, and personal use of your property. For more information on the records you must keep for listed property, such as a car, see *What Records Must Be Kept* in chapter 5.

CAUTION *Although you can combine business and investment use of property when figuring depreciation deductions, do not treat investment use as qualified business use when determining whether the business-use requirement for listed property is met. For information about qualified business use of listed property, see* What Is the Business-Use Requirement *in chapter 5.*

Office in the home. If you use part of your home as an office, you may be able to deduct depreciation on that part based on its business use. For information about depreciating your home office, see Pub. 587.

Inventory. You cannot 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.

If you are a rent-to-own dealer, you may be able to treat certain property held in your business as depreciable property rather than as inventory. See *Rent-to-own dealer* under *Which Property Class Applies Under GDS* in chapter 4.

In some cases, it is not clear whether property is held for sale (inventory) or for use in your business. If it is unclear, examine carefully all the facts in the operation of the particular business. The following example shows how a careful examination of the facts in two similar situations results in different conclusions.

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

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

Containers. Generally, containers for the products you sell are part of inventory and you cannot depreciate them. However, you can depreciate containers used to ship your products if they have a life longer than one year and meet the following requirements.

- They qualify as property used in your business.
- Title to the containers does not pass to the buyer.

To determine if these requirements are met, consider the following questions.

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

Property Having a Determinable Useful Life

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

Property Lasting More Than One Year

To be depreciable, property must have a useful life that extends substantially beyond the year you place it in service.

Example. You maintain a library for use in your profession. You can depreciate it. However, if you buy technical books, journals, or information services for use in your business that have a useful life of one year or less, you cannot depreciate them. Instead, you deduct their cost as a business expense.

What Property Cannot Be Depreciated?

Terms you may need to know (see Glossary):

Amortization

Basis

Goodwill

Intangible property

Remainder interest

Term interest

Certain property cannot be depreciated. This includes land and certain excepted property.

Land

You cannot 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 land preparation costs, such as landscaping costs, incurred in preparing land for business use. These costs must be so closely associated with other depreciable property that you can determine a life for them along with the life of the associated property.

Example. You constructed a new building for use in your business and paid for grading, clearing, seeding, and planting bushes and trees. Some of the bushes and trees were planted right next to the building, while others were planted around the outer border of the lot. If you replace the building, you would have to destroy the bushes and trees right next to it. These bushes and trees are closely associated with the building, so they have a determinable useful life. Therefore, you can depreciate them. Add your other land preparation costs to the basis of your land because they have no determinable life and you cannot depreciate them.

Excepted Property

Even if the requirements explained in the preceding discussions are met, you cannot depreciate the following property.

- 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. See Uniform Capitalization Rules in Pub. 551.
- Section 197 intangibles. You must amortize these costs. Section 197 intangibles are discussed in detail in chapter 8 of Pub. 535. Intangible property, such as certain computer software, that is not section 197 intangible property, can be depreciated if it meets certain requirements. See *Intangible Property*, later.
- Certain term interests.

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. A term interest in property means a life interest in property, an interest in property for a term of years, or an income interest in a trust.

Related persons. For a description of related persons, see *Related Persons*, later. For this purpose, however, treat as related persons only the relationships listed in items (1) through (10) of that discussion and substitute “50%” for “10%” each place it appears.

Basis adjustments. If you would be allowed a depreciation deduction for a term interest in property except that the holder of the remainder interest is related to you, you generally must reduce your basis in the term interest by any depreciation or amortization not allowed.

If you hold the remainder interest, you generally must increase your basis in that interest by the depreciation not allowed to the term interest holder. However, do not increase your basis for depreciation not allowed for periods during which either of the following situations applies.

- The term interest is held by an organization exempt from tax.
- The term interest is held by a nonresident alien individual or foreign corporation, and the income from the term interest is not effectively connected with the conduct of a trade or business in the United States.

Exceptions. The above rules do not apply to the holder of a term interest in property acquired by gift, bequest, or inheritance. They also do not apply to the holder of dividend rights that were separated from any stripped preferred stock if the rights were purchased after April 30, 1993, or to a person whose basis in the stock is determined by reference to the basis in the hands of the purchaser.

When Does Depreciation Begin and End?

Terms you may need to know (see Glossary):

Basis

Exchange

Placed in service

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

You place property 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.

Example 1. Donald Steep bought a machine for his business. The machine was delivered last year. However, it was not installed and operational until this year. It is considered placed in service this year. If the machine had been ready and available for use when it was delivered, it would be considered placed in service last year even if it was not actually used until this year.

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

Example 3. James Elm is a building contractor who specializes in constructing office buildings. He bought a truck last year that had to be modified to lift materials to second-story levels. The installation of the lifting equipment was completed and James accepted delivery of the modified truck on January 10 of this year. The truck was placed in service on January 10, the date it was ready and available to perform the function for which it was bought.

Conversion to business use. If you place property in service in a personal activity, you cannot claim depreciation. However, if you change the property's use to use in a business or income-producing activity, then you can begin to depreciate it at the time of the change. You place the property in service in the business or income-producing activity on the date of the change.

Example. You bought a home and used it as your personal home several years before you converted it to rental property. Although its specific use was personal and no depreciation was allowable, you placed the home in service when you began using it as your home. You can begin to claim depreciation in the year you converted it to rental property because its use changed to an income-producing use at that time.

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 (not in use). 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. You recover your basis when your section 179 and allowed or allowable depreciation deductions equal your cost or investment in the property. See *What Is the Basis of Your Depreciable Property*, later.

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.

If you included the property in a general asset account, see How Do You Use General Asset Accounts*in chapter 4 for the rules that apply when you dispose of that property.*

What Method Can You Use To Depreciate Your Property?

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Convention
Exchange
Fiduciary
Grantor
Intangible property
Nonresidential real property
Placed in service
Related persons
Residential rental property
Salvage value
Section 1245 property
Section 1250 property
Standard mileage rate
Straight line method
Unit-of-production method
Useful life

You must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate most property. MACRS is discussed in chapter 4.

You cannot use MACRS to depreciate the following property.

- Property you placed in service before 1987.
- Certain property owned or used in 1986.
- Intangible property.
- Films, video tapes, and recordings.
- Certain corporate or partnership property acquired in a nontaxable transfer.
- Property you elected to exclude from MACRS.

The following discussions describe the property listed above and explain what depreciation method should be used.

Property You Placed in Service Before 1987

You cannot use MACRS for property you placed in service before 1987 (except property you placed in service after July 31, 1986, if MACRS was elected). Property placed in service before 1987 must be depreciated under the methods discussed in Pub. 534.

For a discussion of when property is placed in service, see *When Does Depreciation Begin and End*, earlier.

Use of real property changed. You generally must use MACRS to depreciate real property that you acquired for personal use before 1987 and changed to business or income-producing use after 1986.

Improvements made after 1986. You must treat an improvement made after 1986 to property you placed in service before 1987 as separate depreciable property. Therefore, you can depreciate that improvement as separate property under MACRS if it is the type of property that otherwise qualifies for MACRS depreciation. For more information about improvements, see *How Do You Treat Repairs and Improvements*, later, and *Additions and Improvements* under *Which Recovery Period Applies* in chapter 4.

Property Owned or Used in 1986

You may not be able to use MACRS for property you acquired and placed in service after 1986 if any of the situations described below apply. If you cannot use MACRS, the property must be depreciated under the methods discussed in Pub. 534.

For the following discussions, do not treat property as owned before you placed it in service. If you owned property in 1986 but did not place it in service until 1987, you do not treat it as owned in 1986.

Personal property. You cannot use MACRS for personal property (section 1245 property) in any of the following situations.

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

b. The property was not MACRS property in the hands of the person from whom you acquired it because of (2) or (3) above.

Real property. You generally cannot use MACRS for real property (section 1250 property) in any of the following situations.

- You or someone related to you owned the property in 1986.
- You lease the property to a person who owned the property in 1986 (or someone related to that person).
- You acquired the property in a like-kind exchange, involuntary conversion, or repossession of property you or someone related to you owned in 1986. MACRS applies only to that part of your basis in the acquired property that represents cash paid or unlike property given up. It does not apply to the carried-over part of the basis.

Exceptions. The rules above do not apply to the following.

1. Residential rental property or nonresidential real property.
2. Any property if, in the first tax year it is placed in service, the deduction under the Accelerated Cost Recovery System (ACRS) is more than the deduction under MACRS using the half-year convention. For information on how to figure depreciation under ACRS, see Pub. 534.
3. Property that was MACRS property in the hands of the person from whom you acquired it because of (2) above.

Related persons. For this purpose, the following are related persons.

1. An individual and a member of his or her family, including only a spouse, child, parent, brother, sister, half-brother, half-sister, ancestor, and lineal descendant.
2. A corporation and an individual who directly or indirectly owns more than 10% of the value of the outstanding stock of that corporation.
3. Two corporations that are members of the same controlled group.
4. A trust fiduciary and a corporation if more than 10% of the value of the outstanding stock is directly or indirectly owned by or for the trust or grantor of the trust.
5. The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
6. The fiduciaries of two different trusts, and the fiduciaries and beneficiaries of two different trusts, if the same person is the grantor of both trusts.
7. A tax-exempt educational or charitable organization and any person (or, if that person is an individual, a member of that person's family) who directly or indirectly controls the organization.
8. Two S corporations, and an S corporation and a regular corporation, if the same persons own more than 10% of the value of the outstanding stock of each corporation.
9. A corporation and a partnership if the same persons own both of the following.
   a. More than 10% of the value of the outstanding stock of the corporation.
   b. More than 10% of the capital or profits interest in the partnership.
10. The executor and beneficiary of any estate.
11. A partnership and a person who directly or indirectly owns more than 10% of the capital or profits interest in the partnership.
12. Two partnerships, if the same persons directly or indirectly own more than 10% of the capital or profits interest in each.
13. The related person and a person who is engaged in trades or businesses under common control. See section 52(a) and 52(b) of the Internal Revenue Code.

When to determine relationship. You must determine whether you are related to another person at the time you acquire the property.

A partnership acquiring property from a terminating partnership must determine whether it is related to the terminating partnership immediately before the event causing the termination. For this rule, a terminating partnership is one that sells or exchanges, within 12 months, 50% or more of its total interest in partnership capital or profits.

Constructive ownership of stock or partnership interest. To determine whether a person directly or indirectly owns any of the outstanding stock of a corporation or an interest in a partnership, apply the following rules.

1. Stock or a partnership interest directly or indirectly owned by or for a corporation, partnership, estate, or trust is considered owned proportionately by or for its shareholders, partners, or beneficiaries. However, for a partnership interest owned by or for a C corporation, this applies only to shareholders who directly or indirectly own 5% or more of the value of the stock of the corporation.
2. An individual is considered to own the stock or partnership interest directly or indirectly owned by or for the individual's family.
3. An individual who owns, except by applying rule (2), any stock in a corporation is considered to own the stock directly or indirectly owned by or for the individual's partner.
4. For purposes of rule (1), (2), or (3), stock or a partnership interest considered to be owned by a person under rule (1) is treated as actually owned by that person. However, stock or a partnership interest considered to be owned by an individual under rule (2) or (3) is not treated as owned by that individual for

reapplying either rule (2) or (3) to make another person considered to be the owner of the same stock or partnership interest.

Intangible Property

Generally, if you can depreciate intangible property, you usually use the straight line method of depreciation. However, you can choose to depreciate certain intangible property under the income forecast method (discussed later).

CAUTION *You cannot depreciate intangible property that is a section 197 intangible or that otherwise does not meet all the requirements discussed earlier under* What Property Can Be Depreciated.

Straight Line Method

This method lets you deduct the same amount of depreciation each year over the useful life of the property. To figure your deduction, first determine the adjusted basis, salvage value, and estimated useful life of your property. Subtract the salvage value, if any, from the adjusted basis. The balance is the total depreciation you can take over the useful life of the property.

Divide the balance by the number of years in the useful life. This gives you 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, Frank bought a patent for $5,100 that is not a section 197 intangible. He depreciates the patent under the straight line method, using a 17-year useful life and no salvage value. He divides the $5,100 basis by 17 years to get his $300 yearly depreciation deduction. He only used the patent for 9 months during the first year, so he multiplies $300 by 9/12 to get his deduction of $225 for the first year. Next year, Frank can deduct $300 for the full year.

Patents and copyrights. If you can depreciate the cost of a patent or copyright, use the straight line method over the useful life. The useful life of a patent or copyright is the lesser of the life granted to it by the government or the remaining life when you acquire it. However, if the patent or copyright becomes valueless before the end of its useful life, you can deduct in that year any of its remaining cost or other basis.

Computer software. Computer software is generally a section 197 intangible and cannot be depreciated if you acquired it in connection with the acquisition of assets constituting a business or a substantial part of a business.

However, computer software is not a section 197 intangible and can be depreciated, 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 may also qualify for the section 179 deduction and the special depreciation allowance, discussed later. If you can depreciate the cost of computer software, use the straight line method over a useful life of 36 months.

Tax-exempt use property subject to a lease. The useful life of computer software leased under a lease agreement entered into after March 12, 2004, to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership), cannot be less than 125% of the lease term.

Certain created intangibles. You can amortize certain intangibles created on or after December 31, 2003, over a 15-year period using the straight line method and no salvage value, even though they have a useful life that cannot be estimated with reasonable accuracy. For example, amounts paid to acquire memberships or privileges of indefinite duration, such as a trade association membership, are eligible costs.

The following are not eligible.

- Any intangible asset acquired from another person.
- Created financial interests.
- Any intangible asset that has a useful life that can be estimated with reasonable accuracy.
- Any intangible asset that has an amortization period or limited useful life that is specifically prescribed or prohibited by the Code, regulations, or other published IRS guidance.
- Any amount paid to facilitate an acquisition of a trade or business, a change in the capital structure of a business entity, and certain other transactions.

You must also increase the 15-year safe harbor amortization period to a 25-year period for certain intangibles related to benefits arising from the provision, production, or improvement of real property. For this purpose, real property includes property that will remain attached to the real property for an indefinite period of time, such as roads, bridges, tunnels, pavements, and pollution control facilities.

Income Forecast Method

You can choose to use the income forecast method instead of the straight line method to depreciate the following depreciable intangibles.

- Motion picture films or video tapes.
- Sound recordings.

- Copyrights.
- Books.
- Patents.

Under the income forecast method, each year's depreciation deduction is equal to the cost of the property, multiplied by a fraction. The numerator of the fraction is the current year's net income from the property, and the denominator is the total income anticipated from the property through the end of the 10th taxable year following the taxable year the property is placed in service. For more information, see section 167(g) of the Internal Revenue Code.

Films, video tapes, and recordings. You cannot use MACRS for motion picture films, video tapes, and sound recordings. For this purpose, sound recordings are discs, tapes, or other phonorecordings resulting from the fixation of a series of sounds. You can depreciate this property using either the straight line method or the income forecast method.

Participations and residuals. You can include participations and residuals in the adjusted basis of the property for purposes of computing your depreciation deduction under the income forecast method. The participations and residuals must relate to income to be derived from the property before the end of the 10th taxable year after the property is placed in service. For this purpose, participations and residuals are defined as costs which by contract vary with the amount of income earned in connection with the property.

Instead of including these amounts in the adjusted basis of the property, you can deduct the costs in the taxable year that they are paid.

Videocassettes. If you are in the business of renting videocassettes, you can depreciate only those videocassettes bought for rental. If the videocassette has a useful life of one year or less, you can currently deduct the cost as a business expense.

Corporate or Partnership Property Acquired in a Nontaxable Transfer

MACRS does not apply to property used before 1987 and transferred after 1986 to a corporation or partnership (except property the transferor placed in service after July 31, 1986, if MACRS was elected) to the extent its basis is carried over from the property's adjusted basis in the transferor's hands. You must continue to use the same depreciation method as the transferor and figure depreciation as if the transfer had not occurred. However, if MACRS would otherwise apply, you can use it to depreciate the part of the property's basis that exceeds the carried-over basis.

The nontaxable transfers covered by this rule include the following.

- A distribution in complete liquidation of a subsidiary.
- A transfer to a corporation controlled by the transferor.
- An exchange of property solely for corporate stock or securities in a reorganization.
- A contribution of property to a partnership in exchange for a partnership interest.
- A partnership distribution of property to a partner.

Election To Exclude Property From MACRS

If you can properly depreciate any property under a method not based on a term of years, such as the unit-of-production method, you can elect to exclude that property from MACRS. You make the election by reporting your depreciation for the property on line 15 in Part II of Form 4562 and attaching a statement as described in the Instructions for Form 4562. You must make this election by the return due date (including extensions) for the tax year you place your 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 six months of the due date of the return (excluding extensions). Attach the election to the amended return and write “Filed pursuant to section 301.9100-2” on the election statement. File the amended return at the same address you filed the original return.

Use of standard mileage rate. If you use the standard mileage rate to figure your tax deduction for your business automobile, you are treated as having made an election to exclude the automobile from MACRS. See Pub. 463 for a discussion of the standard mileage rate.

What Is the Basis of Your Depreciable Property?

Terms you may need to know (see Glossary):

Abstract fees

Adjusted basis

Basis

Exchange

Fair market value

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 as Basis

The basis of property you buy is its cost plus amounts you paid for items such as sales tax (see *Exception* below), freight charges, and installation and testing fees. The cost includes the amount you pay in cash, debt obligations, other property, or services.

Exception. You can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A (Form 1040). If you make that choice, you cannot include those sales taxes as part of your cost basis.

Assumed debt. If you buy property and assume (or buy subject to) an existing mortgage or other debt on the property, your basis includes the amount you pay for the property plus the amount of the assumed debt.

Example. You make a $20,000 down payment on property and assume the seller's mortgage of $120,000. Your total cost is $140,000, the cash you paid plus the mortgage you assumed.

Settlement costs. The basis of real property also includes certain fees and charges you pay in addition to the purchase price. These generally are shown on your settlement statement and include the following.

- Legal and recording fees.
- Abstract fees.
- Survey charges.
- Owner's title insurance.
- Amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

For fees and charges you cannot include in the basis of property, see *Real Property* in Pub. 551.

Property you construct or build. If you construct, build, or otherwise produce property for use in your business, you may have to use the uniform capitalization rules to determine the basis of your property. For information about the uniform capitalization rules, see Pub. 551 and the regulations under section 263A of the Internal Revenue Code.

Other Basis

Other basis usually refers to basis that is determined by the way you received the property. For example, your basis is other than cost if you acquired the property in exchange for other property, as payment for services you performed, as a gift, or as an inheritance. If you acquired property in this or some other way, see Pub. 551 to determine your basis.

Property changed from personal use. If you held property for personal use and later use it in your business or income-producing activity, your depreciable basis is the lesser of the following.

1. The fair market value (FMV) of the property on the date of the change in use.
2. Your original cost or other basis adjusted as follows.
   a. Increased by the cost of any permanent improvements or additions and other costs that must be added to basis.
   b. Decreased by any deductions you claimed for casualty and theft losses and other items that reduced your basis.

Example. Several years ago, Nia paid $160,000 to have her home built on a lot that cost her $25,000. Before changing the property to rental use last year, she paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house. Land is not depreciable, so she includes only the cost of the house when figuring the basis for depreciation.

Nia's adjusted basis in the house when she changed its use was $178,000 ($160,000 + $20,000 – $2,000). On the same date, her property had an FMV of $180,000, of which $15,000 was for the land and $165,000 was for the house. The basis for depreciation on the house is the FMV on the date of change ($165,000), because it is less than her adjusted basis ($178,000).

Property acquired in a nontaxable transaction. Generally, if you receive property in a nontaxable exchange, the basis of the property you receive is the same as the adjusted basis of the property you gave up. Special rules apply in determining the basis and figuring the MACRS depreciation deduction and special depreciation allowance for property acquired in a like-kind exchange or involuntary conversion. See *Like-kind exchanges and involuntary conversions* under *How Much Can You Deduct* in chapter 3, and *Figuring the Deduction for Property Acquired in a Nontaxable Exchange* in chapter 4.

There are also special rules for determining the basis of MACRS property involved in a like-kind exchange or involuntary conversion when the property is contained in a general asset account. See *How Do You Use General Asset Accounts* in chapter 4.

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. These events could include the following.

- Installing utility lines.
- Paying legal fees for perfecting the title.
- Settling zoning issues.
- Receiving rebates.
- Incurring a casualty or theft loss.

For a discussion of adjustments to the basis of your property, see *Adjusted Basis* in Pub. 551.

If you depreciate your property under MACRS, you also may have to reduce your basis by certain deductions and

credits with respect to the property. For more information, see *What Is the Basis for Depreciation* in chapter 4.

Basis adjustment for depreciation allowed or allowable. You must reduce the basis of 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).

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 section 1.263(a)-3 of the regulations.

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, to restore the property, or to adapt the property to a new or different use, you must treat it as an improvement and depreciate it.

Example. You repair a small section on one corner of the roof of a rental house. You deduct the cost of the repair as a rental expense. However, if you completely replace the roof, the new roof is an improvement because it is a restoration of the building. 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.

Do You Have To File Form 4562?

Terms you may need to know (see Glossary):

Amortization

Listed property

Placed in service

Standard mileage rate

Use Form 4562 to figure your deduction for depreciation and amortization. Attach Form 4562 to your tax return for the current tax year if you are claiming any of the following items.

- A section 179 deduction for the current year or a section 179 carryover from a prior year. See chapter 2 for information on the section 179 deduction.
- 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. Seechapter 5 for information on listed property.
- A deduction for any vehicle if the deduction is reported on a form other than Schedule C (Form 1040) or Schedule C-EZ (Form 1040).
- Amortization of costs if the current year is the first year of the amortization period.
- Depreciation or amortization on any asset on a corporate income tax return (other than Form 1120S, U.S. Income Tax Return for an S Corporation) regardless of when it was placed in service.

CAUTION *You must submit a separate Form 4562 for each business or activity on your return for which a Form 4562 is required.*

Table 1-1 presents an overview of the purpose of the various parts of Form 4562.

Employee. Do not use Form 4562 if you are an employee and you deduct job-related vehicle expenses using either actual expenses (including depreciation) or the standard mileage rate. Instead, use either Form 2106 or Form 2106-EZ. Use Form 2106-EZ if you are claiming the standard mileage rate and you are not reimbursed by your employer for any expenses.

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. See *Filing an Amended Return*, next. 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 *Changing Your Accounting Method*, later.

Filing an Amended Return

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.

- You have not adopted a method of accounting for 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.

Adoption of accounting method defined. Generally, you adopt a method of accounting for depreciation by using a permissible method of determining depreciation when you file your first tax return, or by using the same impermissible method of determining depreciation in two or more consecutively filed tax returns.

For an exception to the 2-year rule, see Revenue Procedure 2016-29 on page 888 of Internal Revenue Bulletin 2016-21, available at *www.irs.gov/irb/2016-21_IRB/ar13.html*, as modified by Notice 2017-6 on page 422 of Revenue Bulletin 2017-3, available at *www.irs.gov/irb/2017-03_IRB/ar10.html*.

When to file. If an amended return is allowed, you must file it by the later of the following.

- 3 years from the date you filed your original return for the year in which you did not deduct the correct amount. A return filed before an unextended due date is considered filed on that due date.
- 2 years from the time you paid your tax for that year.

Changing Your Accounting Method

Generally, you must get IRS approval to change your method of accounting. You generally must file Form 3115, Application for Change in Accounting Method, to request a change in your method of accounting for depreciation.

The following are examples of a change in method of accounting for depreciation.

- A change from an impermissible method of determining depreciation for depreciable property, if the impermissible method was used in two or more consecutively filed tax returns.
- A change in the treatment of an asset from nondepreciable to depreciable or vice versa.
- A change in the depreciation method, period of recovery, or convention of a depreciable asset.
- A change from not claiming to claiming the special depreciation allowance if you did not make the election to not claim any special allowance.
- A change from claiming a 50% special depreciation allowance to claiming a 30% special depreciation allowance for qualified property (including property that is included in a class of property for which you elected a 30% special allowance instead of a 50% special allowance).

Changes in depreciation that are not a change in method of accounting (and may only be made on an amended return) include the following.

- An adjustment in the useful life of a depreciable asset for which depreciation is determined under section 167.
- A change in use of an asset in the hands of the same taxpayer.
- Making a late depreciation election or revoking a timely valid depreciation election (including the election not to deduct the special depreciation allowance). If you elected not to claim any special depreciation allowance, a change from not claiming to claiming the special depreciation allowance is a revocation of the election and is not an accounting method change. Generally, you must get IRS approval to make a late depreciation election or revoke a depreciation election. You must submit a request for a letter ruling to make a late election or revoke an election.
- Any change in the placed in service date of a depreciable asset.

See section 1.446-1(e)(2)(ii)(d) of the regulations for more information and examples.

IRS approval. If your change in method of accounting for depreciation is described in Revenue Procedure 2016-29, you may be able to get approval from the IRS to make that change under the automatic change request procedures generally covered in Revenue Procedure 2015-13 on page 419 of Internal Revenue Bulletin 2015-5. If you do not qualify to use the automatic procedures to get approval, you must use the advance consent request procedures generally covered in Revenue Procedure 2015-13. Also see the Instructions for Form 3115 for more information on getting approval, including lists of scope limitations and automatic accounting method changes.

Additional guidance. For additional guidance and special procedures for changing your accounting method, automatic change procedures, amending your return, and filing Form 3115, see Revenue Procedure 2015-13 on page 419 of Internal Revenue Bulletin 2015-5 and Revenue Procedure 2016-29 on page 888 of Internal Revenue Bulletin 2016-21, available at *www.irs.gov/irb/2016-21_IRB/ar13.html*.

Section 481(a) adjustment. If you file Form 3115 and change from an impermissible method to a permissible method of accounting for depreciation, you can make a section 481(a) adjustment for any unclaimed or excess amount of allowable depreciation. The adjustment is the difference between the total depreciation actually deducted for the property and the total amount allowable prior to the year of change. If no depreciation was deducted, the adjustment is the total depreciation allowable prior to the year of change. A negative section 481(a) adjustment results in a decrease in taxable income. It is taken into account in the year of change and is reported on your business tax returns as “other expenses.” A positive section

481(a) adjustment results in an increase in taxable income. It is generally taken into account over 4 tax years and is reported on your business tax returns as "other income." However, you can elect to use a one-year adjustment period and report the adjustment in the year of change if the total adjustment is less than $50,000. Make the election by completing the appropriate line on Form 3115.

If you file a Form 3115 and change from one permissible method to another permissible method, the section 481(a) adjustment is zero.

2.

Electing the Section 179 Deduction

Introduction

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 deduction. You can elect the section 179 deduction instead of recovering the cost by taking depreciation deductions.

Estates and trusts cannot elect the section 179 deduction.

This chapter explains what property does and does not qualify for the section 179 deduction, what limits apply to the deduction (including special rules for partnerships and corporations), and how to elect it. It also explains when and how to recapture the deduction.

Useful Items

You may want to see:

Publication

- ❑ **537** Installment Sales
- ❑ **544** Sales and Other Dispositions of Assets
- ❑ **954** Tax Incentives for Distressed Communities

Form (and Instructions)

- ❑ **4562** Depreciation and Amortization
- ❑ **4797** Sales of Business Property

See chapter 6 for information about getting publications and forms.

What Property Qualifies?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Class life

Structural components

Tangible property

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

- It must be eligible property.
- It must be acquired for business use.
- It must have been acquired by purchase.
- It must not be property described later under *What Property Does Not Qualify*.

The following discussions provide information about these requirements and exceptions.

Eligible Property

To qualify for the section 179 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. See chapter 7 of Pub. 225 for definitions and information regarding the use requirements that apply to these structures.
4. Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
5. Off-the-shelf computer software.
6. Qualified real property (described below).

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 refrigerators, grocery store counters, office equipment, printing presses, testing equipment, and signs.
- Gasoline storage tanks and pumps at retail service stations.
- Livestock, including horses, cattle, hogs, sheep, goats, and mink and other furbearing animals.
- Portable air conditioners or heaters placed in service by you in tax years beginning after 2015.

The treatment of property as tangible personal property for the section 179 deduction is not controlled by its treatment under local law. For example, property may not be tangible personal property for the deduction even if treated so under local law, and some property (such as fixtures) may be tangible personal property for the deduction even if treated as real property under local law.

Off-the-shelf computer software. Off-the-shelf computer software is qualifying property for purposes of the section 179 deduction. This is computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. It includes any program designed to cause a computer to perform a desired function. However, a database or similar item is not considered computer software unless it is in the public domain and is incidental to the operation of otherwise qualifying software.

Qualified real property. You can elect to treat certain qualified real property you placed in service during the tax year as section 179 property. If this election is made, the term "section 179 property" will include any qualified real property that is:

- Qualified leasehold improvement property,
- Qualified restaurant property, or
- Qualified retail improvement property.

For more information, see *Special rules for qualified section 179 real property*, later.

Qualified leasehold improvement property. Generally, this is any improvement to an interior portion of a building that is nonresidential real property, provided all of the requirements discussed in chapter 4 under *Qualified leasehold improvement property* are met.

In addition, an improvement made by the lessor does not qualify as qualified leasehold improvement property to any subsequent owner unless it is acquired from the original lessor by reason of the lessor's death or in any of the following types of transactions.

1. A transaction to which section 381(a) applies,
2. A mere change in the form of conducting the trade or business so long as the property is retained in the trade or business as qualified leasehold improvement property and the taxpayer retains a substantial interest in the trade or business,
3. A like-kind exchange, involuntary conversion, or re-acquisition of real property to the extent that the basis in the property represents the carryover basis, or
4. Certain nonrecognition transactions to the extent that your basis in the property is determined by reference to the transferor's or distributor's basis in the property. Examples include the following.
   a. A complete liquidation of a subsidiary.
   b. A transfer to a corporation controlled by the transferor.
   c. An exchange of property by a corporation solely for stock or securities in another corporation in a reorganization.

Qualified restaurant property. Qualified restaurant property is any section 1250 property that is a building or an improvement to a building placed in service during the tax year. Also, more than 50% of the building's square footage must be devoted to preparation of meals and seating for on-premise consumption of prepared meals.

Qualified retail improvement property. Generally, this is any improvement to an interior portion of nonresidential real property if it meets the following requirements.

1. The portion is open to the general public and is used in the retail trade or business of selling tangible property to the general public.
2. The improvement is placed in service more than 3 years after the date the building was first placed in service.
3. The expenses are not for the enlargement of the building, any elevator or escalator, any structural components benefiting a common area, or the internal structural framework of the building.

In addition, an improvement made by the lessor does not qualify as qualified retail improvement property to any subsequent owner unless it is acquired from the original lessor by reason of the lessor's death or in any of the following types of transactions.

1. A transaction to which section 381(a) applies,
2. A mere change in the form of conducting the trade or business so long as the property is retained in the trade or business as qualified leasehold improvement property and the taxpayer retains a substantial interest in the trade or business,
3. A like-kind exchange, involuntary conversion, or re-acquisition of real property to the extent that the basis in the property represents the carryover basis, or
4. Certain nonrecognition transactions to the extent that your basis in the property is determined by reference

to the transferor's or distributor's basis in the property. Examples include the following.

a. A complete liquidation of a subsidiary.

b. A transfer to a corporation controlled by the transferor.

c. An exchange of property by a corporation solely for stock or securities in another corporation in a reorganization.

Property Acquired for Business Use

To qualify for the section 179 deduction, your property must have been acquired for use in your trade or business. Property you acquire only for the production of income, such as investment property, rental property (if renting property is not your trade or business), and property that produces royalties, does not qualify.

Partial business use. When you use property for both business and nonbusiness purposes, you can elect the section 179 deduction only if you use the property more than 50% for business in the year you place it in service. If you use 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 deduction.

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

Property Acquired by Purchase

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

Property is not considered acquired by purchase in the following situations.

1. It is acquired by one component member of a controlled group from another component member of the same group.
2. Its basis is determined either—
   a. In whole or in part by its adjusted basis in the hands of the person from whom it was acquired, or
   b. Under the stepped-up basis rules for property acquired from a decedent.
3. It is acquired from a related person.

Related persons. Related persons are described under *Related persons* earlier. However, to determine whether property qualifies for the section 179 deduction, treat as an individual's family only his or her spouse, ancestors, and lineal descendants and substitute "50%" for "10%" each place it appears.

Example. Ken Larch is a tailor. He bought two industrial sewing machines from his father. He placed both machines in service in the same year he bought them. They do not qualify as section 179 property because Ken and his father are related persons. He cannot claim a section 179 deduction for the cost of these machines.

What Property Does Not Qualify?

Terms you may need to know (see Glossary):

Basis

Class life

Certain property does not qualify for the section 179 deduction. This includes the following.

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 fences.

Excepted Property

Even if the requirements explained earlier under *What Property Qualifies* are met, you cannot elect the section 179 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 predominantly outside the United States, except property described in section 168(g)(4) of the Internal Revenue Code.
- Property used by certain tax-exempt organizations, except property used in connection with the production of income subject to the tax on unrelated trade or business income.
- Property used by governmental units or foreign persons or entities, except property used under a lease with a term of less than 6 months.

Leased property. Generally, you cannot claim a section 179 deduction based on the cost of property you lease to someone else. This rule does not apply to corporations. However, you can claim a section 179 deduction for the cost of the following property.

1. Property you manufacture or produce and lease to others.
2. Property you purchase and lease to others if both the following tests are met.

a. The term of the lease (including options to renew) is less than 50% of the property's class life.

b. For the first 12 months after the property is transferred to the lessee, the total business deductions you are allowed on the property (other than rents and reimbursed amounts) are more than 15% of the rental income from the property.

Property used for lodging. Generally, you cannot claim a section 179 deduction for property used predominantly to furnish lodging or in connection with the furnishing of lodging. However, this does not apply to the following types of property.

- Nonlodging commercial facilities that are available to those not using the lodging facilities on the same basis as they are available to those using the lodging facilities.
- Property used by a hotel or motel in connection with the trade or business of furnishing lodging where the predominant portion of the accommodations is used by transients.
- Any certified historic structure to the extent its basis is due to qualified rehabilitation expenditures.
- Any energy property.

Energy property. Energy property is property that meets the following requirements.

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

   a. Equipment that uses solar energy to generate electricity, to heat or cool a structure, to provide hot water for use in a structure, or to provide solar process heat, except for equipment used to generate energy to heat a swimming pool.

   b. Equipment placed in service after December 31, 2005, and before January 1, 2017, that uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight.

   c. Equipment used to produce, distribute, or use energy derived from a geothermal deposit. For electricity generated by geothermal power, this includes equipment up to (but not including) the electrical transmission stage.

   d. Qualified fuel cell property or qualified microturbine property placed in service after December 31, 2005, and before January 1, 2017.

2. The construction, reconstruction, or erection of the property must be completed by you.

3. For property you acquire, the original use of the property must begin with you.

4. The property must meet the performance and quality standards, if any, prescribed by Income Tax Regulations in effect at the time you get the property.

For periods before February 14, 2008, energy property does not include any property that is public utility property as defined by section 46(f)(5) of the Internal Revenue Code (as in effect on November 4, 1990).

How Much Can You Deduct?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Placed in service

Your section 179 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. For a passenger automobile, the total section 179 deduction and depreciation deduction are limited. See *Do the Passenger Automobile Limits Apply* in chapter 5.

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

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

Example. Silver Leaf, a retail bakery, traded two ovens having a total adjusted basis of $680 for a new oven costing $1,320. They received an $800 trade-in allowance for the old ovens and paid $520 in cash for the new oven. The bakery also traded a used van with an adjusted basis of $4,500 for a new van costing $9,000. They received a $4,800 trade-in allowance on the used van and paid $4,200 in cash for the new van.

Only the portion of the new property's basis paid by cash qualifies for the section 179 deduction. Therefore, Silver Leaf's qualifying costs for the section 179 deduction are $4,720 ($520 + $4,200).

Dollar Limits

The total amount you can elect to deduct under section 179 for most property placed in service in tax years beginning in 2016 generally cannot be more than $500,000. If you acquire and place in service more than one item of qualifying property during the year, you can allocate the section 179 deduction among the items in any way, as long as the total deduction is not more than $500,000. You do not have to claim the full $500,000.

TIP *The amount you can elect to deduct is not affected if you place qualifying property in service in a short tax year or if you place qualifying property in service for only a part of a 12-month tax year.*

After you apply the dollar limit to determine a tentative deduction, you must apply the business income limit (described later) to determine your actual section 179 deduction.

Example. In 2016, you bought and placed in service $500,000 in machinery and a $25,000 circular saw for your business. You elect to deduct $475,000 for the machinery and the entire $25,000 for the saw, a total of $500,000. This is the maximum amount you can deduct. Your $25,000 deduction for the saw completely recovered its cost. Your basis for depreciation is zero. The basis for depreciation of your machinery is $25,000. You figure this by subtracting your $475,000 section 179 deduction for the machinery from the $500,000 cost of the machinery.

Situations affecting dollar limit. Under certain circumstances, the general dollar limits on the section 179 deduction may be reduced or increased or there may be additional dollar limits. The general dollar limit is affected by any of the following situations.

- The cost of your section 179 property placed in service exceeds $2,010,000.
- Your business is an enterprise zone business.
- You placed in service a sport utility or certain other vehicles.
- You are married filing a joint or separate return.

Costs Exceeding $2,010,000

If the cost of your qualifying section 179 property placed in service in a year is more than $2,010,000, you generally must reduce the dollar limit (but not below zero) by the amount of cost over $2,010,000. If the cost of your section 179 property placed in service during 2016 is $2,510,000 or more, you cannot take a section 179 deduction.

Example. In 2016, Jane Ash placed in service machinery costing $2,110,000. This cost is $100,000 more than $2,010,000, so she must reduce her dollar limit to $400,000 ($500,000 – $100,000).

Enterprise Zone Businesses

An increased section 179 deduction is available to enterprise zone businesses for qualified zone property placed in service during the tax year, in an empowerment zone. For more information including the definitions of “enterprise zone business” and “qualified zone property,” see sections 1397A, 1397C, and 1397D of the Internal Revenue Code.

The dollar limit on the section 179 deduction is increased by the smaller of:

- $35,000, or
- The cost of section 179 property that is also qualified zone property placed in service before January 1, 2017 (including such property placed in service by your spouse, even if you are filing a separate return).

Note. You take into account only 50% (instead of 100%) of the cost of qualified zone property placed in service in a year when figuring the reduced dollar limit for costs exceeding $2,010,000 (explained earlier).

Sport Utility and Certain Other Vehicles

You cannot elect to expense more than $25,000 of the cost of any heavy sport utility vehicle (SUV) and certain other vehicles placed in service during the tax year. This rule applies to any 4-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, or highways, that is rated at more than 6,000 pounds gross vehicle weight and not more than 14,000 pounds gross vehicle weight. However, the $25,000 limit does not apply to any vehicle:

- Designed to seat more than nine passengers behind the driver's seat,
- Equipped with a cargo area (either open or enclosed by a cap) of at least six feet in interior length that is not readily accessible from the passenger compartment, or
- That has an integral enclosure fully enclosing the driver compartment and load carrying device, does not have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

Married Individuals

If you are married, how you figure your section 179 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 $2,010,000. You must allocate the dollar limit (after any reduction) between you equally, 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.

Example. Jack Elm is married. He and his wife file separate returns. Jack bought and placed in service $2,010,000 of qualified farm machinery in 2016. His wife has her own business, and she bought and placed in service $30,000 of qualified business equipment. Their combined dollar limit is $470,000. This is because they must figure the limit as if they were one taxpayer. They reduce the $500,000 dollar limit by the $30,000 excess of their costs over $2,010,000.

They elect to allocate the $470,000 dollar limit as follows.

- $446,500 ($470,000 x 95%) to Mr. Elm's machinery.
- $23,500 ($470,000 x 5%) to Mrs. Elm's equipment.

If they did not make an election to allocate their costs in this way, they would have to allocate $235,000 ($470,000 × 50%) to each of them.

Joint return after filing 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 $2,010,000).
- The total cost of section 179 property you and your spouse elected to expense on your separate returns.

Example. The facts are the same as in the previous example except that Jack elected to deduct $30,000 of the cost of section 179 property on his separate return and his wife elected to deduct $2,000. After the due date of their returns, they file a joint return. Their dollar limit for the section 179 deduction is $32,000. This is the lesser of the following amounts.

- $470,000—The dollar limit less the cost of section 179 property over $2,010,000.
- $32,000—The total they elected to expense on their 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. Special rules apply to a deduction of qualified section 179 real property that is placed in service by you in tax years beginning before 2016 and disallowed because of the business income limit. See Special rules for qualified section 179 real property under 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. Net income or loss from a trade or business includes the following items.

- Section 1231 gains (or losses).
- Interest from working capital of your trade or business.
- Wages, salaries, tips, or other pay earned as an employee.

For information about section 1231 gains and losses, see chapter 3 in Pub. 544.

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

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

Two different taxable income limits. In addition to the business income limit for your section 179 deduction, you may have a taxable income limit for some other deduction. You may have to figure the limit for this other deduction taking into account the section 179 deduction. If so, complete the following steps.

Step	Action
1	Figure taxable income without the section 179 deduction or the other deduction.
2	Figure a hypothetical section 179 deduction using the taxable income figured in Step 1.
3	Subtract the hypothetical section 179 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.
5	Subtract the hypothetical other deduction figured in Step 4 from the taxable income figured in Step 1.
6	Figure your actual section 179 deduction using the taxable income figured in Step 5.
7	Subtract your actual section 179 deduction figured in Step 6 from the taxable income figured in Step 1.
8	Figure your actual other deduction using the taxable income figured in Step 7.

Example. On February 1, 2016, the XYZ 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 $10,000. A corporation's limit on charitable contributions is figured after subtracting any section 179 deduction. The business income limit for the section 179 deduction is figured after subtracting any allowable charitable contributions. XYZ's taxable income figured without the section 179 deduction or the deduction for charitable contributions is $520,000. XYZ figures its section 179 deduction and its deduction for charitable contributions as follows.

Step 1– Taxable income figured without either deduction is $520,000.

Step 2– Using $520,000 as taxable income, XYZ's hypothetical section 179 deduction is $500,000.

Step 3– $20,000 ($520,000 – $500,000).

Step 4– Using $20,000 (from Step 3) as taxable income, XYZ's hypothetical charitable contribution (limited to 10% of taxable income) is $2,000.

Step 5– $518,000 ($520,000 – $2,000).

Step 6– Using $518,000 (from Step 5) as taxable income, XYZ figures the actual section 179 deduction. Because the taxable income is at least $500,000, XYZ can take a $500,000 section 179 deduction.

Step 7– $20,000 ($520,000 – $500,000).

Step 8– Using $20,000 (from Step 7) as taxable income, XYZ's actual charitable contribution (limited to 10% of taxable income) is $2,000.

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 because of the business income limit. This disallowed deduction amount is shown on line 13 of Form 4562. You use the amount you carry over to determine your section 179 deduction in the next year. Enter that amount on line 10 of your Form 4562 for the next 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 costs will be carried forward. Your selections must be shown in your books and records. For this purpose, treat section 179 costs allocated from a partnership or an S corporation as one item of section 179 property. If you do not make a selection, the total carryover will be allocated equally among the properties you elected to expense for the year.

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

Special rules for qualified section 179 real property. You can carry over to 2017 a 2016 deduction attributable to qualified section 179 real property that you placed in service in tax years beginning after 2015 and that you elected to expense but were unable to take because of the business income limitation. See Carryover of disallowed deduction, above. However, a 2015 deduction (any such 2014 carryover amounts not deducted in 2015, plus any 2015 disallowed amounts) attributable to qualified section 179 real property that you elected to expense but were unable to take because of the business income limitation cannot be carried over to 2016. Instead, these amounts are treated as property placed in service on the first day of 2015 for purposes of computing depreciation (including the special depreciation allowance, if applicable). See section 179(f) of the Internal Revenue Code, as in effect before section 124(c)(2) of the PATH Act, for more information. Also see, Notice 2013-59, section 5 of Revenue Procedure 2015-48, and sections 2 and 3 of Revenue Procedure 2016-48. You can find Notice 2013-59 at *www.irs.gov/irb/2013-40_IRB/ar14.html*, Revenue Procedure 2015-48 at *www.irs.gov/irb/2015-40_IRB/ar13.html*, and Revenue Procedure 2016–48 at *www.irs.gov/irb/2016-37_IRB/ar10.html*. Also, see Election for certain qualified section 179 real property, later, for information on how to make this election.

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

Partnerships and Partners

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

Each partner adds the amount allocated from partnerships (shown on Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.) to his or her nonpartnership section 179 costs and then applies the dollar limit to this total. To determine any reduction in the dollar limit for costs over $2,010,000, the partner does not include any of the cost of section 179 property placed in service by the partnership. After the dollar limit (reduced for any nonpartnership section 179 costs over $2,010,000) is applied, any remaining cost of the partnership and nonpartnership section 179 property is subject to the business income limit.

Partnership's taxable income. For purposes of the business income limit, figure the partnership's taxable income by adding together the net income and losses from all trades or businesses actively conducted by the partnership during the year. See the Instructions for Form 1065 for information on how to figure partnership net income (or loss). However, figure taxable income without regard to credits, tax-exempt income, the section 179 deduction, and guaranteed payments under section 707(c) of the Internal Revenue Code.

Partner's share of partnership's taxable income. For purposes of the business income limit, the taxable income of a partner engaged in the active conduct of one or more of a partnership's trades or businesses includes his or her allocable share of taxable income derived from the partnership's active conduct of any trade or business.

Example. In 2016, Beech Partnership placed in service section 179 property with a total cost of $2,035,000. The partnership must reduce its dollar limit by $25,000 ($2,035,000 – $2,010,000). Its maximum section 179 deduction is $475,000 ($500,000 – $25,000), and it elects to expense that amount. The partnership's taxable income from the active conduct of all its trades or businesses for the year was $600,000, so it can deduct the full $475,000. It allocates $40,000 of its section 179 deduction and $50,000 of its taxable income to Dean, one of its partners.

In addition to being a partner in Beech Partnership, Dean is also a partner in the Cedar Partnership, which allocated to him a $30,000 section 179 deduction and $35,000 of its taxable income from the active conduct of its business. He also conducts a business as a sole proprietor and, in 2016, placed in service in that business qualifying section 179 property costing $55,000. He had a net loss of $5,000 from that business for the year.

Dean does not have to include section 179 partnership costs to figure any reduction in his dollar limit, so his total section 179 costs for the year are not more than $2,010,000 and his dollar limit is not reduced. His maximum section 179 deduction is $500,000. He elects to expense all of the $70,000 in section 179 deductions

allocated from the partnerships ($40,000 from Beech Partnership plus $30,000 from Cedar Partnership), plus $55,000 of his sole proprietorship's section 179 costs, and notes that information in his books and records. However, his deduction is limited to his business taxable income of $80,000 ($50,000 from Beech Partnership, plus $35,000 from Cedar Partnership minus $5,000 loss from his sole proprietorship). He carries over $45,000 ($125,000 – $80,000) of the elected section 179 costs to 2017. He allocates the carryover amount to the cost of section 179 property placed in service in his sole proprietorship, and notes that allocation in his books and records.

Different tax years. For purposes of the business income limit, if the partner's tax year and that of the partnership differ, the partner's share of the partnership's taxable income for a tax year is generally the partner's distributive share for the partnership tax year that ends with or within the partner's tax year.

Example. John and James Oak are equal partners in Oak Partnership. Oak Partnership uses a tax year ending January 31. John and James both use a tax year ending December 31. For its tax year ending January 31, 2016, Oak Partnership's taxable income from the active conduct of its business is $80,000, of which $70,000 was earned during 2015. John and James each include $40,000 (each partner's entire share) of partnership taxable income in computing their business income limit for the 2016 tax year.

Adjustment of partner's basis in partnership. A partner must reduce the basis of his or her partnership interest by the total amount of section 179 expenses allocated from the partnership even if the partner cannot currently deduct the total amount. If the partner disposes of his or her partnership interest, the partner's basis for determining gain or loss is increased by any outstanding carryover of disallowed section 179 expenses allocated from the partnership.

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

S Corporations

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

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

To figure the net income (or loss) from a trade or business actively conducted by an S corporation, you take into account the items from that trade or business that are passed through to the shareholders and used in determining each shareholder's tax liability. However, you do not take into account any credits, tax-exempt income, the section 179 deduction, and deductions for compensation paid to shareholder-employees. For purposes of determining the total amount of S corporation items, treat deductions and losses as negative income. In figuring the taxable income of an S corporation, disregard any limits on the amount of an S corporation item that must be taken into account when figuring a shareholder's taxable income.

Other Corporations

A corporation's taxable income from its active conduct of any trade or business is its taxable income figured with the following changes.

1. It is figured before deducting the section 179 deduction, any net operating loss deduction, and special deductions (as reported on the corporation's income tax return).
2. It is adjusted for items of income or deduction included in the amount figured in 1, above, not derived from a trade or business actively conducted by the corporation during the tax year.

How Do You Elect the Deduction?

Terms you may need to know (see Glossary):

Listed property

Placed in service

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

If you elect the deduction for listed property (described in chapter 5), complete Part V of Form 4562 before completing Part I.

For property placed in service in 2016, file Form 4562 with either of the following.

- Your original 2016 tax return, whether or not you file it timely.
- An amended return for 2016 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 also must include any resulting adjustments to taxable income.

You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how you acquired the property, the person you acquired it from, and when you placed it in service.

Election for certain qualified section 179 real property. You can elect to expense certain qualified real property that you placed in service as section 179 property for tax years beginning in 2016. If you elect to treat this property as section 179 property, you must elect the application of the special rules for qualified real property described in section 179(f) of the Internal Revenue Code.

To make the election, attach a statement indicating you are "electing the application of section 179(f) of the Internal Revenue Code" with either of the following.

- Your original 2016 tax return, whether or not you file it timely.
- An amended return for 2016 filed within the time prescribed by law. The amended return must also include any adjustments to taxable income.

The statement should indicate your election to expense certain qualified real property under section 179(f) on your return. It must specify one or more of the three types of qualified property (described under *Qualified real property*) to which the election applies, the cost of each such type, and the portion of the cost of each such property to be taken into account. Also, report this on line 6 of Form 4562.

Revoking an election. An election (or any specification made in the election) to take a section 179 deduction for 2016 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 also must include any resulting adjustments to taxable income. Once made, the revocation is irrevocable.

When Must You Recapture the Deduction?

Terms you may need to know (see Glossary):

Disposition

Exchange

Recapture

Recovery period

Section 1245 property

You may have to recapture the section 179 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 in Part IV of Form 4797. You also increase the basis of the property by the recapture amount. Recovery periods for property are discussed under *Which Recovery Period Applies* in chapter 4.

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 in chapter 3 of Pub. 544 under Section 1245 Property. *For qualified real property (described earlier), see Notice 2013-59 for determining the portion of the gain that is attributable to section 1245 property upon the sale or other disposition of qualified real property. You can find Notice 2013-59 at www.irs.gov/irb/2013-40_IRB/ar14.html.*

If the property is listed property (described in chapter 5*), 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 excess depreciation in chapter 5 under* What Is the Business-Use Requirement.

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

1. Figure the depreciation that would have been allowable on the section 179 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 deduction you claimed. The result is the amount you must recapture.

Example. In January 2014, Paul Lamb, a calendar year taxpayer, bought and placed in service section 179 property costing $10,000. The property is not listed property. The property is 3-year property. He elected a $5,000 section 179 deduction for the property and also elected not to claim a special depreciation allowance. He used the property only for business in 2014 and 2015. In 2016, he used the property 40% for business and 60% for personal use. He figures his recapture amount as follows.

Section 179 deduction claimed (2014)		$5,000.00
Minus: Allowable depreciation using Table A-1 (instead of section 179 deduction):		
2014	$1,666.50	
2015	2,222.50	
2016 ($740.50 × 40% (business))	296.20	4,185.20
2016 — Recapture amount		**$ 814.80**

Paul must include $814.80 in income for 2016.

If any qualified zone property placed in service during the year ceases to be used in an empowerment zone by an enterprise zone business in a later year, the benefit of the increased section 179 deduction must be reported as other income on your return.

3.

Claiming the Special Depreciation Allowance

Introduction

You can take a special depreciation allowance to recover part of the cost of qualified property (defined next), placed in service during the tax year. The allowance applies only for the first year you place the property in service. For qualified property placed in service in 2016, you can take an additional 50% special allowance. The allowance is an additional deduction you can take after any section 179 deduction and before you figure regular depreciation under MACRS for the year you place the property in service.

This chapter explains what is qualified property. It also includes rules regarding how to figure an allowance, how to elect not to claim an allowance, and when you must recapture an allowance.

Corporations can elect to accelerate certain minimum tax credits in lieu of claiming the special depreciation allowance for eligible qualified property. See Election to Accelerate Certain Credits in Lieu of the Special Depreciation Allowance, *later.*

See chapter 6 for information about getting publications and forms.

What Is Qualified Property?

Terms you may need to know (see Glossary):

Business/investment use

Improvement

Nonresidential real property

Placed in service

Residential rental property

Structural components

Your property is qualified property if it is one of the following.

- Qualified reuse and recycling property.
- Qualified second generation biofuel plant property.
- Certain qualified property placed in service before January 1, 2020.
- Certain plants bearing fruits and nuts.

The following discussions provide information about the types of qualified property listed above for which you can take the special depreciation allowance.

Qualified Reuse and Recycling Property

You can take a 50% special depreciation allowance for qualified reuse and recycling property. Qualified reuse and recycling property is any machinery or equipment (not including buildings or real estate), along with any appurtenance, that is used exclusively to collect, distribute, or recycle qualified reuse and recyclable materials (as defined in section 168(m)(3)(B) of the Internal Revenue Code). Qualified reuse and recycling property also includes software necessary to operate such equipment. The property must meet the following requirements.

- The property must be depreciated under MACRS.
- The property must have a useful life of at least 5 years.
- The original use of the property must begin with you after August 31, 2008.
- You must have acquired the property by purchase (as discussed under *Property Acquired by Purchase* in chapter 2) after August 31, 2008, with no binding written contract for the acquisition in effect before September 1, 2008.
- The property must be placed in service for use in your trade or business after August 31, 2008.

Excepted Property

Qualified reuse and recycling property does not include any of the following.

- Any rolling stock or other equipment used to transport reuse or recyclable materials.
- Property required to be depreciated using the Alternative Depreciation System (ADS). For other property required to be depreciated using ADS, see *Required use of ADS* under *Which Depreciation System (GDS or ADS) Applies* in chapter 4.
- Other bonus depreciation property to which section 168(k) of the Internal Revenue Code applies.
- Property for which you elected not to claim any special depreciation allowance (discussed later).
- Property placed in service 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 reuse and recycling property.

Qualified Second Generation Biofuel Plant Property

You can take a 50% special depreciation allowance for qualified second generation biofuel plant property (as defined in section 40(b)(6)(E) of the Internal Revenue Code). The property must meet the following requirements.

1. The property is used in the United States solely to produce second generation biofuel.
2. The original use of the property must begin with you after December 20, 2006.
3. You must have acquired the property by purchase (as discussed under *Property Acquired by Purchase* in chapter 2) after December 20, 2006, with no binding written contract for acquisition in effect before December 21, 2006.
4. The property must be placed in service for use in your trade or business or for the production of income before January 1, 2017.

Special Rules

Sale-leaseback. If you sold qualified second generation biofuel plant property you placed in service after October 3, 2008, and leased it back within 3 months after you originally placed it in service, the property is treated as originally placed in service no earlier than the date it is used by you under the leaseback.

The property will not qualify for the special allowance if the lessee or a related person to the lessee or lessor had a written binding contract in effect for the acquisition of the property before December 21, 2006.

Syndicated leasing transactions. If qualified second generation biofuel plant property is originally placed in service by a lessor after October 3, 2008, the property is sold within 3 months of the date it was placed in service, and the user of the property does not change, then the property is treated as originally placed in service by the taxpayer no earlier than the date of the last sale.

Multiple units of property subject to the same lease will be treated as originally placed in service no earlier than the date of sale if the property is sold within 3 months after the final unit is placed in service and the period between the times the first and last units are placed in service does not exceed 12 months.

Excepted Property

Qualified second generation biofuel plant property does not include any of the following.

- Property placed in service and disposed of in the same tax year.
- Property converted from business use to personal use in the same tax year it is acquired. Property converted from personal use to business use in the same or later tax year may be qualified second generation biofuel plant property.
- Property required to be depreciated using the Alternative Depreciation System (ADS). For other property required to be depreciated using ADS, see *Required use of ADS* under *Which Depreciation System (GDS or ADS) Applies* in chapter 1.
- Property any portion of which is financed with the proceeds of any obligation the interest on which is exempt from tax under section 103 of the Internal Revenue Code.
- Property for which you elected not to claim any special depreciation allowance (discussed later).
- Property for which a deduction was taken under section 179C for certain qualified refinery property.
- Other bonus depreciation property to which section 168(k) of the Internal Revenue Code applies.

Certain Qualified Property Placed in Service Before January 1, 2020

You can take a 50% special depreciation deduction allowance for certain qualified property placed in service before January 1, 2020. Your property is qualified property if it meets the following requirements.

1. It is one of the following types of property.
   a. Tangible property depreciated under MACRS with a recovery period of 20 years or less.
   b. Water utility property depreciated under MACRS.
   c. Computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. (The cost of some computer software is treated as part of the cost of hardware and is depreciated under MACRS.)
   d. Qualified improvement property depreciated under MACRS (defined under *Qualified improvement property*, later).
2. The property must also be placed in service before January 1, 2020 (or before January 1, 2021, for certain property with a long production period and for certain aircraft). See Long Production Period Property and Noncommercial Aircraft, later.
3. The original use of the property must begin with you.
4. It is not excepted property (explained later in *Excepted property*).

Qualified improvement property. Generally, this is any improvement to an interior part of a building that is nonresidential real property. The improvement is placed in service after the date the building is first placed in service and is section 1250 property. See chapter 3 in Pub. 544, Sales

and Other Dispositions of Assets, for the definition of section 1250 property.

However, a qualified improvement does not include any improvement for which the expenditure is attributable to any of the following.

- The enlargement of the building.
- Any elevator or escalator.
- The internal structural framework of the building.

Long Production Period Property

To be qualified property, long production period property must meet the following requirements.

- It must meet the requirements in (1)-(4).
- The property has a recovery period of at least 10 years or is transportation property. Transportation property is tangible personal property used in the trade or business of transporting persons or property.
- The property is subject to section 263A of the Internal Revenue Code.
- The property has an estimated production period exceeding 1 year and an estimated production cost exceeding $1,000,000.
- You must have acquired the property, or acquired the property pursuant to a written contract entered into, before January 1, 2020.

Noncommercial Aircraft

To be qualified property, noncommercial aircraft must meet the following requirements.

- It must meet the requirements in (2)-(4).
- The aircraft must not be tangible personal property used in the trade or business of transporting persons or property (except for agricultural or firefighting purposes).
- The aircraft must be purchased (as discussed under *Property Acquired by Purchase* in chapter 2) by a purchaser who at the time of the contract for purchase, makes a nonrefundable deposit of the lesser of 10% of the cost or $100,000.
- The aircraft must have an estimated production period exceeding four months and a cost exceeding $200,000.
- You must have acquired the aircraft, or acquired the aircraft pursuant to a written contract entered into, before January 1, 2020.

Special Rules

Sale-leaseback. If you sold qualified property you placed in service and leased it back within 3 months after you originally placed in service, the property is treated as originally placed in service no earlier than the date it is used by you under the leaseback.

Syndicated leasing transactions. If qualified property is originally placed in service by a lessor, the property is sold within 3 months of the date it was placed in service, and the user of the property does not change, then the property is treated as originally placed in service by the taxpayer no earlier than the date of the last sale.

Multiple units of property subject to the same lease will be treated as originally placed in service no earlier than the date of the last sale if the property is sold within 3 months after the final unit is placed in service and the period between the time the first and last units are placed in service does not exceed 12 months.

Excepted Property

Qualified property does not include any of the following.

- Property placed in service 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* in chapter 4.
- Qualified restaurant property (as defined in section 168(e)(7) of the Internal Revenue Code) that is not qualified improvement property.
- Property for which you elected not to claim any special depreciation allowance (discussed later).
- Property for which you elected to accelerate certain credits in lieu of the special depreciation allowance (discussed next).

Certain Plants Bearing Fruits and Nuts

You can elect to claim 50% special depreciation allowance for the adjusted basis of certain specified plants (defined later) bearing fruits and nuts planted or grafted after December 31, 2015, and before January 1, 2020, in the ordinary course of your farming business (as defined in section 263A(e)(4)).

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 or 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 special depreciation allowance applies only for the tax year in which the plant is planted or grafted. 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. The election once made cannot be revoked without IRS consent.

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

Election to Accelerate Certain Credits in Lieu of the Special Depreciation Allowance

A corporation can elect to claim unused minimum tax credits in lieu of claiming the special depreciation allowance for qualified property (as defined in section 168(k)(2) of the Internal Revenue Code) placed in service during the tax year.

If you make an election to accelerate these credits in lieu of claiming the special depreciation allowance for eligible property, you must **not** take the 50% special depreciation allowance for the property and **must** depreciate the basis in the property under MACRS using the straight line method. See *Which Depreciation Method Applies* in chapter 4.

Once made, the election cannot be revoked without IRS consent.

For more information, see section 168(k)(4) of the Internal Revenue Code.

Additional guidance. For additional guidance on the election to accelerate the minimum tax credit in lieu of claiming the special depreciation allowance, see Form 8827, Credit for Prior Year Minimum Tax — Corporations, and related instructions.

How Much Can You Deduct?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Placed in service

Figure the special depreciation allowance by multiplying the depreciable basis of qualified reuse and recycling property, qualified second generation biofuel plant property, certain qualified property placed in service before January 1, 2020, and certain plants bearing fruits and nuts by 50%.

For qualified property other than listed property, enter the special allowance on Form 4562, Part II, line 14. For qualified property that is listed property, enter the special allowance on Form 4562, Part V, line 25.

TIP *If you place qualified property in service in a short tax year, you can take the full amount of a special depreciation allowance.*

Depreciable basis. This is the property's cost or other basis multiplied by the percentage of business/investment use, reduced by the total amount of any credits and deductions allocable to the property.

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

- Any section 179 deduction.
- 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.
- Basis adjustment to investment credit property under section 50(c) of the Internal Revenue Code.

For additional credits and deductions that affect basis, see section 1016 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* in chapter 1. For a discussion of business/investment use, see *Partial business or investment use* under *Property Used in Your Business or Income-Producing Activity* in chapter 1.

Depreciating the remaining cost. After you figure your special depreciation allowance for your qualified property, you can use the remaining cost to figure your regular MACRS depreciation deduction (discussed in chapter 4). Therefore, you must reduce the depreciable basis of the property by the special depreciation allowance before figuring your regular MACRS depreciation deduction.

Example. On November 1, 2016, Tom Brown bought and placed in service in his business qualified property that cost $450,000. He did not elect to claim a section 179 deduction. He deducts 50% of the cost ($225,000) as a special depreciation allowance for 2016. He uses the remaining $225,000 of cost to figure his regular MACRS depreciation deduction for 2016 and later years.

Like-kind exchanges and involuntary conversions. If you acquire qualified property in a like-kind exchange or involuntary conversion, the carryover basis of the acquired property is eligible for a special depreciation allowance. After you figure your special allowance, you can use the remaining carryover basis to figure your regular MACRS depreciation deduction. In the year you claim the

allowance (the year you place in service the property received in the exchange or dispose of involuntarily converted property), you must reduce the carryover basis of the property by the allowance before figuring your regular MACRS depreciation deduction. See *Figuring the Deduction for Property Acquired in a Nontaxable Exchange*, in chapter 4 under *How Is the Depreciation Deduction Figured*. The excess basis (the part of the acquired property's basis that exceeds its carryover basis) is also eligible for a special depreciation allowance.

How Can You Elect Not To Claim an Allowance?

You can elect, for any class of property, not to deduct any special depreciation allowances for all property in such class placed in service during the tax year.

To make an election, attach a statement to your return indicating what election you are making and the class of property for which you are making the election.

The election must be made separately by each person owning qualified property (for example, by the partnerships, by the S corporation, or for each member of a consolidated group by the common parent of the group).

When to make 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."

Revoking an election. Once you elect not to deduct a special depreciation allowance for a class of property, you cannot revoke the election without IRS consent. A request to revoke the election is a request for a letter ruling.

CAUTION *If you elect not to have any special depreciation allowance apply, the property placed in service after 2015 will not 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. See *When Do You Recapture MACRS Depreciation* in chapter 4 for more information.

Recapture of allowance deducted for qualified GO Zone property. If, in any year after the year you claim the special depreciation allowance for qualified GO Zone property (including specified GO Zone extension property), the property ceases to be used in the GO Zone, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance. For additional guidance, see Notice 2008-25 on page 484 of Internal Revenue Bulletin 2008-9 available at *www.irs.gov/irb/2008-09_IRB/index.html*.

Qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, and qualified second generation biofuel plant property. If, in any year after the year you claim the special depreciation allowance for any qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, or qualified second generation biofuel plant property, the property ceases to be qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, or qualified second generation biofuel plant property, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance.

Recapture of allowance for qualified Recovery Assistance property. If, in any year after the year you claim the special depreciation allowance for qualified Recovery Assistance property, the property ceases to be used in the Kansas disaster area, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance. For additional guidance, see Notice 2008-67 on page 307 of Internal Revenue Bulletin 2008-32, available at *www.irs.gov/irb/2008-32_IRB/index.html*.

Recapture of allowance for qualified disaster assistance property. If, in any year after the year you claim the special depreciation allowance for qualified disaster assistance property, the property ceases to be used in the applicable disaster area, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance.

4.

Figuring Depreciation Under MACRS

Introduction

The Modified Accelerated Cost Recovery System (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.

CAUTION *To be sure you can use MACRS to figure depreciation for your property, see* What Method Can You Use To Depreciate Your Property *in chapter 1.*

This chapter explains how to determine which MACRS depreciation system applies to your property. It also discusses other information you need to know before you can figure depreciation under MACRS. This information includes the property's recovery class, placed in service date, and basis, as well as the applicable recovery period, convention, and depreciation method. It explains how to use this information to figure your depreciation deduction and how to use a general asset account to depreciate a group of properties. Finally, it explains when and how to recapture MACRS depreciation.

Useful Items

You may want to see:

Publication

- ❑ **225** Farmer's Tax Guide
- ❑ **463** Travel, Entertainment, Gift, and Car Expenses
- ❑ **544** Sales and Other Dispositions of Assets
- ❑ **551** Basis of Assets
- ❑ **587** Business Use of Your Home (Including Use by Daycare Providers)

Form (and Instructions)

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

See chapter 6 for information about getting publications and forms.

Which Depreciation System (GDS or ADS) Applies?

Terms you may need to know (see Glossary):

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Tangible property

Tax exempt

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

If you placed your property in service in 2016, complete Part III of Form 4562 to report depreciation using MACRS. Complete section B of Part III to report depreciation using GDS, and complete section C of Part III to report depreciation using ADS. If you placed your property in service before 2016 and are required to file Form 4562, report depreciation using either GDS or ADS on line 17 in Part III.

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

- Listed property used 50% or less in a qualified business use. See chapter 5 for information on listed property.
- Any tangible property used predominantly outside the United States during the year.
- Any tax-exempt use property.
- Any tax-exempt bond-financed 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.
- 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.

CAUTION *If you are required to use ADS to depreciate your property, you cannot claim any special depreciation allowance (discussed in* chapter 3*) for the property.*

Electing ADS. Although your property may qualify for GDS, you can elect to use ADS. The election generally must cover all property in the same property class that 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 Form 4562, Part III, line 20.

Which Property Class Applies Under GDS?

Terms you may need to know (see Glossary):

Class life

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Section 1245 property

Section 1250 property

The following is a list of the nine property classifications under GDS and examples of the types of property included in each class. These property classes are also listed under column (a) in section B, Part III, of Form 4562. For detailed information on property classes, see Appendix B, Table of Class Lives and Recovery Periods, in this publication.

1. ***3-year property***.
   a. Tractor units for over-the-road use.
   b. Any race horse over 2 years old when placed in service. (All race horses placed in service after December 31, 2008, and before January 1, 2017, are deemed to be 3-year property, regardless of age.)
   c. Any other horse (other than a race horse) over 12 years old when placed in service.
   d. Qualified rent-to-own property (defined later).
2. ***5-year property***.
   a. Automobiles, taxis, buses, and trucks.
   b. Computers and peripheral equipment.
   c. Office machinery (such as typewriters, calculators, and copiers).
   d. Any property used in research and experimentation.
   e. Breeding cattle and dairy cattle.
   f. Appliances, carpets, furniture, etc., used in a residential rental real estate activity.
   g. Certain geothermal, solar, and wind energy property.
3. ***7-year property***.
   a. Office furniture and fixtures (such as desks, files, and safes).
   b. Agricultural machinery and equipment.
   c. Railroad track.
   d. Any property that does not have a class life and has not been designated by law as being in any other class.
   e. Certain motorsports entertainment complex property (defined later) placed in service before January 1, 2017.
   f. Any natural gas gathering line placed in service after April 11, 2005. See *Natural gas gathering line and electric transmission property*, later.
4. ***10-year property***.
   a. Vessels, barges, tugs, and similar water transportation equipment.
   b. Any single purpose agricultural or horticultural structure.
   c. Any tree or vine bearing fruits or nuts.
   d. Qualified small electric meter and qualified smart electric grid system (defined later) placed in service on or after October 3, 2008.
5. ***15-year property***.
   a. Certain improvements made directly to land or added to it (such as shrubbery, fences, roads, sidewalks, and bridges).
   b. Any retail motor fuels outlet (defined later), such as a convenience store.
   c. Any municipal wastewater treatment plant.
   d. Any qualified leasehold improvement property (defined later).
   e. Any qualified restaurant property (defined later).
   f. Initial clearing and grading land improvements for gas utility property.
   g. Electric transmission property (that is section 1245 property) used in the transmission at 69 or more kilovolts of electricity placed in service after April 11, 2005. See *Natural gas gathering line and electric transmission property*, later.
   h. Any natural gas distribution line placed in service after April 11, 2005, and before January 1, 2011.
   i. Any qualified retail improvement property.
   j. Any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.
6. ***20-year property.***
   a. Farm buildings (other than single purpose agricultural or horticultural structures).
   b. Municipal sewers not classified as 25-year property.

c. Initial clearing and grading land improvements for electric utility transmission and distribution plants.

7. ***25-year property.*** This class is water utility property, which is either of the following.

   a. Property that is an integral part of the gathering, treatment, or commercial distribution of water, and that, without regard to this provision, would be 20-year property.

   b. Municipal sewers other than property placed in service under a binding contract in effect at all times since June 9, 1996.

8. ***Residential rental property.*** This is any building or structure, such as a rental home (including a mobile home), if 80% or more of its gross rental income for the tax year is from dwelling units. 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, or other establishment where more than half the units are used on a transient basis. If you occupy any part of the building or structure for personal use, its gross rental income includes the fair rental value of the part you occupy.

9. ***Nonresidential real property.*** This is section 1250 property, such as an office building, store, or warehouse, that is neither residential rental property nor property with a class life of less than 27.5 years.

Qualified rent-to-own property. Qualified rent-to-own property is property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract. It is tangible personal property generally used in the home for personal use. It includes computers and peripheral equipment, televisions, videocassette recorders, stereos, camcorders, appliances, furniture, washing machines and dryers, refrigerators, and other similar consumer durable property. Consumer durable property does not include real property, aircraft, boats, motor vehicles, or trailers.

If some of the property you rent to others under a rent-to-own agreement is of a type that may be used by the renters for either personal or business purposes, you still can treat this property as qualified property as long as it does not represent a significant portion of your leasing property. However, if this dual-use property does represent a significant portion of your leasing property, you must prove that this property is qualified rent-to-own property.

Rent-to-own dealer. You are a rent-to-own dealer if you meet all the following requirements.

- You regularly enter into rent-to-own contracts (defined below) in the ordinary course of your business for the use of consumer property.
- A substantial portion of these contracts end with the customer returning the property before making all the payments required to transfer ownership.
- The property is tangible personal property of a type generally used within the home for personal use.

Rent-to-own contract. This is any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

- Is titled “Rent-to-Own Agreement,” “Lease Agreement with Ownership Option,” or other similar language.
- Provides a beginning date and a maximum period of time, not to exceed 156 weeks or 36 months from the beginning date, for which the contract can be in effect (including renewals or options to extend).
- Provides for regular periodic (weekly or monthly) payments that can be either level or decreasing. If the payments are decreasing, no payment can be less than 40% of the largest payment.
- Provides for total payments that generally exceed the normal retail price of the property plus interest.
- Provides for total payments that do not exceed $10,000 for each item of property.
- Provides that the customer has no legal obligation to make all payments outlined in the contract and that, at the end of each weekly or monthly payment period, the customer can either continue to use the property by making the next payment or return the property in good working order with no further obligations and no entitlement to a return of any prior payments.
- Provides that legal title to the property remains with the rent-to-own dealer until the customer makes either all the required payments or the early purchase payments required under the contract to acquire legal title.
- Provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, or otherwise dispose of the property until all contract payments have been made.

Motorsports entertainment complex. This is a racing track facility permanently situated on land that hosts one or more racing events for automobiles, trucks, or motorcycles during the 36-month period after the first day of the month in which the facility is placed in service. The events must be open to the public for the price of admission.

Qualified smart electric grid system. A qualified smart electric grid system means any smart grid property used as part of a system for electric distribution grid communications, monitoring, and management placed in service after October 3, 2008, by a taxpayer who is a supplier of electrical energy or a provider of electrical energy services. Smart grid property includes electronics and related equipment that is capable of:

- Sensing, collecting, and monitoring data of or from all portions of a utility's electric distribution grid,
- Providing real-time, two-way communications to monitor or to manage the grid, and
- Providing real-time analysis of an event prediction based on collected data that can be used to provide electric distribution system reliability, quality, and performance.

Retail motor fuels outlet. Real property is a retail motor fuels outlet if it is used to a substantial extent in the retail marketing of petroleum or petroleum products (whether or not it is also used to sell food or other convenience items) and meets any one of the following three tests.

- It is not larger than 1,400 square feet.
- 50% or more of the gross revenues generated from the property are derived from petroleum sales.
- 50% or more of the floor space in the property is devoted to petroleum marketing sales.

A retail motor fuels outlet does not include any facility related to petroleum and natural gas trunk pipelines.

Qualified leasehold improvement property. Generally, this is any improvement to an interior part of a building that is nonresidential real property, if all of the following requirements are met.

- The improvement is made under or according to a lease by the lessee (or any sublessee) or the lessor of that part of the building.
- That part of the building is to be occupied exclusively by the lessee (or any sublessee) of that part.
- The improvement is placed in service more than 3 years after the date the building was first placed in service by any person.
- The improvement is section 1250 property. See chapter 3 in Pub. 544, Sales and Other Dispositions of Assets, for the definition of section 1250 property.

However, a qualified leasehold improvement does not include any improvement for which the expenditure is attributable to any of the following.

- The enlargement of the building.
- Any elevator or escalator.
- Any structural component benefiting a common area.
- The internal structural framework of the building.

Generally, a binding commitment to enter into a lease is treated as a lease and the parties to the commitment are treated as the lessor and lessee. However, a lease between related persons is not treated as a lease.

In addition, an improvement made by the lessor does not qualify as qualified leasehold improvement property to any subsequent owner unless it is acquired from the original lessor by reason of the lessor's death or in any of the following types of transactions.

1. A transaction to which section 381(a) applies,
2. A mere change in the form of conducting the trade or business so long as the property is retained in the trade or business as qualified leasehold improvement property and the taxpayer retains a substantial interest in the trade or business,
3. A like-kind exchange, involuntary conversion, or reacquisition of real property to the extent that the basis in the property represents the carryover basis, or
4. Certain nonrecognition transactions to the extent that your basis in the property is determined by reference to the transferor's or distributor's basis in the property. Examples include the following.
   a. A complete liquidation of a subsidiary.
   b. A transfer to a corporation controlled by the transferor.
   c. An exchange of property by a corporation solely for stock or securities in another corporation in a reorganization.

Qualified restaurant property. Qualified restaurant property is any section 1250 property that is a building, or an improvement to a building, placed in service after December 31, 2008. Also, more than 50% of the building's square footage must be devoted to preparation of meals and seating for on-premises consumption of prepared meals.

Qualified smart electric meter. A qualified smart electric meter is any time-based meter and related communication equipment which is placed in service by a supplier of electric energy or a provider of electric energy services and which is capable of being used by you as part of a system that:

- Measures and records electricity usage data on a time-differentiated basis in at least 24 separate time segments per day.
- Provides for the exchange of information between the supplier or provider and the customer's smart electric meter in support of time-based rates or other forms of demand response.
- Provides data to the supplier or provider so that the supplier or provider can provide energy usage information to customers electronically.
- Provides all commercial and residential customers of such supplier or provider with net metering. Net metering means allowing a customer a credit, if any, as complies with applicable federal and state laws and regulations for providing electricity to the supplier or provider.

Natural gas gathering line and electric transmission property. Any natural gas gathering line placed in service after April 11, 2005, is treated as 7-year property, and electric transmission property (that is section 1245 property) used in the transmission at 69 or more kilovolts of electricity and any natural gas distribution line placed in service after April 11, 2005, are treated as 15-year property, if the following requirements are met.

- The original use of the property must have begun with you after April 11, 2005. Original use means the first use to which the property is put, whether or not by you. Therefore, property used by any person before April 12, 2005, is not original use. Original use includes additional capital expenditures you incurred to recondition or rebuild your property. However, original use does not include the cost of reconditioned or

rebuilt property you acquired. Property containing used parts will not be treated as reconditioned or rebuilt if the cost of the used parts is not more than 20% of the total cost of the property.

- The property must not be placed in service under a binding contract in effect before April 12, 2005.
- The property must not be self-constructed property (property you manufacture, construct, or produce for your own use), if you began the manufacture, construction, or production of the property before April 12, 2005. Property that is manufactured, constructed, or produced for your use by another person under a written binding contract entered into by you or a related party before the manufacture, construction, or production of the property is considered to be manufactured, constructed, or produced by you.

What Is the Placed in Service Date?

Terms you may need to know (see Glossary):

Placed in service

You begin to claim depreciation when your property is placed in service for either use in a trade or business or 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* in chapter 1 for examples illustrating when property is placed in service.

What Is the Basis for Depreciation?

Terms you may need to know (see Glossary):

Basis

The basis for depreciation of MACRS property is the property's cost or other basis multiplied by the percentage of business/investment use. For a discussion of business/investment use, see *Partial business or investment use* under *Property Used in Your Business or Income-Producing Activity* in chapter 1. Reduce that amount by any credits and deductions allocable to the property. The following are examples of some credits and deductions that reduce basis.

- Any deduction for section 179 property.
- Any deduction under section 179B of the Internal Revenue Code for capital costs to comply with Environmental Protection Agency sulfur regulations.
- Any deduction under section 179C of the Internal Revenue Code for certain qualified refinery property placed in service after August 8, 2005, and before January 1, 2014.
- Any deduction under section 179D of the Internal Revenue Code for certain energy efficient commercial building property placed in service after December 31, 2005, and before January 1, 2017.
- Any deduction under section 179E of the Internal Revenue Code for qualified advanced mine safety equipment property placed in service after December 20, 2006, and before January 1, 2017.
- 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 additional credits and deductions that affect basis, see section 1016 of the Internal Revenue Code.

Enter the basis for depreciation under column (c) in Part III of Form 4562. For information about how to determine the cost or other basis of property, see *What Is the Basis of Your Depreciable Property* in chapter 1.

Which Recovery Period Applies?

Terms you may need to know (see Glossary):

Active conduct of a trade or business

Basis

Improvement

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Section 1245 property

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.

Recovery Periods Under GDS

Under GDS, property that is not qualified Indian reservation property is depreciated over one of the following recovery periods.

Property Class	Recovery Period
3-year property	3 years [1]
5-year property	5 years
7-year property	7 years
10-year property	10 years
15-year property	15 years [2]
20-year property	20 years
25-year property	25 years [3]
Residential rental property	27.5 years
Nonresidential real property	39 years [4]

[1] 5 years for qualified rent-to-own property placed in service before August 6, 1997.

[2] 39 years for property that is a retail motor fuels outlet placed in service before August 20, 1996 (31.5 years if placed in service before May 13, 1993), unless you elected to depreciate it over 15 years.

[3] 20 years for property placed in service before June 13, 1996, or under a binding contract in effect before June 10, 1996.

[4] 31.5 years for property placed in service before May 13, 1993 (or before January 1, 1994, if the purchase or construction of the property is under a binding contract in effect before May 13, 1993, or if construction began before May 13, 1993).

The GDS recovery periods for property not listed above can be found in Appendix B, *Table of Class Lives and Recovery Periods*. Residential rental property and nonresidential real property are defined earlier under *Which Depreciation System (GDS or ADS) Applies*.

Enter the appropriate recovery period on Form 4562 under column (d) in section B of Part III, unless already shown (for 25-year property, residential rental property, and nonresidential real property).

Office in the home. If your home is a personal-use single family residence and you begin to use part of your home as an office, depreciate that part of your home as nonresidential real property over 39 years (31.5 years if you began using it for business before May 13, 1993). However, if your home is an apartment in an apartment building that you own and the building is residential rental property as defined earlier under *Which Depreciation System (GDS or ADS) Applies*, depreciate the part used as an office as residential rental property over 27.5 years. See Pub. 587 for a discussion of the tests you must meet to claim expenses, including depreciation, for the business use of your home.

Home changed to rental use. If you begin to rent a home that was your personal home before 1987, you depreciate it as residential rental property over 27.5 years.

Indian Reservation Property

The recovery periods for qualified property you placed in service on an Indian reservation after 1993 and before 2017 are shorter than those listed earlier. The following table shows these shorter recovery periods.

Property Class	Recovery Period
3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Nonresidential real property	22 years

Nonresidential real property is defined earlier under *Which Property Class Applies Under GDS*.

Use this chart to find the correct percentage table to use for qualified Indian reservation property.

IF your recovery period is:	**THEN** use the following table in Appendix A:
2 years	A-21
3 years	A-1, A-2, A-3, A-4, or A-5
4 years	A-22
6 years	A-23
9 years	A-14, A-15, A-16, A-17, or A-18
12 years	A-14, A-15, A-16, A-17, or A-18
22 years	A-24

Qualified property. Property eligible for the shorter recovery periods are 3-, 5-, 7-, 10-, 15-, and 20-year property and nonresidential real property. You must use this property predominantly in the active conduct of a trade or business within an Indian reservation. The rental of real property that is located on an Indian reservation is treated as the active conduct of a trade or business within an Indian reservation.

The following property is not qualified property.

1. Property used or located outside an Indian reservation on a regular basis, other than qualified infrastructure property.
2. Property acquired directly or indirectly from a related person.
3. Property placed in service for purposes of conducting or housing class I, II, or III gaming activities. These activities are defined in section 4 of the Indian Regulatory Act (25 U.S.C. 2703).
4. Any property you must depreciate under ADS. Determine whether property is qualified without regard to the election to use ADS and after applying the special rules for listed property not used predominantly for qualified business use (discussed in chapter 5).

Note. You can make an election out of the shorter recovery period(s) above for qualified Indian reservation property in a class of property that is placed in service in a tax year beginning after December 31, 2015.

To make this election, attach a statement to your timely filed return (including extensions) for the tax year in which you place the property in service indicating the class of property for which you are making the election and that, for such class you are electing not to apply section 168(j). Once made, this election is irrevocable.

CAUTION *If you make this election, the property placed in service in a tax year beginning after December 31, 2015, will be subject to an alternative minimum tax adjustment for depreciation.*

Qualified infrastructure property. Item (1) above does not apply to qualified infrastructure property located outside the reservation that is used to connect with qualified infrastructure property within the reservation. Qualified infrastructure property is property that meets all the following rules.

- It is qualified property, as defined earlier, except that it is outside the reservation.
- It benefits the tribal infrastructure.
- It is available to the general public.
- It is placed in service in connection with the active conduct of a trade or business within a reservation.

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

Related person. For purposes of item (2) above, see *Related persons* in the discussion on property owned or used in 1986 under *What Method Can You Use To Depreciate Your Property* in chapter 1 for a description of related persons.

Indian reservation. The term Indian reservation means a reservation as defined in section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)) or section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)). Section 3(d) of the Indian Financing Act of 1974 defines reservation to include former Indian reservations in Oklahoma. For a definition of the term "former Indian reservations in Oklahoma," see Notice 98-45 in Internal Revenue Bulletin 1998-35.

Recovery Periods Under ADS

The recovery periods for most property generally are longer under ADS than they are under GDS. The following table shows some of the ADS recovery periods.

Property	Recovery Period
Rent-to-own property	4 years
Automobiles and light duty trucks	5 years
Computers and peripheral equipment	5 years
High technology telephone station equipment installed on customer premises	5 years
High technology medical equipment	5 years
Personal property with no class life	12 years
Natural gas gathering lines	14 years
Single purpose agricultural and horticultural structures	15 years
Any tree or vine bearing fruit or nuts	20 years
Initial clearing and grading land improvements for gas utility property	20 years
Initial clearing and grading land improvements for electric utility transmission and distribution plants	25 years
Electric transmission property used in the transmission at 69 or more kilovolts of electricity	30 years
Natural gas distribution lines	35 years
Any qualified leasehold improvement property	39 years
Any qualified restaurant property	39 years
Nonresidential real property	40 years
Residential rental property	40 years
Section 1245 real property not listed in Appendix B	40 years
Railroad grading and tunnel bore	50 years

The ADS recovery periods for property not listed above can be found in the tables in Appendix B. Rent-to-own property, qualified leasehold improvement property, qualified restaurant property, residential rental property, and nonresidential real property are defined earlier under *Which Property Class Applies Under GDS*.

Tax-exempt use property subject to a lease. The ADS recovery period for any property leased under a lease agreement to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership) cannot be less than 125% of the lease term.

Additions and Improvements

An addition or improvement you make to depreciable property is treated as separate depreciable property. See

How Do You Treat Repairs and Improvements in chapter 1 for a definition of improvements. Its property class and recovery period are the same as those that would apply to the original property if you had placed it in service at the same time you placed the addition or improvement in service. The recovery period begins on the later of the following dates.

- The date you place the addition or improvement in service.
- The date you place in service the property to which you made the addition or improvement.

CAUTION *If the improvement you make is qualified leasehold improvement property, qualified restaurant property, or qualified retail improvement property, the GDS recovery period is 15 years (39 years under ADS).*

Example. You own a rental home that you have been renting out since 1981. If you put an addition on the home and place the addition in service this year, you would use MACRS to figure your depreciation deduction for the addition. Under GDS, the property class for the addition is residential rental property and its recovery period is 27.5 years because the home to which the addition is made would be residential rental property if you had placed it in service this year.

Which Convention Applies?

Terms you may need to know (see Glossary):

Basis

Convention

Disposition

Nonresidential real property

Placed in service

Recovery period

Residential rental property

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.

The mid-month convention. Use this convention for nonresidential real property, residential rental property, and any railroad grading or tunnel bore.

Under this convention, you treat all property placed in service or disposed of during a month as placed in service or disposed of at the midpoint of the month. This means that a one-half month of depreciation is allowed for the month the property is placed in service or disposed of.

Your use of the mid-month convention is indicated by the "MM" already shown under column (e) in Part III of Form 4562.

The mid-quarter convention. Use this convention if the mid-month convention does not apply and the total depreciable bases of MACRS property you placed in service during the last 3 months of the tax year (excluding nonresidential real property, residential rental property, any railroad grading or tunnel bore, property placed in service and disposed of in the same year, and property that is being depreciated under a method other than MACRS) are more than 40% of the total depreciable bases of all MACRS property you placed in service during the entire year.

Under this convention, you treat all property placed in service or disposed of during any quarter of the tax year as placed in service or disposed of at the midpoint of that quarter. This means that 1½ months of depreciation is allowed for the quarter the property is placed in service or disposed of.

If you use this convention, enter "MQ" under column (e) in Part III of Form 4562.

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

The half-year convention. Use this convention if neither the mid-quarter convention nor the mid-month convention applies.

Under this convention, you treat all property placed in service or disposed of during a tax year as placed in service or disposed of at the midpoint of the year. This means that a one-half year of depreciation is allowed for the year the property is placed in service or disposed of.

If you use this convention, enter "HY" under column (e) in Part III of Form 4562.

Which Depreciation Method Applies?

Terms you may need to know (see Glossary):

Declining balance method

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Straight line method

Tax exempt

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.

CAUTION *For property placed in service before 1999, you could have elected the 150% declining balance method using the ADS recovery periods for certain property classes. If you made this election, continue to use the same method and recovery period for that property.*

Table 4-1 lists the types of property you can depreciate under each method. It also gives a brief explanation of the method, including any benefits that may apply.

Depreciation Methods for Farm Property

If you place personal property in service in a farming business after 1988, you generally must depreciate it under GDS using the 150% declining balance method unless you are a farmer who must depreciate the property under ADS using the straight line method or you elect to depreciate the property under GDS or ADS using the straight line method. You can depreciate real property using the straight line method under either GDS or ADS.

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

ADS required for some farmers. If you elect not to apply the uniform capitalization rules to any plant produced in your farming business, you must use ADS. You must use ADS for all property you place in service in any year the election is in effect. See the regulations under section 263A of the Internal Revenue Code for information on the uniform capitalization rules that apply to farm property.

Electing a Different Method

As shown in *Table 4-1*, you can elect a different method for depreciation for certain types of property. You must make the election by the due date of the return (including extensions) for the year you placed the property in service. However, if you timely filed your return for the year without making the election, you still can make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address you filed the original return. Once you make the election, you cannot change it.

CAUTION *If you elect to use a different method for one item in a property class, you must apply the same method to all property in that class placed in service during the year of the election. However, you can make the election on a property-by-property basis for nonresidential real and residential rental property.*

150% election. Instead of using the 200% declining balance method over the GDS recovery period for nonfarm property in the 3-, 5-, 7-, and 10-year property classes, you can elect to use the 150% declining balance method. Make the election by entering "150 DB" under column (f) in Part III of Form 4562.

Straight line election. Instead of using either the 200% or 150% declining balance methods over the GDS recovery period, you can elect to use the straight line method over the GDS recovery period. Make the election by entering "S/L" under column (f) in Part III of Form 4562.

Election of ADS. As explained earlier under *Which Depreciation System (GDS or ADS) Applies*, you can elect to use ADS even though your property may come under GDS. ADS uses the straight line method of depreciation over fixed ADS recovery periods. Most ADS recovery periods are listed in Appendix B, or see the table under *Recovery Periods Under ADS*, earlier.

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

Farm property. Instead of using the 150% declining balance method over a GDS recovery period for property you use in a farming business (other than real property), you can elect to depreciate it using either of the following methods.

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

How Is the Depreciation Deduction Figured?

Terms you may need to know (see Glossary):

Adjusted basis

Amortization

Basis

Business/investment use

Convention

Declining balance method

Disposition

Table 4-1. **Depreciation Methods**

Note. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.		
Method	**Type of Property**	**Benefit**
GDS using 200% DB	• Nonfarm 3-, 5-, 7-, and 10-year property	• Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction
GDS using 150% DB	• All farm property (except real property) • All 15- and 20-year property (except qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property) • Nonfarm 3-, 5-, 7-, and 10-year property	• Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction[1]
GDS using SL	• Nonresidential real property • Qualified leasehold improvement property • Qualified restaurant property • Qualified retail improvement property • Residential rental property • Trees or vines bearing fruit or nuts • Water utility property • All 3-, 5-, 7-, 10-, 15-, and 20-year property[2] • Property for which you elected section 168(k)(4)	• Provides for equal yearly deductions (except for the first and last years)
ADS using SL	• Listed property used 50% or less for business • Property used predominantly outside the U.S. • Tax-exempt property • Tax-exempt bond-financed property • Farm property used when an election not to apply the uniform capitalization rules is in effect • Imported property[3] • Any property for which you elect to use this method[4]	• Provides for equal yearly deductions (except for the first and last years)

[1]The MACRS percentage tables in Appendix A have the switch to the straight line method built into their rates.
[2]See section 168(b)(5) of the Internal Revenue Code.
[3]See section 168(g)(6) of the Internal Revenue Code.
[4]See section 168(g)(7) of the Internal Revenue Code.

Exchange

Nonresidential real property

Placed in service

Property class

Recovery period

Straight line method

Unadjusted basis

To figure your depreciation deduction under MACRS, you first determine the depreciation system, property class, placed in service date, basis amount, recovery period, convention, and depreciation method that applies to your property. Then, you are ready to figure your depreciation deduction. You can figure it using a percentage table provided by the IRS, or you can figure it yourself without using the table.

Using the MACRS Percentage Tables

To help you figure your deduction under MACRS, the IRS has established percentage tables that incorporate the applicable convention and depreciation method. These percentage tables are in Appendix A near the end of this publication.

Which table to use. Appendix A contains the *MACRS Percentage Table Guide*, which is designed to help you locate the correct percentage table to use for depreciating your property. The percentage tables immediately follow the guide.

Rules Covering the Use of the Tables

The following rules cover the use of the percentage tables.

1. You must apply the rates in the percentage tables to your property's unadjusted basis.

2. You cannot use the percentage tables for a short tax year. See *Figuring the Deduction for a Short Tax Year,* later, for information on the short tax year rules.
3. Once you start using the percentage tables for any item of property, you generally must continue to use them for the entire recovery period of the property.
4. You must stop using the tables if you adjust the basis of the property for any reason other than—
   a. Depreciation allowed or allowable, or
   b. An addition or improvement to that property that is depreciated as a separate item of property.

Basis adjustments other than those made due to the items listed in (4) include an increase in basis for the recapture of a clean-fuel deduction or credit and a reduction in basis for a casualty loss.

Basis adjustment due to recapture of clean-fuel vehicle deduction or credit. If you increase the basis of your property because of the recapture of part or all of a deduction for clean-fuel vehicles or the credit for clean-fuel vehicle refueling property placed in service before January 1, 2006, you cannot continue to use the percentage tables. For the year of the adjustment and the remaining recovery period, you must figure the depreciation deduction yourself using the property's adjusted basis at the end of the year. See *Figuring the Deduction Without Using the Tables,* later.

Basis adjustment due to casualty loss. If you reduce the basis of your property because of a casualty, you cannot continue to use the percentage tables. For the year of the adjustment and the remaining recovery period, you must figure the depreciation yourself using the property's adjusted basis at the end of the year. See *Figuring the Deduction Without Using the Tables,* later.

Example. On October 26, 2015, Sandra Elm, a calendar year taxpayer, bought and placed in service in her business a new item of 7-year property. It cost $39,000 and she elected a section 179 deduction of $24,000. She also took a special depreciation allowance of $7,500 [50% of $15,000 ($39,000 – $24,000)]. Her unadjusted basis after the section 179 deduction and special depreciation allowance was $7,500 ($15,000 – $7,500). She figured her MACRS depreciation deduction using the percentage tables. For 2015, her MACRS depreciation deduction was $268.

In July 2016, the property was vandalized and Sandra had a deductible casualty loss of $3,000. She must adjust the property's basis for the casualty loss, so she can no longer use the percentage tables. Her adjusted basis at the end of 2016, before figuring her 2016 depreciation, is $4,232. She figures that amount by subtracting the 2015 MACRS depreciation of $268 and the casualty loss of $3,000 from the unadjusted basis of $7,500. She must now figure her depreciation for 2016 without using the percentage tables.

Figuring the Unadjusted Basis of Your Property

You must apply the table rates to your property's unadjusted basis each year of the recovery period. Unadjusted basis is the same basis amount you would use to figure gain on a sale, but you figure it without reducing your original basis by any MACRS depreciation taken in earlier years. However, you do reduce your original basis by other amounts, including the following.

- Any amortization taken on the property.
- Any section 179 deduction claimed.
- Any special depreciation allowance taken on the property.

For business property you purchase during the year, the unadjusted basis is its cost minus these and other applicable adjustments. If you trade property, your unadjusted basis in the property received is the cash paid plus the adjusted basis of the property traded minus these adjustments.

MACRS Worksheet

You can use this worksheet to help you figure your depreciation deduction using the percentage tables. Use a separate worksheet for each item of property. Then, use the information from this worksheet to prepare Form 4562.

Do not use this worksheet for automobiles. Use the Depreciation Worksheet for Passenger Automobiles *in chapter 5.*

MACRS Worksheet
Keep for Your Records

Part I

1. MACRS system (GDS or ADS) . . . . . _____
2. Property class . . . . . _____
3. Date placed in service . . . . . _____
4. Recovery period . . . . . _____
5. Method and convention . . . . . _____
6. Depreciation rate (from tables) . . . . . _____

Part II

7. Cost or other basis* . . . . . $ _____
8. Business/investment use . . . . . _____ %
9. Multiply line 7 by line 8 . . . . . $ _____
10. Total claimed for section 179 deduction and other items . . . . . $ _____
11. Subtract line 10 from line 9. This is your tentative basis for depreciation . . . . . $ _____

12. Multiply line 11 by .50 if the 50% special depreciation allowance applies. This is your special depreciation allowance. Enter -0- if this is not the year you placed the property in service, the property is not qualified property, or you elected not to claim a special allowance	$
13. Subtract line 12 from line 11. This is your basis for depreciation	
14. Depreciation rate (from line 6)	
15. Multiply line 13 by line 14. This is your MACRS depreciation deduction	$

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

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

Example. You bought office furniture (7-year property) for $10,000 and placed it in service on August 11, 2016. You use the furniture only for business. This is the only property you placed in service this year. You did not elect a section 179 deduction and the property is not qualified property for purposes of claiming a special depreciation allowance so your property's unadjusted basis is its cost, $10,000. You use GDS and the half-year convention to figure your depreciation. You refer to the *MACRS Percentage Table Guide* in Appendix A and find that you should use Table A-1. Multiply your property's unadjusted basis each year by the percentage for 7-year property given in Table A-1. You figure your depreciation deduction using the MACRS Worksheet as follows.

MACRS Worksheet

Keep for Your Records

Part I

1. MACRS system (GDS or ADS)		GDS
2. Property class		7-year
3. Date placed in service		8/11/16
4. Recovery period		7-Year
5. Method and convention		200%DB/Half-Year
6. Depreciation rate (from tables)		.1429

Part II

7. Cost or other basis*	$10,000		
8. Business/investment use	100	%	
9. Multiply line 7 by line 8			$10,000
10. Total claimed for section 179 deduction and other items			-0-
11. Subtract line 10 from line 9. This is your tentative basis for depreciation			$10,000
12. Multiply line 11 by .50 if the 50% special depreciation allowance applies. This is your special depreciation allowance. Enter -0- if this is not the year you placed the property in service, the property is not qualified property, or you elected not to claim a special allowance			-0-
13. Subtract line 12 from line 11. This is your basis for depreciation			$10,000
14. Depreciation rate (from line 6)			.1429
15. Multiply line 13 by line 14. This is your MACRS depreciation deduction			$1,429

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

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

Year	Basis	Percentage	Deduction
2017	$ 10,000	24.49%	$2,449
2018	10,000	17.49	1,749
2019	10,000	12.49	1,249
2020	10,000	8.93	893
2021	10,000	8.92	892
2022	10,000	8.93	893
2023	10,000	4.46	446

Examples

The following examples are provided to show you how to use the percentage tables. In both examples, assume the following.

- You use the property only for business.
- You use the calendar year as your tax year.
- You use GDS for all the properties.

Example 1. You bought a building and land for $120,000 and placed it in service on March 8. The sales contract showed that the building cost $100,000 and the land cost $20,000. It is nonresidential real property. The building's unadjusted basis is its original cost, $100,000.

You refer to the *MACRS Percentage Table Guide* in Appendix A and find that you should use Table A-7a. March is the third month of your tax year, so multiply the building's unadjusted basis, $100,000, by the percentages for the third month in Table A-7a. Your depreciation deduction for each of the first 3 years is as follows:

Year	Basis	Percentage	Deduction
1st	$ 100,000	2.033%	$2,033
2nd	100,000	2.564	2,564
3rd	100,000	2.564	2,564

Example 2. During the year, you bought a machine (7-year property) for $4,000, office furniture (7-year property) for $1,000, and a computer (5-year property) for $5,000. You placed the machine in service in January, the furniture in September, and the computer in October. You do not elect a section 179 deduction and none of these items is qualified property for purposes of claiming a special depreciation allowance.

You placed property in service during the last 3 months of the year, so you must first determine if you have to use the mid-quarter convention. The total bases of all property you placed in service during the year is $10,000. The $5,000 basis of the computer, which you placed in service during the last 3 months (the fourth quarter) of your tax year, is more than 40% of the total bases of all property ($10,000) you placed in service during the year. Therefore, you must use the mid-quarter convention for all three items.

You refer to the *MACRS Percentage Table Guide* in Appendix A to determine which table you should use under the mid-quarter convention. The machine is 7-year property placed in service in the first quarter, so you use Table A-2. The furniture is 7-year property placed in service in the third quarter, so you use Table A-4. Finally, because the computer is 5-year property placed in service in the fourth quarter, you use Table A-6. Knowing what table to use for each property, you figure the depreciation for the first 2 years as follows.

Year	Property	Basis	Percentage	Deduction
1st	Machine	$4,000	25.00	$1,000
2nd	Machine	4,000	21.43	857
1st	Furniture	1,000	10.71	107
2nd	Furniture	1,000	25.51	255
1st	Computer	5,000	5.00	250
2nd	Computer	5,000	38.00	1,900

Sale or Other Disposition Before the Recovery Period Ends

If you sell or otherwise dispose of your property before the end of its recovery period, your depreciation deduction for the year of the disposition will be only part of the depreciation amount for the full year. You have disposed of your property if you have permanently withdrawn it from use in your business or income-producing activity because of its sale, exchange, retirement, abandonment, involuntary conversion, or destruction. After you figure the full-year depreciation amount, figure the deductible part using the convention that applies to the property.

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

Mid-quarter convention used. For property for which you used the mid-quarter convention, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation by the percentage listed below for the quarter in which you disposed of the property.

Quarter	Percentage
First	12.5%
Second	37.5
Third	62.5
Fourth	87.5

Example. On December 2, 2013, you placed in service an item of 5-year property costing $10,000. You did not claim a section 179 deduction and the property does not qualify for a special depreciation allowance. Your unadjusted basis for the property was $10,000. You used the mid-quarter convention because this was the only item of business property you placed in service in 2013 and it was placed in service during the last 3 months of your tax year. Your property is in the 5-year property class, so you used Table A-5 to figure your depreciation deduction. Your deductions for 2013, 2014, and 2015 were $500 (5% of $10,000), $3,800 (38% of $10,000), and $2,280 (22.80% of $10,000). You disposed of the property on April 6, 2016. To determine your depreciation deduction for 2016, first figure the deduction for the full year. This is $1,368 (13.68% of $10,000). April is in the second quarter of the year, so you multiply $1,368 by 37.5% to get your depreciation deduction of $513 for 2016.

Mid-month convention used. If you dispose of residential rental or nonresidential real property, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation by a fraction. The numerator of the fraction is the number of months (including partial months) in the year that the property is considered in service. The denominator is 12.

Example. On July 2, 2014, you purchased and placed in service residential rental property. The property cost $100,000, not including the cost of land. You used Table A-6 to figure your MACRS depreciation for this property. You sold the property on March 2, 2016. You file your tax return based on the calendar year.

A full year of depreciation for 2016 is $3,636. This is $100,000 multiplied by .03636 (the percentage for the seventh month of the third recovery year) from Table A-6 . You then apply the mid-month convention for the 2½ months of use in 2016. Treat the month of disposition as one-half month of use. Multiply $3,636 by the fraction, 2.5 over 12, to get your 2016 depreciation deduction of $757.50.

Figuring the Deduction Without Using the Tables

Instead of using the rates in the percentage tables to figure your depreciation deduction, you can figure it yourself. Before making the computation each year, you must reduce your adjusted basis in the property by the depreciation claimed the previous year.

CAUTION *Figuring MACRS deductions without using the tables generally will result in a slightly different amount than using the tables.*

Declining Balance Method

When using a declining balance method, you apply the same depreciation rate each year to the adjusted basis of your property. You must use the applicable convention for the first tax year and you must switch to the straight line method beginning in the first year for which it will give an equal or greater deduction. The straight line method is explained later.

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

1. Multiply your adjusted basis in the property by the declining balance rate.
2. Apply the applicable convention.

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

1. Reduce your adjusted basis in the property by the depreciation allowed or allowable in earlier years.
2. Multiply this new adjusted basis by the same declining balance rate used in earlier years.

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

Figuring depreciation under the declining balance method and switching to the straight line method is illustrated in *Example 1*, later, under *Examples*.

Declining balance rate. You figure your declining balance rate by dividing the specified declining balance percentage (150% or 200% changed to a decimal) by the number of years in the property's recovery period. For example, for 3-year property depreciated using the 200% declining balance method, divide 2.00 (200%) by 3 to get 0.6667, or a 66.67% declining balance rate. For 15-year property depreciated using the 150% declining balance method, divide 1.50 (150%) by 15 to get 0.10, or a 10% declining balance rate.

The following table shows the declining balance rate for each property class and the first year for which the straight line method gives an equal or greater deduction.

Property Class	Method	Declining Balance Rate	Year
3-year	200% DB	66.667%	3rd
5-year	200% DB	40.0	4th
7-year	200% DB	28.571	5th
10-year	200% DB	20.0	7th
15-year	150% DB	10.0	7th
20-year	150% DB	7.5	9th

Straight Line Method

When using the straight line method, you apply a different depreciation rate each year to the adjusted basis of your property. You must use the applicable convention in the year you place the property in service and the year you dispose of the property.

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

1. Multiply your adjusted basis in the property by the straight line rate.
2. Apply the applicable convention.

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

1. Reduce your adjusted basis in the property by the depreciation allowed or allowable in earlier years (under any method).
2. Determine the depreciation rate for the year.
3. Multiply the adjusted basis figured in (1) by the depreciation rate figured in (2).

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

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

Using the Applicable Convention

The applicable convention (discussed earlier under *Which Convention Applies*) affects how you figure your depreciation deduction for the year you place your property in service and for the year you dispose of it. It determines how much of the recovery period remains at the beginning of each year, so it also affects the depreciation rate for property you depreciate under the straight line method. See *Straight line rate* in the previous discussion. Use the applicable convention as explained in the following discussions.

Half-year convention. If this convention applies, you deduct a half-year of depreciation for the first year and the last year that you depreciate the property. You deduct a full year of depreciation for any other year during the recovery period.

Figure your depreciation deduction for the year you place the property in service by dividing the depreciation for a full year by 2. If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition the same way. If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final 6 months of the recovery period is the amount of your unrecovered basis in the property.

Mid-quarter convention. If this convention applies, the depreciation you can deduct for the first year you depreciate the property depends on the quarter in which you place the property in service.

A quarter of a full 12-month tax year is a period of 3 months. The first quarter in a year begins on the first day of the tax year. The second quarter begins on the first day of the fourth month of the tax year. The third quarter begins on the first day of the seventh month of the tax year. The fourth quarter begins on the first day of the tenth month of the tax year. A calendar year is divided into the following quarters.

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

Figure your depreciation deduction for the year you place the property in service by multiplying the depreciation for a full year by the percentage listed below for the quarter you place the property in service.

Quarter	Percentage
First	87.5%
Second	62.5
Third	37.5
Fourth	12.5

If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition by multiplying a full year of depreciation by the percentage listed below for the quarter you dispose of the property.

Quarter	Percentage
First	12.5%
Second	37.5
Third	62.5
Fourth	87.5

If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final quarter of the recovery period is the amount of your unrecovered basis in the property.

Mid-month convention. If this convention applies, the depreciation you can deduct for the first year that you depreciate the property depends on the month in which you place the property in service. Figure your depreciation deduction for the year you place the property in service by multiplying the depreciation for a full year by a fraction. The numerator of the fraction is the number of full months in the year that the property is in service plus ½ (or 0.5). The denominator is 12.

If you dispose of the property before the end of the recovery period, figure your depreciation deduction for the year of the disposition the same way. If you hold the property for the entire recovery period, your depreciation deduction for the year that includes the final month of the recovery period is the amount of your unrecovered basis in the property.

Example. You use the calendar year and place nonresidential real property in service in August. The property is in service 4 full months (September, October, November, and December). Your numerator is 4.5 (4 full months plus 0.5). You multiply the depreciation for a full year by 4.5/12, or 0.375.

Examples

The following examples show how to figure depreciation under MACRS without using the percentage tables. Figures are rounded for purposes of the examples. Assume for all the examples that you use a calendar year as your tax year.

Example 1—200% DB method and half-year convention. In February, you placed in service depreciable property with a 5-year recovery period and a basis of $1,000. You do not elect to take the section 179 deduction and the property does not qualify for a special depreciation allowance. You use GDS and the 200% declining balance (DB) method to figure your depreciation. When the straight line (SL) method results in an equal or larger deduction, you switch to the SL method. You did not place any property in service in the last 3 months of the year, so you must use the half-year convention.

First year. You figure the depreciation rate under the 200% DB method by dividing 2 (200%) by 5 (the number of years in the recovery period). The result is 40%. You multiply the adjusted basis of the property ($1,000) by the 40% DB rate. You apply the half-year convention by dividing the result ($400) by 2. Depreciation for the first year under the 200% DB method is $200.

You figure the depreciation rate under the straight line (SL) method by dividing 1 by 5, the number of years in the recovery period. The result is 20%.You multiply the adjusted basis of the property ($1,000) by the 20% SL rate. You apply the half-year convention by dividing the result ($200) by 2. Depreciation for the first year under the SL method is $100.

The DB method provides a larger deduction, so you deduct the $200 figured under the 200% DB method.

Second year. You reduce the adjusted basis ($1,000) by the depreciation claimed in the first year ($200). You multiply the result ($800) by the DB rate (40%). Depreciation for the second year under the 200% DB method is $320.

You figure the SL depreciation rate by dividing 1 by 4.5, the number of years remaining in the recovery period. (Based on the half-year convention, you used only half a year of the recovery period in the first year.) You multiply the reduced adjusted basis ($800) by the result (22.22%). Depreciation under the SL method for the second year is $178.

The DB method provides a larger deduction, so you deduct the $320 figured under the 200% DB method.

Third year. You reduce the adjusted basis ($800) by the depreciation claimed in the second year ($320). You multiply the result ($480) by the DB rate (40%). Depreciation for the third year under the 200% DB method is $192.

You figure the SL depreciation rate by dividing 1 by 3.5. You multiply the reduced adjusted basis ($480) by the result (28.57%). Depreciation under the SL method for the third year is $137.

The DB method provides a larger deduction, so you deduct the $192 figured under the 200% DB method.

Fourth year. You reduce the adjusted basis ($480) by the depreciation claimed in the third year ($192). You multiply the result ($288) by the DB rate (40%). Depreciation for the fourth year under the 200% DB method is $115.

You figure the SL depreciation rate by dividing 1 by 2.5. You multiply the reduced adjusted basis ($288) by the result (40%). Depreciation under the SL method for the fourth year is $115.

The SL method provides an equal deduction, so you switch to the SL method and deduct the $115.

Fifth year. You reduce the adjusted basis ($288) by the depreciation claimed in the fourth year ($115) to get the reduced adjusted basis of $173. You figure the SL depreciation rate by dividing 1 by 1.5. You multiply the reduced adjusted basis ($173) by the result (66.67%). Depreciation under the SL method for the fifth year is $115.

Sixth year. You reduce the adjusted basis ($173) by the depreciation claimed in the fifth year ($115) to get the reduced adjusted basis of $58. There is less than one year remaining in the recovery period, so the SL depreciation rate for the sixth year is 100%. You multiply the reduced adjusted basis ($58) by 100% to arrive at the depreciation deduction for the sixth year ($58).

Example 2—SL method and mid-month convention. In January, you bought and placed in service a building for $100,000 that is nonresidential real property with a recovery period of 39 years. The adjusted basis of the building is its cost of $100,000. You use GDS, the straight line (SL) method, and the mid-month convention to figure your depreciation.

First year. You figure the SL depreciation rate for the building by dividing 1 by 39 years. The result is .02564. The depreciation for a full year is $2,564 ($100,000 × .02564). Under the mid-month convention, you treat the property as placed in service in the middle of January. You get 11.5 months of depreciation for the year. Expressed as a decimal, the fraction of 11.5 months divided by 12 months is .958. Your first-year depreciation for the building is $2,456 ($2,564 × .958).

Second year. You subtract $2,456 from $100,000 to get your adjusted basis of $97,544 for the second year. The SL rate is .02629. This is 1 divided by the remaining recovery period of 38.042 years (39 years reduced by 11.5 months or .958 year). Your depreciation for the building for the second year is $2,564 ($97,544 × .02629).

Third year. The adjusted basis is $94,980 ($97,544 – $2,564). The SL rate is .027 (1 divided by 37.042 remaining years). Your depreciation for the third year is $2,564 ($94,980 × .027).

Example 3—200% DB method and mid-quarter convention. During the year, you bought and placed in service in your business the following items.

Item	Month Placed in Service	Cost
Safe	January	$4,000
Office furniture	September	1,000
Computer (not listed property)	October	5,000

You do not elect a section 179 deduction and these items do not qualify for a special depreciation allowance. You use GDS and the 200% declining balance (DB) method to figure the depreciation. The total bases of all property you placed in service this year is $10,000. The basis of the computer ($5,000) is more than 40% of the total bases of all property placed in service during the year ($10,000), so you must use the mid-quarter convention. This convention applies to all three items of property. The safe and office

furniture are 7-year property and the computer is 5-year property.

First and second year depreciation for safe. The 200% DB rate for 7-year property is .28571. You determine this by dividing 2.00 (200%) by 7 years. The depreciation for the safe for a full year is $1,143 ($4,000 × .28571). You placed the safe in service in the first quarter of your tax year, so you multiply $1,143 by 87.5% (the mid-quarter percentage for the first quarter). The result, $1,000, is your deduction for depreciation on the safe for the first year.

For the second year, the adjusted basis of the safe is $3,000. You figure this by subtracting the first year's depreciation ($1,000) from the basis of the safe ($4,000). Your depreciation deduction for the second year is $857 ($3,000 × .28571).

First and second year depreciation for furniture. The furniture is also 7-year property, so you use the same 200% DB rate of .28571. You multiply the basis of the furniture ($1,000) by .28571 to get the depreciation of $286 for the full year. You placed the furniture in service in the third quarter of your tax year, so you multiply $286 by 37.5% (the mid-quarter percentage for the third quarter). The result, $107, is your deduction for depreciation on the furniture for the first year.

For the second year, the adjusted basis of the furniture is $893. You figure this by subtracting the first year's depreciation ($107) from the basis of the furniture ($1,000). Your depreciation for the second year is $255 ($893 × .28571).

First and second year depreciation for computer. The 200% DB rate for 5-year property is .40. You determine this by dividing 2.00 (200%) by 5 years. The depreciation for the computer for a full year is $2,000 ($5,000 × .40). You placed the computer in service in the fourth quarter of your tax year, so you multiply the $2,000 by 12.5% (the mid-quarter percentage for the fourth quarter). The result, $250, is your deduction for depreciation on the computer for the first year.

For the second year, the adjusted basis of the computer is $4,750. You figure this by subtracting the first year's depreciation ($250) from the basis of the computer ($5,000). Your depreciation deduction for the second year is $1,900 ($4,750 × .40).

Example 4—200% DB method and half-year convention. Last year, in July, you bought and placed in service in your business a new item of 7-year property. This was the only item of property you placed in service last year. The property cost $39,000 and you elected a $24,000 section 179 deduction. You also took a special depreciation allowance of $7,500. Your unadjusted basis for the property is $7,500. Because you did not place any property in service in the last 3 months of your tax year, you used the half-year convention. You figured your deduction using the percentages in Table A-1 for 7-year property. Last year, your depreciation was $1,072 ($7,500 × 14.29%).

In July of this year, your property was vandalized. You had a deductible casualty loss of $3,000. You spent $3,500 to put the property back in operational order. Your adjusted basis at the end of this year is $6,928. You figured this by first subtracting the first year's depreciation ($1,072) and the casualty loss ($3,000) from the unadjusted basis of $7,500. To this amount ($3,428), you then added the $3,500 repair cost.

You cannot use the table percentages to figure your depreciation for this property for this year because of the adjustments to basis. You must figure the deduction yourself. You determine the DB rate by dividing 2.00 (200%) by 7 years. The result is .28571 or 28.571%. You multiply the adjusted basis of your property ($6,928) by the declining balance rate of .28571 to get your depreciation deduction of $1,979 for this year.

Figuring the Deduction for Property Acquired in a Nontaxable Exchange

If your property has a carryover basis because you acquired it in a nontaxable transfer such as a like-kind exchange or involuntary conversion, you must generally figure depreciation for the property as if the transfer had not occurred. However, see Like-kind exchanges and involuntary conversions, earlier, in chapter 3 under *How Much Can You Deduct* and *Property Acquired in a Like-kind Exchange or Involuntary Conversion* next.

Property Acquired in a Like-kind Exchange or Involuntary Conversion

You generally must depreciate the carryover basis of property acquired in a like-kind exchange or involuntary conversion over the remaining recovery period of the property exchanged or involuntarily converted. You also generally continue to use the same depreciation method and convention used for the exchanged or involuntarily converted property. This applies only to acquired property with the same or a shorter recovery period and the same or more accelerated depreciation method than the property exchanged or involuntarily converted. The excess basis (the part of the acquired property's basis that exceeds its carryover basis), if any, of the acquired property is treated as newly placed in service property.

For acquired property that has a longer recovery period or less accelerated depreciation method than the exchanged or involuntarily converted property, you generally must depreciate the carryover basis of the acquired property as if it were placed in service in the same tax year as the exchanged or involuntarily converted property. You also generally continue to use the longer recovery period and less accelerated depreciation method of the acquired property.

If the MACRS property you acquired in the exchange or involuntary conversion is qualified property, discussed earlier in chapter 3 under *What Is Qualified Property*, you can claim a special depreciation allowance on the carryover basis. Special rules apply to vehicles acquired in a trade-in. For information on how to figure depreciation for a vehicle acquired in a trade-in that is subject to the passenger automobile limits, see *Deductions For Passenger*

Automobiles Acquired in a Trade-in under Do the Passenger Automobile Limits Apply in chapter 5.

Election out. Instead of using the above rules, you can elect, for depreciation purposes, to treat the adjusted basis of the exchanged or involuntarily converted property as if disposed of at the time of the exchange or involuntary conversion. Treat the carryover basis and excess basis, if any, for the acquired property as if placed in service the later of the date you acquired it or the time of the disposition of the exchanged or involuntarily converted property. The depreciable basis of the new property is the adjusted basis of the exchanged or involuntarily converted property plus any additional amount you paid for it. The election, if made, applies to both the acquired property and the exchanged or involuntarily converted property. This election does not affect the amount of gain or loss recognized on the exchange or involuntary conversion.

When to make the election. You must make the election on a timely filed return (including extensions) for the year of replacement. The election must be made separately by each person acquiring replacement property. In the case of a partnership, S corporation, or consolidated group, the election is made by the partnership, by the S corporation, or by the common parent of a consolidated group, respectively. Once made, the election may not be revoked without IRS consent.

For more information and special rules, see the Instructions for Form 4562.

Property Acquired in a Nontaxable Transfer

You must depreciate MACRS property acquired by a corporation or partnership in certain nontaxable transfers over the property's remaining recovery period in the transferor's hands, as if the transfer had not occurred. You must continue to use the same depreciation method and convention as the transferor. You can depreciate the part of the property's basis that exceeds its carryover basis (the transferor's adjusted basis in the property) as newly purchased MACRS property.

The nontaxable transfers covered by this rule include the following.

- A distribution in complete liquidation of a subsidiary.
- A transfer to a corporation controlled by the transferor.
- An exchange of property solely for corporate stock or securities in a reorganization.
- A contribution of property to a partnership in exchange for a partnership interest.
- A partnership distribution of property to a partner.

Figuring the Deduction for a Short Tax Year

You cannot use the MACRS percentage tables to determine depreciation for a short tax year. A short tax year is any tax year with less than 12 full months. This section discusses the rules for determining the depreciation deduction for property you place in service or dispose of in a short tax year. It also discusses the rules for determining depreciation when you have a short tax year during the recovery period (other than the year the property is placed in service or disposed of).

For more information on figuring depreciation for a short tax year, see Revenue Procedure 89-15, 1989-1 C.B. 816.

Using the Applicable Convention in a Short Tax Year

The applicable convention establishes the date property is treated as placed in service and disposed of. Depreciation is allowable only for that part of the tax year the property is treated as in service. The recovery period begins on the placed in service date determined by applying the convention. The remaining recovery period at the beginning of the next tax year is the full recovery period less the part for which depreciation was allowable in the first tax year.

The following discussions explain how to use the applicable convention in a short tax year.

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

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

First or last day of month. For a short tax year beginning on the first day of a month or ending on the last day of a month, the tax year consists of the number of months in the tax year. If the short tax year includes part of a month, you generally include the full month in the number of months in the tax year. You determine the midpoint of the tax year by dividing the number of months in the tax year by 2. For the half-year convention, you treat property as placed in service or disposed of on either the first day or the midpoint of a month.

For example, a short tax year that begins on June 20 and ends on December 31 consists of 7 months. You use only full months for this determination, so you treat the tax year as beginning on June 1 instead of June 20. The midpoint of the tax year is the middle of September (3½ months from the beginning of the tax year). You treat property as placed in service or disposed of on this midpoint.

Example. Tara Corporation, a calendar year taxpayer, was incorporated on March 15. For purposes of the half-year convention, it has a short tax year of 10 months, ending on December 31, 2016. During the short tax year, Tara placed property in service for which it uses the half-year convention. Tara treats this property as placed in service on the first day of the sixth month of the short tax year, or August 1, 2016.

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

Mid-quarter convention. To determine if you must use the mid-quarter convention, compare the basis of property you place in service in the last 3 months of your tax year to that of property you place in service during the full tax year. The length of your tax year does not matter. If you have a short tax year of 3 months or less, use the mid-quarter convention for all applicable property you place in service during that tax year.

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

For a short tax year of 4 or 8 full calendar months, determine quarters on the basis of whole months. The midpoint of each quarter is either the first day or the midpoint of a month. Treat property as placed in service or disposed of on this midpoint.

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

1. Determine the number of days in your short tax year.
2. Determine the number of days in each quarter by dividing the number of days in your short tax year by 4.
3. Determine the midpoint of each quarter by dividing the number of days in each quarter by 2.

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

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

1. First, it determines that its short tax year beginning March 15 and ending December 31 consists of 292 days.
2. Next, it divides 292 by 4 to determine the length of each quarter, 73 days.
3. Finally, it divides 73 by 2 to determine the midpoint of each quarter, the 37th day.

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

Quarter	Midpoint	Placed in Service
3/15 – 5/26	4/20	4/15
5/27 – 8/07	7/02	7/01
8/08 – 10/19	9/13	9/01
10/20 – 12/31	11/25	11/15

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

Property Placed in Service in a Short Tax Year

To figure your MACRS depreciation deduction for the short tax year, you must first determine the depreciation for a full tax year. You do this by multiplying your basis in the property by the applicable depreciation rate. Then, determine the depreciation for the short tax year. Do this by multiplying the depreciation for a full tax year by a fraction. The numerator (top number) of the fraction is the number of months (including parts of a month) the property is treated as in service during the tax year (applying the applicable convention). The denominator (bottom number) is 12. See *Depreciation After a Short Tax Year*, later, for information on how to figure depreciation in later years.

Example 1—half-year convention. Tara Corporation, with a short tax year beginning March 15 and ending December 31, placed in service on March 16 an item of 5-year property with a basis of $1,000. This is the only property the corporation placed in service during the short tax year. Tara does not elect to claim a section 179 deduction and the property does not qualify for a special depreciation allowance. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40% and Tara applies the half-year convention.

Tara treats the property as placed in service on August 1. The determination of this August 1 date is explained in the example illustrating the half-year convention under *Using the Applicable Convention in a Short Tax Year*, earlier. Tara is allowed 5 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($1,000) by 40% (the declining balance rate) to get the depreciation for a full tax year of $400. The corporation then multiplies $400 by 5/12 to get the short tax year depreciation of $167.

Example 2—mid-quarter convention. Tara Corporation, with a short tax year beginning March 15 and ending on December 31, placed in service on October 16 an item of 5-year property with a basis of $1,000. Tara does not elect to claim a section 179 deduction and the property does not qualify for a special depreciation allowance. The depreciation method for this property is the 200% declining balance method. The depreciation rate is 40%. The corporation must apply the mid-quarter convention because the property was the only item placed in service that year and it was placed in service in the last 3 months of the tax year.

Tara treats the property as placed in service on September 1. This date is shown in the table provided in the example illustrating the mid-quarter convention under *Using the Applicable Convention in a Short Tax Year*, earlier, for property that Tara Corporation placed in service during the quarter that begins on August 8 and ends on October 19. Under MACRS, Tara is allowed 4 months of depreciation for the short tax year that consists of 10 months. The corporation first multiplies the basis ($1,000) by 40% to get the depreciation for a full tax year of $400. The corporation then multiplies $400 by 4/12 to get the short tax year depreciation of $133.

Property Placed in Service Before a Short Tax Year

If you have a short tax year after the tax year in which you began depreciating property, you must change the way you figure depreciation for that property. If you were using the percentage tables, you can no longer use them. You must figure depreciation for the short tax year and each later tax year as explained next.

Depreciation After a Short Tax Year

You can use either of the following methods to figure the depreciation for years after a short tax year.

- The simplified method.
- The allocation method.

You must use the method you choose consistently.

Using the simplified method for a 12-month year. Under the simplified method, you figure the depreciation for a later 12-month year in the recovery period by multiplying the adjusted basis of your property at the beginning of the year by the applicable depreciation rate.

Example. Assume the same facts as in *Example 1* under *Property Placed in Service in a Short Tax Year*, earlier. The Tara Corporation claimed depreciation of $167 for its short tax year. The adjusted basis on January 1 of the next year is $833 ($1,000 – $167). Tara's depreciation for that next year is 40% of $833, or $333.

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

Using the simplified method for an early disposition. If you dispose of property in a later tax year before the end of the recovery period, determine the depreciation for the year of disposition by multiplying the adjusted basis of the property at the beginning of the tax year by the applicable depreciation rate and then multiplying the result by a fraction. The fraction's numerator is the number of months (including parts of a month) the property is treated as in service during the tax year (applying the applicable convention). Its denominator is 12.

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

Example. Assume the same facts as in *Example 1* under *Property Placed in Service in a Short Tax Year*, earlier. The Tara Corporation's first tax year after the short tax year is a full year of 12 months, beginning January 1 and ending December 31. The first recovery year for the 5-year property placed in service during the short tax year extends from August 1 to July 31. Tara deducted 5 months of the first recovery year on its short-year tax return. Seven months of the first recovery year and 5 months of the second recovery year fall within the next tax year. The depreciation for the next tax year is $333, which is the sum of the following.

- $233—The depreciation for the first recovery year ($400 × 7/12).
- $100—The depreciation for the second recovery year. This is figured by multiplying the adjusted basis of $600 ($1,000 – $400) by 40%, then multiplying the $240 result by 5/12.

Using the allocation method for an early disposition. If you dispose of property before the end of the recovery period in a later tax year, determine the depreciation for the year of disposition by multiplying the depreciation figured for each recovery year or part of a recovery year included in the tax year by a fraction. The numerator of the fraction is the number of months (including parts of months) the property is treated as in service in the tax year (applying the applicable convention). The denominator is 12. If there is more than one recovery year in the tax year, you add together the depreciation for each recovery year.

How Do You Use General Asset Accounts?

Terms you may need to know (see Glossary):

Adjusted basis

Amortization

Amount realized

Basis

Convention

Disposition

Exchange

Placed in service

Recovery period

Section 1245 property

Unadjusted basis

To make it easier to figure MACRS depreciation, you can group separate properties into one or more general asset accounts (GAAs). You then can depreciate all the properties in each account as a single item of property.

Property you cannot include. You cannot include property in a GAA if you use it in both a personal activity and a trade or business (or for the production of income) in the year in which you first place it in service. If property you included in a GAA is later used in a personal activity, see *Terminating GAA Treatment*, later.

Property generating foreign source income. For information on the GAA treatment of property that generates foreign source income, see sections 1.168(i)-1(c)(1)(ii) and (f) of the regulations.

Change in use. Special rules apply to figuring depreciation for property in a GAA for which the use changes during the tax year. Examples include a change in use resulting in a shorter recovery period and/or more accelerated depreciation method or a change in use resulting in a longer recovery period and/or a less accelerated depreciation method. See sections 1.168(i)-1(h) and 1.168(i)-4 of the regulations.

Grouping Property

Each GAA must include only property you placed in service in the same tax year and that has the following in common.

- Recovery period.
- Depreciation method.
- Convention.

The following rules also apply when you establish a GAA.

- ***Mid-quarter convention.*** Property subject to the mid-quarter convention can only be grouped into a GAA with property placed in service in the same quarter of the tax year.
- ***Mid-month convention.*** Property subject to the mid-month convention can only be grouped into a GAA with property placed in service in the same month of the tax year.
- ***Passenger automobiles.*** Passenger automobiles subject to the limits on passenger automobile depreciation must be grouped into a separate GAA.

See section 1.168(i)-1(c)(2)(ii) of the regulations for additional rules that apply when you establish a GAA.

Figuring Depreciation for a GAA

After you have set up a GAA, you generally figure the MACRS depreciation for it by using the applicable depreciation method, recovery period, and convention for the property in the GAA. For each GAA, record the depreciation allowance in a separate depreciation reserve account.

Example. Make & Sell, a calendar-year corporation, set up a GAA for ten machines. The machines cost a total of $10,000 and were placed in service in June 2016. One of the machines cost $8,200 and the rest cost a total of $1,800. This GAA is depreciated under the 200% declining balance method with a 5-year recovery period and a half-year convention. Make & Sell did not claim the section 179 deduction on the machines and the machines did not qualify for a special depreciation allowance. The depreciation allowance for 2016 is $2,000 [($10,000 × 40%) ÷ 2]. As of January 1, 2017, the depreciation reserve account is $2,000.

Passenger automobiles. To figure depreciation on passenger automobiles in a GAA, apply the deduction limits discussed in chapter 5 under *Do the Passenger Automobile Limits Apply*. Multiply the amount determined using these limits by the number of automobiles originally included in the account, reduced by the total number of automobiles removed from the GAA as discussed in *Terminating GAA Treatment*, later.

Disposing of GAA Property

When you dispose of property included in a GAA, the following rules generally apply.

- Neither the unadjusted depreciable basis (defined later) nor the depreciation reserve account of the GAA is affected. You continue to depreciate the account as if the disposition had not occurred.
- The property is treated as having an adjusted basis of zero, so you cannot realize a loss on the disposition. If the property is transferred to a supplies, scrap, or similar account, its basis in that account is zero.

- Any amount realized on the disposition is treated as ordinary income, up to the limit discussed later under *Treatment of amount realized*.

However, these rules do not apply to any disposition described later under *Terminating GAA Treatment*.

Disposition. Property in a GAA is considered disposed of when you do any of the following.

- Permanently withdraw it from use in your trade or business or from the production of income.
- Transfer it to a supplies, scrap, or similar account.
- Sell, exchange, retire, physically abandon, or destroy it.

The retirement of a structural component of real property is not a disposition unless it is a partial disposition. See section 1.168(i)-1(e)(1) of the regulations.

Treatment of amount realized. When you dispose of property in a GAA, you must recognize any amount realized from the disposition as ordinary income, up to a limit. The limit is:

1. The unadjusted depreciable basis of the GAA, **plus**
2. Any expensed costs for property in the GAA that are subject to recapture as depreciation (not including any expensed costs for property that you removed from the GAA under the rules discussed later under *Terminating GAA Treatment*), **minus**
3. Any amount previously recognized as ordinary income upon the disposition of other property from the GAA.

Unadjusted depreciable basis. The unadjusted depreciable basis of a GAA is the total of the unadjusted depreciable bases of all the property in the GAA. The unadjusted depreciable basis of an item of property in a GAA is the amount you would use to figure gain or loss on its sale, but figured without reducing your original basis by any depreciation allowed or allowable in earlier years. However, you do reduce your original basis by other amounts, including any amortization deduction, section 179 deduction, special depreciation allowance, and electric vehicle credit.

Expensed costs. Expensed costs that are subject to recapture as depreciation include the following.

1. The section 179 deduction.
2. Amortization deductions for the following.
   a. Pollution control facilities.
   b. Removal of barriers for the elderly and disabled.
   c. Tertiary injectants.
   d. Reforestation expenses.

Example 1. The facts are the same as in the example under *Figuring Depreciation for a GAA*, earlier. In February 2017, Make & Sell sells the machine that cost $8,200 to an unrelated person for $9,000. The machine is treated as having an adjusted basis of zero.

On its 2017 tax return, Make & Sell recognizes the $9,000 amount realized as ordinary income because it is not more than the GAA's unadjusted depreciable basis ($10,000) plus any expensed cost (for example, the section 179 deduction) for property in the GAA ($0), minus any amounts previously recognized as ordinary income because of dispositions of other property from the GAA ($0).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the sale of the machine. The depreciation allowance for the GAA in 2017 is $3,200 [($10,000 – $2,000) × 40%].

Example 2. Assume the same facts as in *Example 1*. In June 2018, Make & Sell sells seven machines to an unrelated person for a total of $1,100. These machines are treated as having an adjusted basis of zero.

On its 2018 tax return, Make & Sell recognizes $1,000 as ordinary income. This is the GAA's unadjusted depreciable basis ($10,000) plus the expensed costs ($0), minus the amount previously recognized as ordinary income ($9,000). The remaining amount realized of $100 ($1,100 – $1,000) is section 1231 gain (discussed in chapter 3 of Pub. 544).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the disposition of the machines. The depreciation allowance for the GAA in 2018 is $1,920 [($10,000 – $5,200) × 40%].

Terminating GAA Treatment

You must remove the following property from a GAA.

- Property held by a partnership that terminates under section 708(b)(1)(B).
- Property you dispose of in a nonrecognition transaction or an abusive transaction.
- Property you dispose of in a qualifying disposition or in a disposition of all the property in the GAA, if you choose to terminate GAA treatment.
- Property you dispose of in a like-kind exchange or an involuntary conversion.
- Property you change to personal use.
- Property for which you must recapture any allowable credit or deduction, such as the investment credit, the credit for qualified electric vehicles, the section 179 deduction, or the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property placed in service before January 1, 2006.

If you remove property from a GAA, you must make the following adjustments.

1. Reduce the unadjusted depreciable basis of the GAA by the unadjusted depreciable basis of the property as of the first day of the tax year in which the disposition, change in use, partnership technical termination, or recapture event occurs. You can use any reasonable method that is consistently applied to determine the unadjusted depreciable basis of the property you remove from a GAA.

2. Reduce the depreciation reserve account by the depreciation allowed or allowable for the property (computed in the same way as computed for the GAA) as of the end of the tax year immediately preceding the year in which the disposition, change in use, or recapture event occurs.

These adjustments have no effect on the recognition and character of prior dispositions subject to the rules discussed earlier under *Disposing of GAA Property*.

Nonrecognition transactions. If you dispose of GAA property in a nonrecognition transaction, you must remove it from the GAA. The following are nonrecognition transactions.

- The receipt by one corporation of property distributed in complete liquidation of another corporation.
- The transfer of property to a corporation solely in exchange for stock in that corporation if the transferor is in control of the corporation immediately after the exchange.
- The transfer of property by a corporation that is a party to a reorganization in exchange solely for stock and securities in another corporation that is also a party to the reorganization.
- The contribution of property to a partnership in exchange for an interest in the partnership.
- The distribution of property (including money) from a partnership to a partner.
- Any transaction between members of the same affiliated group during any year for which the group makes a consolidated return.

Rules for recipient (transferee). The recipient of the property (the person to whom it is transferred) must include your (the transferor's) adjusted basis in the property in a GAA. If you transferred either all of the property, the last item of property, or the remaining portion of the last item of property, in a GAA, the recipient's basis in the property is the result of the following.

- The adjusted depreciable basis of the GAA as of the beginning of your tax year in which the transaction takes place, **minus**
- The depreciation allowable to you for the year of the transfer.

For this purpose, the adjusted depreciable basis of a GAA is the unadjusted depreciable basis of the GAA minus any depreciation allowed or allowable for the GAA.

Abusive transactions. If you dispose of GAA property in an abusive transaction, you must remove it from the GAA. A disposition is an abusive transaction if it is not a nonrecognition transaction (described earlier) or a like-kind exchange or involuntary conversion and a main purpose for the disposition is to get a tax benefit or a result that would not be available without the use of a GAA. Examples of abusive transactions include the following.

1. A transaction with a main purpose of shifting income or deductions among taxpayers in a way that would not be possible without choosing to use a GAA to take advantage of differing effective tax rates.
2. A choice to use a GAA with a main purpose of disposing of property from the GAA so that you can use an expiring net operating loss or credit. For example, if you have a net operating loss carryover or a credit carryover, the following transactions will be considered abusive transactions unless there is strong evidence to the contrary.
   a. A transfer of GAA property to a related person.
   b. A transfer of GAA property under an agreement where the property continues to be used, or is available for use, by you.

Figuring gain or loss. You must determine the gain, loss, or other deduction due to an abusive transaction by taking into account the property's adjusted basis. The adjusted basis of the property at the time of the disposition is the result of the following.

- The unadjusted depreciable basis of the property, **minus**
- The depreciation allowed or allowable for the property figured by using the depreciation method, recovery period, and convention that applied to the GAA in which the property was included.

If there is a gain, the amount subject to recapture as ordinary income is the smaller of the following:

1. The depreciation allowed or allowable for the property, including any expensed cost (such as section 179 deductions) or the special depreciation allowance for the property.
2. The result of the following:
   a. The original unadjusted depreciable basis of the GAA (plus, for section 1245 property originally included in the GAA, any expensed cost), **minus**
   b. The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Qualifying dispositions. If you dispose of GAA property in a qualifying disposition, you can choose to remove the property from the GAA. A qualifying disposition is one that does not involve all the property, or the last item of property, remaining in a GAA and that is described by any of the following.

1. A disposition that is a direct result of fire, storm, shipwreck, other casualty, or theft.
2. A charitable contribution for which a deduction is allowed.
3. A disposition that is a direct result of a cessation, termination, or disposition of a business, manufacturing or other income-producing process, operation, facility, plant, or other unit (other than by transfer to a supplies, scrap, or similar account).

4. A nontaxable transaction other than a nonrecognition transaction (described earlier), a like-kind exchange or involuntary conversion, a technical termination of a partnership, or a transaction that is nontaxable only because it is a disposition from a GAA.

If you choose to remove the property from the GAA, figure your gain, loss, or other deduction resulting from the disposition in the manner described earlier under *Abusive transactions*.

Like-kind exchanges and involuntary conversions. If you dispose of GAA property as a result of a like-kind exchange or involuntary conversion, you must remove from the GAA the property that you transferred. See chapter 1 of Pub. 544 for information on these transactions. Figure your gain, loss, or other deduction resulting from the disposition in the manner described earlier under *Abusive transactions*.

Example. Sankofa, a calendar-year corporation, maintains one GAA for 12 machines. Each machine costs $15,000 and was placed in service in 2014. Of the 12 machines, nine cost a total of $135,000 and are used in Sankofa's New York plant and three machines cost $45,000 and are used in Sankofa's New Jersey plant. Assume this GAA uses the 200% declining balance depreciation method, a 5-year recovery period, and a half-year convention. Sankofa does not claim the section 179 deduction and the machines do not qualify for a special depreciation allowance. As of January 1, 2016, the depreciation reserve account for the GAA is $93,600.

In May 2016, Sankofa sells its entire manufacturing plant in New Jersey to an unrelated person. The sales proceeds allocated to each of the three machines at the New Jersey plant is $5,000. This transaction is a qualifying disposition, so Sankofa chooses to remove the three machines from the GAA and figure the gain, loss, or other deduction by taking into account their adjusted bases.

For Sankofa's 2016 return, the depreciation allowance for the GAA is figured as follows. As of December 31, 2015, the depreciation allowed or allowable for the three machines at the New Jersey plant is $23,400. As of January 1, 2016, the unadjusted depreciable basis of the GAA is reduced from $180,000 to $135,000 ($180,000 minus the $45,000 unadjusted depreciable bases of the three machines), and the depreciation reserve account is decreased from $93,600 to $70,200 ($93,600 minus $23,400 depreciation allowed or allowable for the three machines as of December 31, 2015). The depreciation allowance for the GAA in 2016 is $25,920 [($135,000 – $70,200) × 40%].

For Sankofa's 2016 return, gain or loss for each of the three machines at the New Jersey plant is determined as follows. The depreciation allowed or allowable in 2016 for each machine is $1,440 [(($15,000 – $7,800) × 40%) ÷ 2]. The adjusted basis of each machine is $5,760 (the adjusted depreciable basis of $7,200 removed from the account less the $1,440 depreciation allowed or allowable in 2016). As a result, the loss recognized in 2016 for each machine is $760 ($5,000 – $5,760). This loss is subject to section 1231 treatment. See chapter 3 of Pub. 544 for information on section 1231 losses.

Disposition of all property in a GAA. If you dispose of all the property, or the last item of property, in a GAA, you can choose to end the GAA. If you make this choice, you figure the gain or loss by comparing the adjusted depreciable basis of the GAA with the amount realized.

If there is a gain, the amount subject to recapture as ordinary income is limited to the result of the following.

- The depreciation allowed or allowable for the GAA, including any expensed cost (such as section 179 deductions or the additional depreciation allowed or allowable for the GAA), **minus**
- The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Like-kind exchanges and involuntary conversions. If you dispose of all the property or the last item of property in a GAA as a result of a like-kind exchange or involuntary conversion, the GAA terminates. You must figure the gain or loss in the manner described above under *Disposition of all property in a GAA*.

Example. Duforcelf, a calendar-year corporation, maintains a GAA for 1,000 calculators that cost a total of $60,000 and were placed in service in 2013. Assume this GAA is depreciated under the 200% declining balance method, has a recovery period of 5 years, and uses a half-year convention. Duforcelf does not claim the section 179 deduction and the calculators do not qualify for a special depreciation allowance. In 2015, Duforcelf sells 200 of the calculators to an unrelated person for $10,000. The $10,000 is recognized as ordinary income.

In March 2016, Duforcelf sells the remaining calculators in the GAA to an unrelated person for $35,000. Duforcelf decides to end the GAA.

On the date of the disposition, the adjusted depreciable basis of the account is $23,040 (unadjusted depreciable basis of $60,000 minus the depreciation allowed or allowable of $36,960). In 2016, Duforcelf recognizes a gain of $11,960. This is the amount realized of $35,000 minus the adjusted depreciable basis of $23,040. The gain subject to recapture as ordinary income is limited to the depreciation allowed or allowable minus the amounts previously recognized as ordinary income ($36,960 – $10,000 = $26,960). Therefore, the entire gain of $11,960 is recaptured as ordinary income.

Electing To Use a GAA

An election to include property in a GAA is made separately by each owner of the property. This means that an election to include property in a GAA must be made by each member of a consolidated group and at the partnership or S corporation level (and not by each partner or shareholder separately).

How to make the election. Make the election by completing line 18 of Form 4562.

When to make the election. You must make the election on a timely filed tax return (including extensions) for the year in which you place in service the property included in the GAA. However, if you timely filed your return for the year without making the election, you still can make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement.

RECORDS You must maintain records that identify the property included in each GAA, that establish the unadjusted depreciable basis and depreciation reserve of the GAA, and that reflect the amount realized during the year upon dispositions from each GAA. However, see chapter 2 for the recordkeeping requirements for section 179 property.

Revoking an election. You can revoke an election to use a GAA only in the following situations.

- You include in the GAA property that generates foreign source income, both United States and foreign source income, or combined gross income of an FSC, a DISC, or a possessions corporation and its related supplier, and that inclusion results in a substantial distortion of income.
- You remove property from the GAA as described under *Terminating GAA Treatment*, earlier.

When Do You Recapture MACRS Depreciation?

Terms you may need to know (see Glossary):

Disposition

Nonresidential real property

Recapture

Residential rental property

When you dispose of property that you depreciated using MACRS, any gain on the disposition generally is recaptured (included in income) as ordinary income up to the amount of the depreciation previously allowed or allowable for the property. Depreciation, for this purpose, includes the following.

- Any section 179 deduction claimed on the property.
- Any deduction under section 179B of the Internal Revenue Code for capital costs to comply with Environmental Protection Agency sulfur regulations.
- Any deduction under section 179C of the Internal Revenue Code for certain qualified refinery property placed in service after August 8, 2005, and before January 1, 2014.
- Any deduction under section 179D of the Internal Revenue Code for certain energy efficient commercial building property placed in service after December 31, 2005, and before January 1, 2017.
- Any deduction under section 179E of the Internal Revenue Code for qualified advanced mine safety equipment property placed in service after December 20, 2006, and before January 1, 2017.
- Any deduction under section 190 of the Internal Revenue Code for removal of barriers to the disabled and the elderly.
- Any deduction under section 193 of the Internal Revenue Code for tertiary injectants.
- Any special depreciation allowance previously allowed or allowable for the property (unless you elected not to claim it).

There is no recapture for residential rental and nonresidential real property unless that property is qualified property for which you claimed a special depreciation allowance. For more information on depreciation recapture, see Pub. 544.

5.

Additional Rules for Listed Property

Introduction

This chapter discusses the deduction limits and other special rules that apply to certain listed property. Listed property includes cars and other property used for transportation, property used for entertainment, and certain computers.

Deductions for listed property (other than certain leased property) are subject to the following special rules and limits.

- ***Deduction for employees.*** If your use of the property is not for your employer's convenience or is not required as a condition of your employment, you cannot deduct depreciation or rent expenses for your use of the property as an employee.
- ***Business-use requirement.*** If the property is not used predominantly (more than 50%) for qualified business use, you cannot claim the section 179 deduction or a special depreciation allowance. In addition, you must figure any depreciation deduction under the Modified Accelerated Cost Recovery System (MACRS) using the straight line method over the ADS recovery period. You may also have to recapture (include in income) any excess depreciation claimed in

previous years. A similar inclusion amount applies to certain leased property.

- ***Passenger automobile limits and rules.*** Annual limits apply to depreciation deductions (including section 179 deductions and any special depreciation allowance) for certain passenger automobiles. You can continue to deduct depreciation for the unrecovered basis resulting from these limits after the end of the recovery period.

This chapter defines listed property and explains the special rules and depreciation deduction limits that apply, including the special inclusion amount rule for leased property. It also discusses the recordkeeping rules for listed property and explains how to report information about the property on your tax return.

Useful Items

You may want to see:

Publication

- ❑ **463** Travel, Entertainment, Gift, and Car Expenses
- ❑ **535** Business Expenses
- ❑ **587** Business Use of Your Home (Including Use by Daycare Providers)

Form (and Instructions)

- ❑ **2106** Employee Business Expenses
- ❑ **2106-EZ** Unreimbursed Employee Business Expenses
- ❑ **4562** Depreciation and Amortization
- ❑ **4797** Sales of Business Property

See *chapter 6* for information about getting publications and forms.

What Is Listed Property?

Terms you may need to know (see Glossary):

Capitalized

Commuting

Improvement

Recovery period

Straight line method

Listed property is any of the following.

- Passenger automobiles (as defined later).
- Any other property used for transportation, unless it is an excepted vehicle.
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment).
- Computers and related peripheral equipment, unless 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 that is used both regularly and exclusively for business as discussed in Pub. 587.

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

Passenger Automobiles

A passenger automobile is any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (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 at the time of purchase or usually included in the purchase price of an automobile.

The following vehicles are not considered passenger automobiles for these purposes.

- An ambulance, hearse, or combination ambulance-hearse used directly in a trade or business.
- A vehicle used directly in the trade or business of transporting persons or property for pay or hire.
- A truck or van that is a qualified nonpersonal use vehicle.

Qualified nonpersonal use vehicles. Qualified nonpersonal use vehicles are vehicles that by their nature are not likely to be used more than a minimal amount for personal purposes. They include the trucks and vans listed as excepted vehicles under *Other Property Used for Transportation*, next. They also include trucks and vans that have been specially modified so that they are not likely to be used more than a minimal amount for personal purposes, such as by installation of permanent shelving and painting the vehicle to display advertising or the company's name.

For a detailed discussion of passenger automobiles, including leased passenger automobiles, see Pub. 463.

Other Property Used for Transportation

CAUTION *Although vehicles used to transport persons or property for pay or hire and vehicles rated at more than the 6,000-pound threshold are not passenger automobiles, they are still "other property used for transportation" and are subject to the special rules for listed property.*

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

Excepted vehicles. Other property used for transportation does not include the following qualified nonpersonal use vehicles (defined earlier under *Passenger Automobiles*).

- Clearly marked police and fire vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Ambulances used as such and hearses used as such.
- Any vehicle with a loaded gross vehicle weight of over 14,000 pounds that is designed to carry cargo.
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks), flatbed trucks, and refrigerated trucks.
- Combines, cranes and derricks, and forklifts.
- Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat.
- Qualified moving vans.
- Qualified specialized utility repair trucks.
- School buses used in transporting students and employees of schools.
- Other buses with a capacity of at least 20 passengers that are used as passenger buses.
- Tractors and other special purpose farm vehicles.

Clearly marked police and fire vehicle. A clearly marked police or fire vehicle is a vehicle that meets all the following requirements.

- It is owned or leased by a governmental unit or an agency or instrumentality of a governmental unit.
- It is required to be used for commuting by a police officer or fire fighter who, when not on a regular shift, is on call at all times.
- It is prohibited from being used for personal use (other than commuting) outside the limit of the police officer's arrest powers or the fire fighter's obligation to respond to an emergency.
- It is clearly marked with painted insignia or words that make it readily apparent that it is a police or fire vehicle. A marking on a license plate is not a clear marking for these purposes.

Qualified moving van. A qualified moving van is any truck or van used by a professional moving company for moving household or business goods if the following requirements are met.

- No personal use of the van is allowed other than for travel to and from a move site or for minor personal use, such as a stop for lunch on the way from one move site to another.
- Personal use for travel to and from a move site happens no more than five times a month on average.
- Personal use is limited to situations in which it is more convenient to the employer, because of the location of the employee's residence in relation to the location of the move site, for the van not to be returned to the employer's business location.

Qualified specialized utility repair truck. A truck is a qualified specialized utility repair truck if it is not a van or pickup truck and all the following apply.

- The truck was specifically designed for and is used to carry heavy tools, testing equipment, or parts.
- Shelves, racks, or other permanent interior construction has been installed to carry and store the tools, equipment, or parts and would make it unlikely that the truck would be used, other than minimally, for personal purposes.
- The employer requires the employee to drive the truck home in order to be able to respond in emergency situations for purposes of restoring or maintaining electricity, gas, telephone, water, sewer, or steam utility services.

Computers and Related Peripheral Equipment

A computer is a programmable, electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of those processes with or without human intervention. It 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.

The following are neither computers nor related peripheral equipment.

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

Can Employees Claim a Deduction?

If you are an employee, you can claim a depreciation deduction for the use of your listed property (whether owned or rented) in performing services as an employee only if your use is a business use. The use of your property in performing services as an employee is a business use only if both the following requirements are met.

- The use is for your employer's convenience.

- The use is required as a condition of your employment.

If these requirements are not met, you cannot deduct depreciation (including the section 179 deduction) or rent expenses for your use of the property as an employee.

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

Condition of employment. Whether the use of listed property is a condition of your employment depends on all the facts and circumstances. The use of property must be required for you to perform your duties properly. Your employer does not have to require explicitly that you use the property. However, a mere statement by the employer that the use of the property is a condition of your 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 car or motorcycle for use in their employment. 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 pays him for any costs he incurs in traveling to the various sites. The use of his own automobile or a rental automobile is for the convenience of Uplift and is required as a condition of employment.

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

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

Example 5. David Rule is employed as an engineer with Zip, an engineering contracting firm. He occasionally takes work home at night rather than work late in the office. He owns and uses a home computer which is virtually identical to the office model. His use of the computer is neither for the convenience of his employer nor required as a condition of employment.

What Is the Business-Use Requirement?

Terms you may need to know (see Glossary):

Adjusted basis

Business/investment use

Capitalized

Commuting

Declining balance method

Fair market value (FMV)

Nonresidential real property

Placed in service

Recapture

Recovery period

Straight line method

You can claim the section 179 deduction and a special depreciation allowance for listed property and depreciate listed property using GDS and a declining balance method if the property meets the business-use requirement. To meet this requirement, listed property must be used predominantly (more than 50% of its total use) for qualified business use. If this requirement is not met, the following rules apply.

- Property not used predominantly for qualified business use during the year it is placed in service does not qualify for the section 179 deduction.
- Property not used predominantly for qualified business use during the year it is placed in service does not qualify for a special depreciation allowance.
- Any depreciation deduction under MACRS for property not used predominantly for qualified business use during any year must be figured using the straight line method over the ADS recovery period. This rule applies each year of the recovery period.
- Excess depreciation on property previously used predominantly for qualified business use must be recaptured (included in income) in the first year in which it is no longer used predominantly for qualified business use.
- A lessee must add an inclusion amount to income in the first year in which the leased property is not used predominantly for qualified business use.

Being required to use the straight line method for an item of listed property not used predominantly for qualified business use 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.

Exception for leased property. The business-use requirement generally does not apply to any listed property leased or held for leasing by anyone regularly engaged in the business of leasing listed property.

You are considered regularly engaged in the business of leasing listed property only if you enter into contracts for the leasing of listed property 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 your business in its entirety. Occasional or incidental leasing activity is insufficient. For example, if you lease only one passenger automobile during a tax year, you are 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.

How To Allocate Use

To determine whether the business-use requirement is met, you must allocate the use of any item of listed property used for more than one purpose during the year among its various uses.

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 you drove the vehicle for business purposes during the year by the total number of miles you drove the vehicle for all purposes (including business miles) during the year.

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

Entertainment use. Treat the use of listed property for entertainment, recreation, or amusement purposes as a business use only to the extent you can deduct expenses (other than interest and property tax expenses) due to its use as an ordinary and necessary business expense.

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

Use of your automobile by another person. If someone else uses your automobile, do not treat that use as business use unless one of the following conditions applies.

1. That use is directly connected with your business.
2. You properly report the value of the use as income to the other person and withhold tax on the income where required.
3. You are paid a fair market rent.

Treat any payment to you for the use of the automobile as a rent payment for purposes of item (3).

Employee deductions. If you are an employee, do not treat your use of listed property as business use unless it is for your employer's convenience and is required as a condition of your employment. See *Can Employees Claim a Deduction*, earlier.

Qualified Business Use

Qualified business use of listed property is any use of the property in your trade or business. However, it does not include the following uses.

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

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

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

5% owner. For a business entity that is not a corporation, a 5% owner is any person who owns more than 5% of the capital or profits interest in the business.

For a corporation, a 5% owner is any person who owns, or is considered to own, either of the following.

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

Related persons. For a description of related persons, see *Related persons* in the discussion on property owned or used in 1986 under *What Method Can You Use To Depreciate Your Property* in chapter 1. For this purpose, however, treat as related persons only the relationships listed in items (1) through (10) of that discussion and substitute "50%" for "10%" each place it appears.

Examples. The following examples illustrate whether the use of business property is qualified business use.

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

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

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

Investment Use

The use of property to produce income in a nonbusiness activity (investment use) is not a qualified business use. However, you can treat the investment use as business use to figure the depreciation deduction for the property in a given year.

Example 1. Sarah Bradley uses a home computer 50% of the time to manage her investments. She also uses the computer 40% of the time in her part-time consumer research business. Sarah's home computer is listed property because it is not used at a regular business establishment. She does not use the computer predominantly for qualified business use. Therefore, she cannot elect a section 179 deduction or claim a special depreciation allowance for the computer. She must depreciate it using the straight line method over the ADS recovery period. Her combined business/investment use for determining her depreciation deduction is 90%.

Example 2. If Sarah uses her computer 30% of the time to manage her investments and 60% of the time in her consumer research business, it is used predominantly for qualified business use. She can elect a section 179 deduction and, if she does not deduct all the computer's cost, she can claim a special depreciation allowance and depreciate the computer using the 200% declining balance method over the GDS recovery period. Her combined business/investment use for determining her depreciation deduction is 90%.

Recapture of Excess Depreciation

If you used listed property more than 50% in a qualified business use in the year you placed it in service, you must recapture (include in income) excess depreciation in the first year you use it 50% or less. You also increase the adjusted basis of your property by the same amount.

Excess depreciation is:

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

To determine the amount in (2) above, you must refigure the depreciation using the straight line method and the ADS recovery period.

Example. In June 2012, Ellen Rye purchased and placed in service a pickup truck that cost $18,000. She used it only for qualified business use for 2012 through 2015. Ellen claimed a section 179 deduction of $10,000 based on the purchase of the truck. She began depreciating it using the 200% DB method over a 5-year GDS recovery period. The pickup truck's gross vehicle weight was over 6,000 pounds, so it was not subject to the passenger automobile limits discussed later under *Do the Passenger Automobile Limits Apply*. During 2016, she used the truck 50% for business and 50% for personal purposes. She includes $4,018 excess depreciation in her gross income for 2016. The excess depreciation is determined as follows.

Total section 179 deduction ($10,000) and depreciation claimed ($6,618) for 2012 through 2015. (Depreciation is from Table A-1.)		$16,618
Minus: Depreciation allowable (Table A-8):		
2012 – 10% of $18,000	$1,800	

2013 – 20% of $18,000	3,600	
2014 – 20% of $18,000	3,600	
2015 – 20% of $18,000	3,600	12,600
Excess depreciation		**$4,018**

If Ellen's use of the truck does not change to 50% for business and 50% for personal purposes until 2018, there will be no excess depreciation. The total depreciation allowable using Table A-8 through 2018 will be $18,000, which equals the total of the section 179 deduction and depreciation she will have claimed.

Where to figure and report recapture. Use Form 4797, Part IV, to figure the recapture amount. Report the recapture amount as other income on the same form or schedule on which you took the depreciation deduction. For example, report the recapture amount as other income on Schedule C (Form 1040) if you took the depreciation deduction on Schedule C. If you took the depreciation deduction on Form 2106, report the recapture amount as other income on Form 1040, line 21.

Lessee's Inclusion Amount

If you use leased listed property other than a passenger automobile for business/investment use, you must include an amount in your income in the first year your qualified business-use percentage is 50% or less. Your qualified business-use percentage is the part of the property's total use that is qualified business use (defined earlier). For the inclusion amount rules for a leased passenger automobile, see Leasing a Car in chapter 4 of Pub. 463.

The inclusion amount is the sum of Amount A and Amount B, described next. However, see the special rules for the inclusion amount, later, if your lease begins in the last 9 months of your tax year or is for less than one year.

Amount A. Amount A is:

1. The fair market value of the property, multiplied by
2. The business/investment use for the first tax year the qualified business-use percentage is 50% or less, multiplied by
3. The applicable percentage from Table A-19 in Appendix A.

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

Amount B. Amount B is:

1. The fair market value of the property, multiplied by
2. The average of the business/investment use for all tax years the property was leased that precede the first tax year the qualified business-use percentage is 50% or less, multiplied by
3. The applicable percentage from Table A-20 in Appendix A.

Maximum inclusion amount. The inclusion amount cannot be more than the sum of the deductible amounts of rent for the tax year in which the lessee must include the amount in gross income.

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

Inclusion Amount Worksheet for Leased Listed Property

Keep for Your Records

1.	Fair market value	_____
2.	Business/investment use for first year business use is 50% or less	_____
3.	Multiply line 1 by line 2.	_____
4.	Rate (%) from Table A-19	_____
5.	Multiply line 3 by line 4. This is Amount A.	_____
6.	Fair market value	_____
7.	Average business/investment use for years property leased before the first year business use is 50% or less	_____
8.	Multiply line 6 by line 7	_____
9.	Rate (%) from Table A-20	_____
10.	Multiply line 8 by line 9. This is Amount B.	_____
11.	Add line 5 and line 10. This is your inclusion amount. Enter here and as ***other income*** on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Form 1040, Form 1120, etc.)	_____

Example. On February 1, 2014, Larry House, a calendar year taxpayer, leased and placed in service a computer with a fair market value of $3,000. The lease is for a period of 5 years. Larry does not use the computer at a regular business establishment, so it is listed property. His business use of the property (all of which is qualified business use) is 80% in 2014, 60% in 2015, and 40% in 2016. He must add an inclusion amount to gross income for 2016, the first tax year his qualified business-use percentage is 50% or less. The computer has a 5-year recovery period under both GDS and ADS. 2016 is the third tax year of the lease, so the applicable percentage from Table A-19 is –19.8%. The applicable percentage from Table A-20 is 22%. Larry's deductible rent for the computer for 2016 is $800.

Larry uses the Inclusion amount worksheet to figure the amount he must include in income for 2016. His inclusion amount is $224, which is the sum of –$238 (Amount A) and $462 (Amount B).

Inclusion Amount Worksheet for Leased Listed Property

Keep for Your Records

1.	Fair market value	$3,000	
2.	Business/investment use for first year business use is 50% or less	40	%
3.	Multiply line 1 by line 2.	1,200	
4.	Rate (%) from Table A-19	–19.8	%
5.	Multiply line 3 by line 4. This is Amount A.	–238	
6.	Fair market value	3,000	
7.	Average business/investment use for years property leased before the first year business use is 50% or less	70	%
8.	Multiply line 6 by line 7	2,100	
9.	Rate (%) from Table A-20	22.0	%
10.	Multiply line 8 by line 9. This is Amount B.	462	
11.	Add line 5 and line 10. This is your inclusion amount. Enter here and as ***other income*** on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Form 1040, Form 1120, etc.)	$224	

Lease beginning in the last 9 months of your tax year. The inclusion amount is subject to a special rule if all the following apply.

- The lease term begins within 9 months before the close of your tax year.
- You do not use the property predominantly (more than 50%) for qualified business use during that part of the tax year.
- The lease term continues into your next tax year.

Under this special rule, add the inclusion amount to income in the next tax year. Figure the inclusion amount by taking into account the average of the business/investment use for both tax years (line 2 of the Inclusion Amount Worksheet for Leased Listed Property) and the applicable percentage for the tax year the lease term begins. Skip lines 6 through 9 of the worksheet and enter zero on line 10.

Example 1. On August 1, 2015, Julie Rule, a calendar year taxpayer, leased and placed in service an item of listed property. The property is 5-year property with a fair market value of $10,000. Her property has a recovery period of 5 years under ADS. The lease is for 5 years. Her business use of the property was 50% in 2015 and 90% in 2016. She paid rent of $3,600 for 2015, of which $3,240 is deductible. She must include $147 in income in 2016. The $147 is the sum of Amount A and Amount B. Amount A is $147 ($10,000 × 70% × 2.1%), the product of the fair market value, the average business use for 2015 and 2016, and the applicable percentage for year one from Table A-19. Amount B is zero.

Lease for less than one year. A special rule for the inclusion amount applies if the lease term is less than one year and you do not use the property predominantly (more than 50%) for qualified business use. The amount included in income is the inclusion amount (figured as described in the preceding discussions) multiplied by a fraction. The numerator of the fraction is the number of days in the lease term and the denominator is 365 (or 366 for leap years).

The lease term for listed property other than residential rental or nonresidential real property includes options to renew. If you have 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, treat them as one lease.

Example 2. On October 1, 2015, John Joyce, a calendar year taxpayer, leased and placed in service an item of listed property that is 3-year property. This property had a fair market value of $15,000 and a recovery period of 5 years under ADS. The lease term was 6 months (ending on March 31, 2016), during which he used the property 45% in business. He must include $71 in income in 2016. The $71 is the sum of Amount A and Amount B. Amount A is $71 ($15,000 × 45% × 2.1% × 183/366), the product of the fair market value, the average business use for both years, and the applicable percentage for year one from Table A-19, prorated for the length of the lease. Amount B is zero.

Where to report inclusion amount. Report the inclusion amount figured as described in the preceding discussions as other income on the same form or schedule on which you took the deduction for your rental costs. For example, report the inclusion amount as other income on Schedule C (Form 1040) if you took the deduction on Schedule C. If you took the deduction for rental costs on Form 2106, report the inclusion amount as other income on Form 1040, line 21.

Do the Passenger Automobile Limits Apply?

Terms you may need to know (see Glossary):

Basis

Convention

Placed in service

Recovery period

The depreciation deduction, including the section 179 deduction and special depreciation allowance, you can claim for a passenger automobile (defined earlier) each year is limited.

This section describes the maximum depreciation deduction amounts for 2016 and explains how to deduct, after the recovery period, the unrecovered basis of your property that results from applying the passenger automobile limit.

Exception for leased cars. The passenger automobile limits generally do not apply to passenger automobiles leased or held for leasing by anyone regularly engaged in the business of leasing passenger automobiles. For information on when you are considered regularly engaged in the business of leasing listed property, including passenger automobiles, see *Exception for leased property*, earlier, under *What Is the Business-Use Requirement*.

Maximum Depreciation Deduction

The passenger automobile limits are the maximum depreciation amounts you can deduct for a passenger automobile. They are based on the date you placed the automobile in service.

Passenger Automobiles

The maximum deduction amounts for most passenger automobiles are shown in the following table.

Maximum Depreciation Deduction for Passenger Automobiles

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2016	$11,160[1]	$5,100	$3,050	$1,875
2015	11,160[2]	5,100	3,050	1,875
2014	11,160[3]	5,100	3,050	1,875
2013	11,160[3]	5,100	3,050	1,875
2012	11,160[3]	5,100	3,050	1,875
2011	11,060[4]	4,900	2,950	1,775
2010	11,060[4]	4,900	2,950	1,775
2009	10,960[5]	4,800	2,850	1,775
2008	10,960[5]	4,800	2,850	1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775
2005	2,960	4,700	2,850	1,675

[1] if you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,160.

[2] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,160. Also, if you placed in service the vehicle in a tax year beginning in 2015 and ending in 2016, and you elected to accelerate certain credits in lieu of the special depreciation for that tax year, the maximum deduction is $3,160.

[3] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,160.

[4] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,060.

[5] If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is $2,960.

CAUTION *If your business/investment use of the automobile is less than 100%, you must reduce the maximum deduction amount by multiplying the maximum amount by the percentage of business/investment use determined on an annual basis during the tax year.*

CAUTION *If you have a short tax year, you must reduce the maximum deduction amount by multiplying the maximum amount by a fraction. The numerator of the fraction is the number of months and partial months in the short tax year and the denominator is 12.*

Example. On April 15, 2016, Virginia Hart bought and placed in service a new car for $14,500. She used the car only in her business. She files her tax return based on the calendar year. She does not elect a section 179 deduction and elected not to claim any special depreciation allowance for the car. Under MACRS, a car is 5-year property. Since she placed her car in service on April 15 and used it only for business, she uses the percentages in Table A-1 to figure her MACRS depreciation on the car. Virginia multiplies the $14,500 unadjusted basis of her car by 0.20 to get her MACRS depreciation of $2,900 for 2016. This $2,900 is below the maximum depreciation deduction of $3,160 for passenger automobiles placed in service in 2016. She can deduct the full $2,900.

Electric Vehicles

The maximum depreciation deductions for passenger automobiles that are produced to run primarily on electricity are higher than those for other automobiles. The maximum deduction amounts for electric vehicles placed in service after August 5, 1997, and before January 1, 2007, are shown in the following table. Owners of electric vehicles placed in service after December 31, 2006, should use the table of maximum deduction amounts in the previous section titled Passenger Automobiles for electric vehicles classified as passenger automobiles or use the table of maximum deduction amounts for trucks and vans, later, for electric vehicles classified as trucks and vans.

Maximum Depreciation Deduction for Electric Vehicles

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2006	$8,980	$14,400	$8,650	$5,225
2005	8,880	14,200	8,450	5,125
2004	31,830[1]	14,300	8,550	5,125
5/06/2003–12/31/2003	32,030[2]	14,600	8,750	5,225
1/01/2003–5/05/2003	22,880[3]	14,600	8,750	5,225

[1] If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is $8,880.

[2] If you acquired the vehicle before 5/06/03, the maximum deduction is $22,880. If you elected **not** to claim any special depreciation allowance for the vehicle, the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is $9,080.

[3] If you elected **not** to claim any special depreciation allowance for the vehicle, the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is $9,080.

Trucks and Vans

The maximum depreciation deductions for trucks and vans placed in service after 2002 are higher than those for other passenger automobiles. The maximum deduction amounts for trucks and vans are shown in the following table.

Maximum Depreciation Deduction For Trucks and Vans

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2016	$11,560[1]	$5,700	$3,350	$2,075
2015	11,460[2]	5,600	3,350	1,975
2014	11,460[3]	5,500	3,350	1,975
2013	11,360[4]	5,400	3,250	1,975
2012	11,360[4]	5,300	3,150	1,875
2011	11,260[5]	5,200	3,150	1,875
2010	11,160[6]	5,100	3,050	1,875
2009	11,060[7]	4,900	2,950	1,775
2008	11,160[8]	5,100	3,050	1,875
2007	3,260	5,200	3,050	1,875
2006	3,260	5,200	3,150	1,875
2005	3,260	5,200	3,150	1,875

[1] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,560.

[2] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,460. Also, if you placed in service the vehicle in a tax year beginning in 2015 and ending in 2016, and you elected to accelerate certain credits in lieu of the special depreciation for that tax year, the maximum deduction is $3,460.

[3] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,460.

[4] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,360.

[5] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,260.

[6] If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is $3,160.

[7] If you elect **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is $3,060.

[8] If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is $3,160.

Depreciation Worksheet for Passenger Automobiles

You can use the following worksheet to figure your depreciation deduction using the percentage tables. Then use the information from this worksheet to prepare Form 4562.

Depreciation Worksheet for Passenger Automobiles

Keep for Your Records

Part I

1. MACRS system (GDS or ADS) . . . . . _____
2. Property class . . . . . _____
3. Date placed in service . . . . . _____
4. Recovery period . . . . . _____
5. Method and convention . . . . . _____
6. Depreciation rate (from tables) . . . . . _____

7. Maximum depreciation deduction for this year from the appropriate table . . . . . _____
8. Business/investment-use percentage . . . . . _____
9. Multiply line 7 by line 8. This is your adjusted maximum depreciation deduction . . . . . _____
10. Section 179 deduction claimed this year (not more than line 9). Enter -0- if this is not the year you placed the car in service. . . . . _____

Note.
1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction (including your special depreciation allowance) is limited to the amount on line 9.
2) If line 10 is less than line 9, complete Part II.

Part II

11. Subtract line 10 from line 9. This is the limit on the amount you can deduct for depreciation (including any special depreciation allowance) . . . . . _____
12. Cost or other basis (reduced by any alternative motor vehicle credit [1]or credit for electric vehicles [2]) . . . . . _____
13. Multiply line 12 by line 8. This is your business/investment cost . . . . . _____
14. Section 179 deduction claimed in the year you placed the car in service . . . . . _____
15. Subtract line 14 from line 13. This is your tentative basis for depreciation . . . . . _____
16. Multiply line 15 by .50 if the 50% special depreciation allowance applies. This is your special depreciation allowance. Enter -0- if this is not the year you placed the car in service, the car is not qualified property, or you elected not to claim a special depreciation allowance . . . . . _____

Note
1) If line 16 is equal to line 11, stop here. Your depreciation deduction (including your special depreciation allowance) is limited to the amount on line 11.
2) If line 16 is less than line 11, complete Part III.

Part III

17. Subtract line 16 from 11. This is the limit on the amount you can deduct for MACRS depreciation . . . . . _____
18. Subtract line 16 from line 15. This is your basis for depreciation. . . . . _____
19. Multiply line 18 by line 6. This is your tentative MACRS depreciation deduction. . . . . _____
20. Enter the lesser of line 17 or line 19. This is your MACRS depreciation deduction. . . . . _____

[1] When figuring the amount to enter on line 12, do not reduce your cost or other basis by any section 179 deduction you claimed for your car.

[2] Reduce the basis by the lesser of $4,000 or 10% of the cost of the vehicle even if the credit is less than that amount.

Deductions After the Recovery Period

If the depreciation deductions for your automobile are reduced under the passenger automobile limits, you will have unrecovered basis in your automobile at the end of the recovery period. If you continue to use the automobile for business, you can deduct that unrecovered basis after the recovery period ends. You can claim a depreciation deduction in each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct each year is determined by the date you placed the car in service and your business/investment-use percentage. See *Maximum Depreciation Deduction*, earlier.

Unrecovered basis is the cost or other basis of the passenger automobile reduced by any clean-fuel vehicle deduction, electric vehicle credit, depreciation, and section 179 deductions that would have been allowable if you had used the car 100% for business and investment use and the passenger automobile limits had not applied.

You cannot claim a depreciation deduction for listed property other than passenger automobiles after the recovery period ends. There is no unrecovered basis at the end of the recovery period because you are considered to have used this property 100% for business and investment purposes during all of the recovery period.

Example. In May 2010, you bought and placed in service a car costing $31,500. The car was 5-year property under GDS (MACRS). You did not elect a section 179 deduction and elected not to claim any special depreciation allowance for the car. You used the car exclusively for business during the recovery period (2010 through 2015). You figured your depreciation as shown below.

Year	Percentage	Amount	Limit	Allowed
2010	20.0%	$6,300	$3,060	$3,060
2011	32.0	10,080	4,900	4,900
2012	19.2	6,048	2,950	2,950
2013	11.52	3,629	1,775	1,775
2014	11.52	3,629	1,775	1,775
2015	5.76	1,814	1,775	1,775
Total				**$16,235**

At the end of 2015, you had an unrecovered basis of $15,265 ($31,500 – $16,235). If in 2016 and later years you continue to use the car 100% for business, you can deduct each year the lesser of $1,775 or your remaining unrecovered basis.

If your business use of the car had been less than 100% during any year, your depreciation deduction would have been less than the maximum amount allowable for that year. However, in figuring your unrecovered basis in the car, you would still reduce your basis by the maximum amount allowable as if the business use had been 100%. For example, if you had used your car 60% for business instead of 100%, your allowable depreciation deductions would have been $9,159 ($15,265 × 60%), but you still would have to reduce your basis by $15,265 to determine your unrecovered basis.

Deductions For Passenger Automobiles Acquired in a Trade-in

If you acquire a passenger automobile in a trade-in, depreciate the carryover basis separately as if the trade-in did not occur. Depreciate the part of the new automobile's basis that exceeds its carryover basis (excess basis) as if it were newly placed in service property. This excess basis is the additional cash paid for the new automobile in the trade-in.

The depreciation figured for the two components of the basis (carryover basis and excess basis) is subject to a single passenger automobile limit. Special rules apply in determining the passenger automobile limits. These rules and examples are discussed in section 1.168(i)-6(d)(3) of the regulations.

Instead of figuring depreciation for the carryover basis and the excess basis separately, you can elect to treat the old automobile as disposed of and both of the basis components for the new automobile as if placed in service at the time of the trade-in. For more information, including how to make this election, see *Election out* under *Property Acquired in a Like-Kind Exchange or Involuntary Conversion* in chapter 4 and sections 1.168(i)-6(i) and 1.168(i)-6(j) of the regulations.

What Records Must Be Kept?

Terms you may need to know (see Glossary):

Business/investment use

Circumstantial evidence

Documentary evidence

You cannot take any depreciation or section 179 deduction for the use of listed property unless you can prove your business/investment use with adequate records or with sufficient evidence to support your own statements. For listed property, you must keep records for as long as any recapture can still occur. Recapture can occur in any tax year of the recovery period.

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. You do not have 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. Your records or other documentary evidence must support all the following.

- 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.
- 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.
- The date of the expenditure or use.
- 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. You do not have to keep a daily log. 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 of the expenditure or use and backed up by other documents is preferable to a statement you prepare later.

Timeliness. You must record the elements of an expenditure or use 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 generally is considered a timely record if, in the regular course of business:

- The statement is given by an employee to the employer, or
- The statement is given by an independent contractor to the client or customer.

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

Business purpose supported. Generally, an adequate record of business purpose must be in the form of a written statement. However, the amount of detail 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 who uses a truck for both business and personal purposes and whose only business use of the 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 you generally must prepare an adequate written record, you can prepare a record of the business use of listed property in a computer memory device that uses a logging program.

Separate or combined expenditures or uses. Each use by you normally is considered a separate use. However, you can combine repeated uses as a single item.

Record each expenditure as a separate item. Do not combine it with other expenditures. If you choose, however, you can combine amounts you spent for the use of listed property during a tax year, such as for gasoline or automobile repairs. If you combine these expenses, 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.

You can account for uses that can be considered part of a single use, such as a round trip or uninterrupted business use, by a single record. For example, you can account for the use of a truck to make deliveries at several locations that begin and end at the business premises and can include a stop at the business in between deliveries by a single record of miles driven. You can account for the use of a passenger automobile by a salesperson for a business trip away from home over a period of time 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, you do not need to include it in the account book or similar record if you record it at or near the time of the expenditure or use. You must keep it elsewhere and make it available as support to the IRS director for your area 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 satisfaction of the IRS director for your area, you can establish this element by any evidence the IRS director for your area deems adequate.

If you fail to establish to the satisfaction of the IRS director for your area that you have substantially complied with the adequate records requirement for an element of an expenditure or use, you must establish the element as follows.

- By your own oral or written statement containing detailed information as to the element.
- 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 evidence, 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 part of a tax year and use that record to support your business and investment use of listed property for the entire tax year if it can be shown by other evidence that the periods for which you maintain an adequate record are representative of the use throughout the year.

Example 1. Denise Williams, a sole proprietor and calendar year taxpayer, operates an interior decorating business out of her home. She uses her automobile for local business visits to the homes or offices of clients, for meetings with suppliers and subcontractors, and to pick up and deliver items to clients. There is no other business use of the automobile, but she and family members also use it for personal purposes. She maintains adequate records for the first 3 months of the year showing that 75% of the automobile use was for business. Subcontractor invoices and paid bills show that her business continued at approximately the same rate for the rest of the year. If there is no change in circumstances, such as the purchase of a second car for exclusive use in her business, the determination that her combined business/investment use of the automobile for the tax year is 75% rests on sufficient supporting evidence.

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

Example 3. Bill Baker, a sole proprietor and calendar year taxpayer, is a salesman in a large metropolitan area for a company that manufactures household products. For

the first 3 weeks of each month, he occasionally uses his own automobile for business travel within the metropolitan area. During these weeks, his business use of the automobile does not follow a consistent pattern. During the fourth week of each month, he delivers all business orders taken during the previous month. The business use of his automobile, as supported by adequate records, is 70% of its total use during that fourth week. The determination based on the record maintained during the fourth week of the month that his business/investment use of the automobile for the tax year is 70% does not rest on sufficient supporting evidence because his use during that week is not representative of use during other periods.

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

How Is Listed Property Information Reported?

You must provide the information about your listed property requested in Part V of Form 4562, Section A, if you claim either of the following deductions.

- Any deduction for a vehicle.
- A depreciation deduction for any other listed property.

If you claim any deduction for a vehicle, you also must provide the information requested in Section B. If you provide the vehicle for your employee's use, the employee must give you this information. If you provide any vehicle for use by an employee, you must first answer the questions in Section C to see if you meet an exception to completing Section B for that vehicle.

Vehicles used by your employees. You do not have to complete Section B, Part V, for vehicles used by your employees who are not more-than-5% owners or related persons if you meet at least one of the following requirements.

1. You maintain a written policy statement that prohibits one of the following uses of the vehicles.
   a. All personal use including commuting.
   b. Personal use, other than commuting, by employees who are not officers, directors, or 1%-or-more owners.
2. You treat all use of the vehicles by your employees as personal use.
3. You provide more than five vehicles for use by your employees, and you keep in your records the information on their use given to you by the employees.
4. For demonstrator automobiles provided to full-time salespersons, you maintain a written policy statement that limits the total mileage outside the salesperson's normal working hours and prohibits use of the automobile by anyone else, for vacation trips, or to store personal possessions.

Exceptions. If you file Form 2106, 2106-EZ, or Schedule C-EZ (Form 1040), and you are not required to file Form 4562, report information about listed property on that form and not on Form 4562. Also, if you file Schedule C (Form 1040) and are claiming the standard mileage rate or actual vehicle expenses (except depreciation) and you are not required to file Form 4562 for any other reason, report vehicle information in Part IV of Schedule C and not on Form 4562.

6.

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 limited-English-speaking 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 brand-name 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 tax-saving opportunities, 2016 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 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 4506-T 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 tax-related 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 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 over-the-phone 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 large-scale 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 A
MACRS Percentage Table Guide
General Depreciation System (GDS)
Alternative Depreciation System (ADS)

Chart 1. *Use this chart to find the correct percentage table to use for any property other than residential rental and nonresidential real property. Use Chart 2 for residential rental and nonresidential real property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	200%	GDS/3, 5, 7, 10 (Nonfarm)	Half-Year	3, 5, 7, 10	Any	A-1
GDS	200%	GDS/3, 5, 7, 10 (Nonfarm)	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS	150%	GDS/3, 5, 7, 10	Half-Year	3, 5, 7, 10	Any	A-14
GDS	150%	GDS/3, 5, 7, 10	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18
GDS	150%	GDS/15, 20	Half-Year	15 & 20	Any	A-1
GDS	150%	GDS/15, 20	Mid-Quarter	15 & 20	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS ADS	SL	GDS ADS	Half-Year	Any	Any	A-8
GDS ADS	SL	GDS ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-9 A-10 A-11 A-12
ADS	150%	ADS	Half-Year	Any	Any	A-14
ADS	150%	ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18

Chart 2. *Use this chart to find the correct percentage table to use for residential rental and nonresidential real property. Use Chart 1 for all other property.*

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	SL	GDS/27.5	Mid-Month	Residential Rental	Any	A-6
GDS	SL SL	GDS/31.5 GDS/39	Mid-Month	Nonresidential Real	Any	A-7 A-7a
ADS	SL	ADS/40	Mid-Month	Residential Rental and Nonresidential Real	Any	A-13

Chart 3. **Income Inclusion Amount Rates for MACRS Leased Listed Property**

	Table
Amount A Percentages	A-19
Amount B Percentages	A-20

Table A-1. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Half-Year Convention**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

Table A-2. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in First Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	58.33%	35.00%	25.00%	17.50%	8.75%	6.563%
2	27.78	26.00	21.43	16.50	9.13	7.000
3	12.35	15.60	15.31	13.20	8.21	6.482
4	1.54	11.01	10.93	10.56	7.39	5.996
5		11.01	8.75	8.45	6.65	5.546
6		1.38	8.74	6.76	5.99	5.130
7			8.75	6.55	5.90	4.746
8			1.09	6.55	5.91	4.459
9				6.56	5.90	4.459
10				6.55	5.91	4.459
11				0.82	5.90	4.459
12					5.91	4.460
13					5.90	4.459
14					5.91	4.460
15					5.90	4.459
16					0.74	4.460
17						4.459
18						4.460
19						4.459
20						4.460
21						0.565

Table A-3. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Second Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	41.67%	25.00%	17.85%	12.50%	6.25%	4.688%
2	38.89	30.00	23.47	17.50	9.38	7.148
3	14.14	18.00	16.76	14.00	8.44	6.612
4	5.30	11.37	11.97	11.20	7.59	6.116
5		11.37	8.87	8.96	6.83	5.658
6		4.26	8.87	7.17	6.15	5.233
7			8.87	6.55	5.91	4.841
8			3.34	6.55	5.90	4.478
9				6.56	5.91	4.463
10				6.55	5.90	4.463
11				2.46	5.91	4.463
12					5.90	4.463
13					5.91	4.463
14					5.90	4.463
15					5.91	4.462
16					2.21	4.463
17						4.462
18						4.463
19						4.462
20						4.463
21						1.673

Table A-4. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Mid-Quarter Convention Placed in Service in Third Quarter**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	25.00%	15.00%	10.71%	7.50%	3.75%	2.813%
2	50.00	34.00	25.51	18.50	9.63	7.289
3	16.67	20.40	18.22	14.80	8.66	6.742
4	8.33	12.24	13.02	11.84	7.80	6.237
5		11.30	9.30	9.47	7.02	5.769
6		7.06	8.85	7.58	6.31	5.336
7			8.86	6.55	5.90	4.936
8			5.53	6.55	5.90	4.566
9				6.56	5.91	4.460
10				6.55	5.90	4.460
11				4.10	5.91	4.460
12					5.90	4.460
13					5.91	4.461
14					5.90	4.460
15					5.91	4.461
16					3.69	4.460
17						4.461
18						4.460
19						4.461
20						4.460
21						2.788

Table A-5. **3-, 5-, 7-, 10-, 15-, and 20-Year Property**
Mid-Quarter Convention
Placed in Service in Fourth Quarter

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	8.33%	5.00%	3.57%	2.50%	1.25%	0.938%
2	61.11	38.00	27.55	19.50	9.88	7.430
3	20.37	22.80	19.68	15.60	8.89	6.872
4	10.19	13.68	14.06	12.48	8.00	6.357
5		10.94	10.04	9.98	7.20	5.880
6		9.58	8.73	7.99	6.48	5.439
7			8.73	6.55	5.90	5.031
8			7.64	6.55	5.90	4.654
9				6.56	5.90	4.458
10				6.55	5.91	4.458
11				5.74	5.90	4.458
12					5.91	4.458
13					5.90	4.458
14					5.91	4.458
15					5.90	4.458
16					5.17	4.458
17						4.458
18						4.459
19						4.458
20						4.459
21						3.901

Table A-6. **Residential Rental Property**
Mid-Month Convention
Straight Line—27.5 Years

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2–9	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636
10	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
11	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
12	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
13	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
14	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
15	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
16	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
17	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
18	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
19	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
20	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
21	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
22	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
23	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
24	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
25	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
26	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
27	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
28	1.97	2.273	2.576	2.879	3.182	3.485	3.636	3.636	3.636	3.636	3.636	3.636
29							0.152	0.455	0.758	1.061	1.364	1.667

Table A-7. **Nonresidential Real Property**
Mid-Month Convention
Straight Line—31.5 Years

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	3.042%	2.778%	2.513%	2.249%	1.984%	1.720%	1.455%	1.190%	0.926%	0.661%	0.397%	0.132%
2–7	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175
8	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.175	3.175	3.175	3.175	3.175
9	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
10	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
11	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
12	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
13	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
14	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
15	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
16	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
17	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
18	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
19	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
20	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
21	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
22	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
23	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
24	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
25	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
26	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
27	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
28	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
29	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
30	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174
31	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175	3.174	3.175
32	1.720	1.984	2.249	2.513	2.778	3.042	3.175	3.174	3.175	3.174	3.175	3.174
33							0.132	0.397	0.661	0.926	1.190	1.455

Table A-7a. **Nonresidential Real Property**
Mid-Month Convention
Straight Line—39 Years

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
2–39	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564
40	0.107	0.321	0.535	0.749	0.963	1.177	1.391	1.605	1.819	2.033	2.247	2.461

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

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

Table A-8. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%
2	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
10	10.0	9.53	9.09	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
11	5.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
12			4.55	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88
13					4.17	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.89
14							3.85	7.40	7.15	6.66	6.25	6.06	5.88
15									3.57	6.67	6.25	6.06	5.89
16										3.33	6.25	6.06	5.88
17											3.12	6.07	5.89
18													2.94

Table A-8. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	2.78%	2.63%	2.5%	2.273%	2.083%	2.0%	1.887%	1.786%	1.667%	1.429%	1.25%	1.111%	1.0%
2	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
3	5.56	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
4	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
5	5.56	5.26	5.0	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
6	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
7	5.56	5.26	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
8	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
9	5.56	5.27	5.0	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
10	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
11	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.50	2.222	2.0
12	5.55	5.26	5.0	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.50	2.222	2.0
13	5.56	5.27	5.0	4.546	4.166	4.0	3.773	3.572	3.334	2.857	2.50	2.222	2.0
14	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
15	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
16	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
17	5.56	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
18	5.55	5.26	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
19	2.78	5.27	5.0	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
20		2.63	5.0	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
21			2.5	4.546	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
22				4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
23				2.273	4.166	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
24					4.167	4.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
25					2.083	4.0	3.774	3.572	3.334	2.857	2.50	2.222	2.0
26						2.0	3.773	3.571	3.333	2.857	2.50	2.222	2.0
27							3.774	3.572	3.334	2.857	2.50	2.223	2.0
28								3.571	3.333	2.858	2.50	2.222	2.0
29								1.786	3.334	2.857	2.50	2.223	2.0
30									3.333	2.858	2.50	2.222	2.0
31									1.667	2.857	2.50	2.223	2.0
32										2.858	2.50	2.222	2.0
33										2.857	2.50	2.223	2.0
34										2.858	2.50	2.222	2.0
35										2.857	2.50	2.223	2.0
36										1.429	2.50	2.222	2.0
37											2.50	2.223	2.0
38											2.50	2.222	2.0
39											2.50	2.223	2.0
40											2.50	2.222	2.0
41											1.25	2.223	2.0
42												2.222	2.0
43												2.223	2.0
44												2.222	2.0
45												2.223	2.0
46												1.111	2.0
47–50													2.0
51													1.0

Table A-9. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in First Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	35.0%	29.17%	25.00%	21.88%	17.5%	14.58%	13.46%	12.50%	11.67%	10.94%	10.29%	9.72%	9.21%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	25.0	33.33	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.76	11.11	10.53
4		4.17	17.86	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
5				3.12	20.0	16.66	15.39	14.28	13.34	12.50	11.76	11.11	10.52
6					2.5	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
7						2.08	9.62	14.28	13.34	12.50	11.76	11.11	10.52
8								1.79	8.33	12.50	11.77	11.12	10.53
9										1.56	7.35	11.11	10.52
10												1.39	6.58

Table A-9. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	8.75%	8.33%	7.95%	7.61%	7.29%	7.0%	6.73%	6.48%	6.25%	5.83%	5.47%	5.30%	5.15%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.53	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.00	9.52	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
10	10.00	9.53	9.10	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
11	1.25	5.95	9.09	8.70	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
12			1.14	5.43	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.89
13					1.04	5.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
14							0.96	4.63	7.15	6.66	6.25	6.06	5.89
15									0.89	6.67	6.25	6.06	5.88
16										0.83	6.25	6.07	5.89
17											0.78	3.79	5.88
18													0.74

Table A-9. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	4.86%	4.61%	4.375%	3.977%	3.646%	3.5%	3.302%	3.125%	2.917%	2.500%	2.188%	1.944%	1.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
19	0.69	5.26	5.000	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
20		0.66	5.000	4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
21			0.625	4.545	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
23				0.568	4.167	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
25					0.521	4.0	3.773	3.571	3.334	2.857	2.500	2.222	2.00
26						0.5	3.774	3.572	3.333	2.857	2.500	2.223	2.00
27							2.358	3.571	3.334	2.858	2.500	2.222	2.00
28								3.572	3.333	2.857	2.500	2.223	2.00
29								0.446	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									0.417	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										0.357	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											0.312	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												0.278	2.00
47–50													2.00
51													0.25

Table A-10. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	25.0%	20.83%	17.86%	15.63%	12.5%	10.42%	9.62%	8.93%	8.33%	7.81%	7.35%	6.94%	6.58%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.77	11.11	10.53
3	35.0	33.34	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.53
4		12.50	25.00	25.00	20.0	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
5				9.37	20.0	16.67	15.38	14.28	13.33	12.50	11.76	11.11	10.52
6					7.5	16.66	15.39	14.29	13.34	12.50	11.77	11.11	10.53
7						6.25	13.46	14.28	13.33	12.50	11.76	11.11	10.52
8								5.36	11.67	12.50	11.77	11.12	10.53
9										4.69	10.29	11.11	10.52
10												4.17	9.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	6.25%	5.95%	5.68%	5.43%	5.21%	5.0%	4.81%	4.63%	4.46%	4.17%	3.91%	3.79%	3.68%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
8	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
9	10.00	9.52	9.09	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
10	10.00	9.53	9.09	8.70	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
11	3.75	8.33	9.10	8.69	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
12			3.41	7.61	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.89
13					3.13	7.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
14							2.89	6.48	7.14	6.67	6.25	6.06	5.89
15									2.68	6.66	6.25	6.06	5.88
16										2.50	6.25	6.06	5.89
17											2.34	5.31	5.88
18													2.21

Table A-10. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	3.47%	3.29%	3.125%	2.841%	2.604%	2.5%	2.358%	2.232%	2.083%	1.786%	1.563%	1.389%	1.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
19	2.08	5.27	5.000	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
20		1.97	5.000	4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
21			1.875	4.546	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
23				1.705	4.166	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.773	3.572	3.334	2.857	2.500	2.222	2.00
25					1.562	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
26						1.5	3.773	3.572	3.334	2.857	2.500	2.222	2.00
27							3.302	3.571	3.333	2.857	2.500	2.223	2.00
28								3.572	3.334	2.858	2.500	2.222	2.00
29								1.339	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									1.250	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.072	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											0.937	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												0.833	2.00
47–50													2.00
51													0.75

Table A-11. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Third Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	15.0%	12.50%	10.71%	9.38%	7.5%	6.25%	5.77%	5.36%	5.00%	4.69%	4.41%	4.17%	3.95%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.34	28.57	25.00	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
4	5.0	20.83	28.58	25.00	20.0	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
5			3.57	15.62	20.0	16.67	15.39	14.28	13.34	12.50	11.77	11.11	10.53
6					12.5	16.66	15.38	14.29	13.33	12.50	11.76	11.11	10.52
7						10.42	15.39	14.28	13.34	12.50	11.77	11.11	10.53
8							1.92	8.93	13.33	12.50	11.76	11.11	10.52
9									1.67	7.81	11.77	11.11	10.53
10											1.47	6.95	10.52
11													1.32

Table A-11. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	3.75%	3.57%	3.41%	3.26%	3.13%	3.0%	2.88%	2.78%	2.68%	2.50%	2.34%	2.27%	2.21%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.66	6.25	6.06	5.88
8	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
9	10.00	9.53	9.09	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
10	10.00	9.52	9.09	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.88
11	6.25	9.53	9.10	8.70	8.34	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
12		1.19	5.68	8.69	8.33	8.0	7.70	7.40	7.14	6.67	6.25	6.06	5.89
13				1.09	5.21	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
14						1.0	4.81	7.40	7.14	6.67	6.25	6.06	5.89
15								0.93	4.47	6.66	6.25	6.06	5.88
16										4.17	6.25	6.07	5.89
17											3.91	6.06	5.88
18												0.76	3.68

Table A-11. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	2.08%	1.97%	1.875%	1.705%	1.563%	1.5%	1.415%	1.339%	1.250%	1.071%	0.938%	0.833%	0.75%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.546	4.167	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
13	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
14	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
15	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
16	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
17	5.55	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
18	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
19	3.47	5.27	5.000	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
20		3.29	5.000	4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
21			3.125	4.546	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
22				4.545	4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
23				2.841	4.166	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
24					4.167	4.0	3.774	3.572	3.334	2.857	2.500	2.222	2.00
25					2.604	4.0	3.773	3.571	3.333	2.857	2.500	2.222	2.00
26						2.5	3.774	3.572	3.334	2.858	2.500	2.222	2.00
27							3.773	3.571	3.333	2.857	2.500	2.223	2.00
28							0.472	3.572	3.334	2.858	2.500	2.222	2.00
29								2.232	3.333	2.857	2.500	2.223	2.00
30									3.334	2.858	2.500	2.222	2.00
31									2.083	2.857	2.500	2.223	2.00
32										2.858	2.500	2.222	2.00
33										2.857	2.500	2.223	2.00
34										2.858	2.500	2.222	2.00
35										2.857	2.500	2.223	2.00
36										1.786	2.500	2.222	2.00
37											2.500	2.223	2.00
38											2.500	2.222	2.00
39											2.500	2.223	2.00
40											2.500	2.222	2.00
41											1.562	2.223	2.00
42												2.222	2.00
43												2.223	2.00
44												2.222	2.00
45												2.223	2.00
46												1.389	2.00
47–50													2.00
51													1.25

Table A-12. **Straight Line Method**
Mid-Quarter Convention
Placed in Service in Fourth Quarter

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	5.0%	4.17%	3.57%	3.13%	2.5%	2.08%	1.92%	1.79%	1.67%	1.56%	1.47%	1.39%	1.32%
2	40.0	33.33	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.53
3	40.0	33.33	28.57	25.00	20.0	16.67	15.38	14.28	13.33	12.50	11.77	11.11	10.53
4	15.0	29.17	28.57	25.00	20.0	16.67	15.39	14.29	13.33	12.50	11.76	11.11	10.52
5			10.72	21.87	20.0	16.66	15.38	14.28	13.33	12.50	11.77	11.11	10.53
6					17.5	16.67	15.39	14.29	13.34	12.50	11.76	11.11	10.52
7						14.58	15.38	14.28	13.33	12.50	11.77	11.11	10.53
8							5.77	12.50	13.34	12.50	11.76	11.11	10.52
9									5.00	10.94	11.77	11.11	10.53
10											4.41	9.73	10.52
11													3.95

Table A-12. *(Continued)*

Year	Recovery periods in years												
	10	10.5	11	11.5	12	12.5	13	13.5	14	15	16	16.5	17
1	1.25%	1.19%	1.14%	1.09%	1.04%	1.0%	0.96%	0.93%	0.89%	0.83%	0.78%	0.76%	0.74%
2	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.00	9.52	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.00	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.00	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
9	10.00	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
10	10.00	9.52	9.09	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.88
11	8.75	9.53	9.09	8.69	8.33	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
12		3.57	7.96	8.70	8.34	8.0	7.69	7.40	7.15	6.66	6.25	6.06	5.89
13				3.26	7.29	8.0	7.70	7.41	7.14	6.67	6.25	6.06	5.88
14						3.0	6.73	7.40	7.15	6.66	6.25	6.06	5.89
15								2.78	6.25	6.67	6.25	6.06	5.88
16										5.83	6.25	6.06	5.89
17											5.47	6.07	5.88
18												2.27	5.15

Table A-12. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	0.69%	0.66%	0.625%	0.568%	0.521%	0.5%	0.472%	0.446%	0.417%	0.357%	0.313%	0.278%	0.25%
2	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
3	5.56	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
4	5.56	5.26	5.000	4.546	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
5	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
6	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
7	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
8	5.56	5.26	5.000	4.546	4.167	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
9	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
10	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
11	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.333	2.857	2.500	2.222	2.00
12	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
13	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
14	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
15	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
16	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
17	5.55	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
18	5.56	5.27	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
19	4.86	5.26	5.000	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
20		4.61	5.000	4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
21			4.375	4.545	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
22				4.546	4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
23				3.977	4.167	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
24					4.166	4.0	3.773	3.572	3.333	2.857	2.500	2.222	2.00
25					3.646	4.0	3.774	3.571	3.334	2.857	2.500	2.222	2.00
26						3.5	3.773	3.572	3.333	2.857	2.500	2.222	2.00
27							3.774	3.571	3.334	2.858	2.500	2.222	2.00
28							1.415	3.572	3.333	2.857	2.500	2.223	2.00
29								3.125	3.334	2.858	2.500	2.222	2.00
30									3.333	2.857	2.500	2.223	2.00
31									2.917	2.858	2.500	2.222	2.00
32										2.857	2.500	2.223	2.00
33										2.858	2.500	2.222	2.00
34										2.857	2.500	2.223	2.00
35										2.858	2.500	2.222	2.00
36										2.500	2.500	2.223	2.00
37											2.500	2.222	2.00
38											2.500	2.223	2.00
39											2.500	2.222	2.00
40											2.500	2.223	2.00
41											2.187	2.222	2.00
42												2.223	2.00
43												2.222	2.00
44												2.223	2.00
45												2.222	2.00
46												1.945	2.00
47–50													2.00
51													1.75

Table A-13. **Straight Line**
Mid-Month Convention

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.396%	2.188%	1.979%	1.771%	1.563%	1.354%	1.146%	0.938%	0.729%	0.521%	0.313%	0.104%
2–40	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500
41	0.104	0.312	0.521	0.729	0.937	1.146	1.354	1.562	1.771	1.979	2.187	2.396

Table A-14. **150% Declining Balance Method**
Half-Year Convention

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	30.0%	25.0%	21.43%	18.75%	15.00%	12.50%	11.54%	10.71%	10.00%	9.38%	8.82%	8.33%	7.89%
2	42.0	37.5	33.67	30.47	25.50	21.88	20.41	19.13	18.00	16.99	16.09	15.28	14.54
3	28.0	25.0	22.45	20.31	17.85	16.41	15.70	15.03	14.40	13.81	13.25	12.73	12.25
4		12.5	22.45	20.31	16.66	14.06	13.09	12.25	11.52	11.22	10.91	10.61	10.31
5				10.16	16.66	14.06	13.09	12.25	11.52	10.80	10.19	9.65	9.17
6					8.33	14.06	13.09	12.25	11.52	10.80	10.19	9.64	9.17
7						7.03	13.08	12.25	11.52	10.80	10.18	9.65	9.17
8								6.13	11.52	10.80	10.19	9.64	9.17
9										5.40	10.18	9.65	9.17
10												4.82	9.16

Table A-14. *(Continued)*

Year	Recovery periods in years												
	10	10.5	11	11.5	12	12.5	13	13.5	14	15	16	16.5	17
1	7.50%	7.14%	6.82%	6.52%	6.25%	6.00%	5.77%	5.56%	5.36%	5.00%	4.69%	4.55%	4.41%
2	13.88	13.27	12.71	12.19	11.72	11.28	10.87	10.49	10.14	9.50	8.94	8.68	8.43
3	11.79	11.37	10.97	10.60	10.25	9.93	9.62	9.33	9.05	8.55	8.10	7.89	7.69
4	10.02	9.75	9.48	9.22	8.97	8.73	8.51	8.29	8.08	7.70	7.34	7.17	7.01
5	8.74	8.35	8.18	8.02	7.85	7.69	7.53	7.37	7.22	6.93	6.65	6.52	6.39
6	8.74	8.35	7.98	7.64	7.33	7.05	6.79	6.55	6.44	6.23	6.03	5.93	5.83
7	8.74	8.35	7.97	7.64	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.32
8	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
9	8.74	8.36	7.97	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.35	7.98	7.63	7.33	7.05	6.79	6.55	6.32	5.90	5.55	5.39	5.23
11	4.37	8.36	7.97	7.64	7.32	7.04	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12			3.99	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
13					3.66	7.04	6.79	6.56	6.32	5.91	5.54	5.38	5.23
14							3.39	6.55	6.31	5.90	5.55	5.39	5.23
15									3.16	5.91	5.54	5.38	5.23
16										2.95	5.55	5.39	5.23
17											2.77	5.38	5.23
18													2.62

Table A-14. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	4.17%	3.95%	3.750%	3.409%	3.125%	3.000%	2.830%	2.679%	2.500%	2.143%	1.875%	1.667%	1.500%
2	7.99	7.58	7.219	6.586	6.055	5.820	5.500	5.214	4.875	4.194	3.680	3.278	2.955
3	7.32	6.98	6.677	6.137	5.676	5.471	5.189	4.934	4.631	4.014	3.542	3.169	2.866
4	6.71	6.43	6.177	5.718	5.322	5.143	4.895	4.670	4.400	3.842	3.409	3.063	2.780
5	6.15	5.93	5.713	5.328	4.989	4.834	4.618	4.420	4.180	3.677	3.281	2.961	2.697
6	5.64	5.46	5.285	4.965	4.677	4.544	4.357	4.183	3.971	3.520	3.158	2.862	2.616
7	5.17	5.03	4.888	4.627	4.385	4.271	4.110	3.959	3.772	3.369	3.040	2.767	2.538
8	4.94	4.69	4.522	4.311	4.111	4.015	3.877	3.747	3.584	3.225	2.926	2.674	2.461
9	4.94	4.69	4.462	4.063	3.854	3.774	3.658	3.546	3.404	3.086	2.816	2.585	2.388
10	4.94	4.69	4.461	4.063	3.729	3.584	3.451	3.356	3.234	2.954	2.710	2.499	2.316
11	4.94	4.69	4.462	4.063	3.729	3.583	3.383	3.205	3.072	2.828	2.609	2.416	2.246
12	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.706	2.511	2.335	2.179
13	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.590	2.417	2.257	2.114
14	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.326	2.182	2.050
15	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.110	1.989
16	4.95	4.69	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.039	1.929
17	4.94	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.871
18	4.95	4.70	4.461	4.063	3.729	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.815
19	2.47	4.69	4.462	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.35	4.461	4.063	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
21			2.231	4.064	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.063	3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.005	1.806
23				2.032	3.730	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.384	3.205	2.993	2.571	2.253	2.004	1.806
25					1.865	3.583	3.383	3.205	2.994	2.571	2.253	2.005	1.806
26						1.792	3.384	3.205	2.993	2.571	2.253	2.004	1.806
27							3.383	3.205	2.994	2.571	2.253	2.005	1.806
28								3.205	2.993	2.572	2.253	2.004	1.806
29								1.602	2.994	2.571	2.253	2.005	1.806
30									2.993	2.572	2.253	2.004	1.806
31									1.497	2.571	2.253	2.005	1.806
32										2.572	2.253	2.004	1.806
33										2.571	2.252	2.005	1.806
34										2.572	2.253	2.004	1.806
35										2.571	2.252	2.005	1.806
36										1.286	2.253	2.004	1.806
37											2.252	2.005	1.806
38											2.253	2.004	1.806
39											2.252	2.005	1.806
40											2.253	2.004	1.806
41											1.126	2.005	1.806
42												2.004	1.805
43												2.005	1.806
44												2.004	1.805
45												2.005	1.806
46												1.002	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.903

Table A-15. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in First Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	52.50%	43.75%	37.50%	32.81%	26.25%	21.88%	20.19%	18.75%	17.50%	16.41%	15.44%	14.58%	13.82%
2	29.23	28.13	26.79	25.20	22.13	19.53	18.42	17.41	16.50	15.67	14.92	14.24	13.61
3	18.27	25.00	21.98	19.76	16.52	14.65	14.17	13.68	13.20	12.74	12.29	11.86	11.46
4		3.12	13.73	19.76	16.52	14.06	13.03	12.16	11.42	10.77	10.20	9.89	9.65
5				2.47	16.52	14.06	13.02	12.16	11.42	10.77	10.19	9.64	9.15
6					2.06	14.06	13.03	12.16	11.41	10.76	10.20	9.65	9.15
7						1.76	8.14	12.16	11.42	10.77	10.19	9.64	9.15
8								1.52	7.13	10.76	10.20	9.65	9.15
9										1.35	6.37	9.64	9.14
10												1.21	5.72

Table A-15. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	13.13%	12.50%	11.93%	11.41%	10.94%	10.50%	10.10%	9.72%	9.38%	8.75%	8.20%	7.95%	7.72%
2	13.03	12.50	12.01	11.56	11.13	10.74	10.37	10.03	9.71	9.13	8.61	8.37	8.14
3	11.08	10.71	10.37	10.05	9.74	9.45	9.18	8.92	8.67	8.21	7.80	7.61	7.42
4	9.41	9.18	8.96	8.74	8.52	8.32	8.12	7.93	7.74	7.39	7.07	6.92	6.77
5	8.71	8.32	7.96	7.64	7.46	7.32	7.18	7.04	6.91	6.65	6.41	6.29	6.17
6	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.99	5.80	5.71	5.63
7	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
8	8.71	8.32	7.96	7.64	7.33	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
9	8.71	8.32	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
10	8.71	8.31	7.97	7.63	7.32	7.04	6.78	6.53	6.31	5.91	5.54	5.38	5.23
11	1.09	5.20	7.96	7.64	7.33	7.04	6.77	6.54	6.31	5.90	5.54	5.38	5.23
12			1.00	4.77	7.32	7.03	6.78	6.53	6.31	5.91	5.54	5.38	5.22
13					0.92	4.40	6.77	6.54	6.32	5.90	5.54	5.38	5.23
14							0.85	4.08	6.31	5.91	5.55	5.38	5.22
15									0.79	5.90	5.54	5.38	5.23
16										0.74	5.55	5.37	5.22
17											0.69	3.36	5.23
18													0.65

Table A-15. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	7.29%	6.91%	6.563%	5.966%	5.469%	5.250%	4.953%	4.688%	4.375%	3.750%	3.281%	2.917%	2.625%
2	7.73	7.35	7.008	6.411	5.908	5.685	5.380	5.106	4.781	4.125	3.627	3.236	2.921
3	7.08	6.77	6.482	5.974	5.539	5.344	5.075	4.832	4.542	3.948	3.491	3.128	2.834
4	6.49	6.23	5.996	5.567	5.193	5.023	4.788	4.574	4.315	3.779	3.360	3.024	2.749
5	5.95	5.74	5.546	5.187	4.868	4.722	4.517	4.329	4.099	3.617	3.234	2.923	2.666
6	5.45	5.29	5.130	4.834	4.564	4.439	4.262	4.097	3.894	3.462	3.113	2.826	2.586
7	5.00	4.87	4.746	4.504	4.279	4.172	4.020	3.877	3.700	3.314	2.996	2.732	2.509
8	4.94	4.69	4.459	4.197	4.011	3.922	3.793	3.669	3.515	3.172	2.884	2.640	2.433
9	4.95	4.69	4.459	4.061	3.761	3.687	3.578	3.473	3.339	3.036	2.776	2.552	2.360
10	4.94	4.69	4.459	4.061	3.729	3.582	3.383	3.287	3.172	2.906	2.671	2.467	2.290
11	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	3.013	2.781	2.571	2.385	2.221
12	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.662	2.475	2.306	2.154
13	4.95	4.69	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.382	2.229	2.090
14	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.293	2.154	2.027
15	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.252	2.083	1.966
16	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.013	1.907
17	4.95	4.68	4.459	4.061	3.729	3.582	3.384	3.204	2.994	2.571	2.253	2.005	1.850
18	4.94	4.69	4.460	4.061	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
19	0.62	4.68	4.459	4.061	3.729	3.581	3.384	3.204	2.994	2.571	2.253	2.005	1.806
20		0.59	4.460	4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
21			0.557	4.061	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
22				4.060	3.730	3.582	3.383	3.204	2.994	2.571	2.252	2.005	1.806
23				0.508	3.729	3.581	3.384	3.203	2.993	2.571	2.253	2.005	1.806
24					3.730	3.582	3.383	3.204	2.994	2.570	2.252	2.005	1.806
25					0.466	3.581	3.384	3.203	2.993	2.571	2.253	2.004	1.806
26						0.448	3.383	3.204	2.994	2.570	2.252	2.005	1.806
27							2.115	3.203	2.993	2.571	2.253	2.004	1.806
28								3.204	2.994	2.570	2.252	2.005	1.805
29								0.400	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									0.374	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										0.321	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											0.282	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												0.251	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													0.226

Table A-16. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Second Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	37.50%	31.25%	26.79%	23.44%	18.75%	15.63%	14.42%	13.39%	12.50%	11.72%	11.03%	10.42%	9.87%
2	37.50	34.38	31.38	28.71	24.38	21.09	19.75	18.56	17.50	16.55	15.70	14.93	14.23
3	25.00	25.00	22.31	20.15	17.06	15.82	15.19	14.58	14.00	13.45	12.93	12.44	11.98
4		9.37	19.52	20.15	16.76	14.06	13.07	12.22	11.49	10.93	10.65	10.37	10.09
5				7.55	16.76	14.06	13.07	12.22	11.49	10.82	10.19	9.64	9.16
6					6.29	14.07	13.07	12.22	11.49	10.82	10.19	9.65	9.16
7						5.27	11.43	12.23	11.48	10.83	10.19	9.64	9.16
8								4.58	10.05	10.82	10.20	9.65	9.17
9										4.06	8.92	9.64	9.16
10												3.62	8.02

Table A-16. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	9.38%	8.93%	8.52%	8.15%	7.81%	7.50%	7.21%	6.94%	6.70%	6.25%	5.86%	5.68%	5.51%
2	13.59	13.01	12.47	11.98	11.52	11.10	10.71	10.34	10.00	9.38	8.83	8.57	8.34
3	11.55	11.15	10.77	10.42	10.08	9.77	9.47	9.19	8.92	8.44	8.00	7.80	7.60
4	9.82	9.56	9.31	9.06	8.82	8.60	8.38	8.17	7.97	7.59	7.25	7.09	6.93
5	8.73	8.34	8.04	7.88	7.72	7.56	7.41	7.26	7.12	6.83	6.57	6.44	6.32
6	8.73	8.34	7.98	7.64	7.33	7.04	6.78	6.55	6.35	6.15	5.95	5.86	5.76
7	8.73	8.34	7.98	7.64	7.33	7.04	6.79	6.55	6.32	5.91	5.55	5.38	5.25
8	8.73	8.34	7.98	7.64	7.33	7.05	6.78	6.55	6.32	5.90	5.55	5.39	5.23
9	8.73	8.34	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
10	8.73	8.35	7.98	7.63	7.33	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
11	3.28	7.30	7.99	7.64	7.33	7.04	6.79	6.54	6.32	5.91	5.55	5.38	5.23
12			2.99	6.68	7.32	7.05	6.78	6.55	6.32	5.90	5.54	5.39	5.23
13					2.75	6.16	6.79	6.54	6.32	5.91	5.55	5.38	5.24
14							2.54	5.73	6.33	5.90	5.54	5.39	5.23
15									2.37	5.91	5.55	5.38	5.24
16										2.21	5.54	5.39	5.23
17											2.08	4.71	5.24
18													1.96

Table A-16. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	5.21%	4.93%	4.688%	4.261%	3.906%	3.750%	3.538%	3.348%	3.125%	2.679%	2.344%	2.083%	1.875%
2	7.90	7.51	7.148	6.528	6.006	5.775	5.460	5.178	4.844	4.171	3.662	3.264	2.944
3	7.24	6.91	6.612	6.083	5.631	5.429	5.151	4.900	4.602	3.992	3.525	3.155	2.855
4	6.64	6.37	6.116	5.668	5.279	5.103	4.859	4.638	4.371	3.821	3.393	3.050	2.770
5	6.08	5.86	5.658	5.281	4.949	4.797	4.584	4.389	4.153	3.657	3.265	2.948	2.687
6	5.58	5.40	5.233	4.921	4.639	4.509	4.325	4.154	3.945	3.501	3.143	2.850	2.606
7	5.11	4.98	4.841	4.586	4.349	4.238	4.080	3.932	3.748	3.351	3.025	2.755	2.528
8	4.94	4.69	4.478	4.273	4.078	3.984	3.849	3.721	3.561	3.207	2.912	2.663	2.452
9	4.94	4.69	4.463	4.063	3.823	3.745	3.631	3.522	3.383	3.069	2.802	2.574	2.378
10	4.95	4.69	4.463	4.063	3.729	3.583	3.426	3.333	3.213	2.938	2.697	2.489	2.307
11	4.94	4.69	4.463	4.062	3.729	3.583	3.384	3.205	3.053	2.812	2.596	2.406	2.238
12	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.692	2.499	2.325	2.171
13	4.94	4.69	4.463	4.062	3.730	3.583	3.384	3.205	2.994	2.576	2.405	2.248	2.106
14	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.205	2.994	2.571	2.315	2.173	2.042
15	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.101	1.981
16	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.994	2.571	2.253	2.031	1.922
17	4.94	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.864
18	4.95	4.69	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.808
19	1.85	4.69	4.462	4.062	3.730	3.583	3.384	3.205	2.994	2.571	2.253	2.005	1.806
20		1.76	4.463	4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
21			1.673	4.062	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.005	1.806
22				4.063	3.729	3.583	3.383	3.204	2.993	2.571	2.253	2.005	1.806
23				1.523	3.730	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
24					3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
25					1.399	3.583	3.384	3.205	2.994	2.572	2.253	2.004	1.806
26						1.343	3.383	3.204	2.993	2.571	2.253	2.005	1.806
27							2.961	3.205	2.994	2.572	2.253	2.004	1.806
28								3.204	2.993	2.571	2.253	2.005	1.806
29								1.202	2.994	2.572	2.253	2.004	1.806
30									2.993	2.571	2.252	2.005	1.806
31									1.123	2.572	2.253	2.004	1.806
32										2.571	2.252	2.005	1.806
33										2.572	2.253	2.004	1.806
34										2.571	2.252	2.005	1.806
35										2.572	2.253	2.004	1.806
36										0.964	2.252	2.005	1.806
37											2.253	2.004	1.806
38											2.252	2.005	1.806
39											2.253	2.004	1.806
40											2.252	2.005	1.806
41											0.845	2.004	1.806
42												2.005	1.806
43												2.004	1.806
44												2.005	1.806
45												2.004	1.805
46												0.752	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													0.677

Table A-17. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Third Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	22.50%	18.75%	16.07%	14.06%	11.25%	9.38%	8.65%	8.04%	7.50%	7.03%	6.62%	6.25%	5.92%
2	46.50	40.63	35.97	32.23	26.63	22.66	21.08	19.71	18.50	17.43	16.48	15.63	14.85
3	27.56	25.00	22.57	20.46	18.64	16.99	16.22	15.48	14.80	14.16	13.57	13.02	12.51
4	3.44	15.62	22.57	20.46	16.56	14.06	13.10	12.27	11.84	11.51	11.18	10.85	10.53
5			2.82	12.79	16.57	14.06	13.10	12.28	11.48	10.78	10.18	9.64	9.17
6					10.35	14.06	13.11	12.27	11.48	10.78	10.17	9.65	9.17
7						8.79	13.10	12.28	11.48	10.78	10.18	9.64	9.18
8							1.64	7.67	11.48	10.79	10.17	9.65	9.17
9									1.44	6.74	10.18	9.64	9.18
10											1.27	6.03	9.17
11													1.15

Table A-17. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	5.63%	5.36%	5.11%	4.89%	4.69%	4.50%	4.33%	4.17%	4.02%	3.75%	3.52%	3.41%	3.31%
2	14.16	13.52	12.94	12.41	11.91	11.46	11.04	10.65	10.28	9.63	9.05	8.78	8.53
3	12.03	11.59	11.18	10.79	10.43	10.08	9.77	9.46	9.18	8.66	8.20	7.98	7.78
4	10.23	9.93	9.65	9.38	9.12	8.88	8.64	8.41	8.20	7.80	7.43	7.26	7.09
5	8.75	8.51	8.33	8.16	7.98	7.81	7.64	7.48	7.32	7.02	6.73	6.60	6.47
6	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.65	6.54	6.31	6.10	6.00	5.90
7	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.31	5.90	5.55	5.45	5.38
8	8.74	8.34	7.97	7.63	7.33	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
9	8.75	8.34	7.97	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
10	8.74	8.34	7.97	7.63	7.32	7.05	6.79	6.54	6.31	5.90	5.55	5.38	5.23
11	5.47	8.35	7.96	7.63	7.33	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.23
12		1.04	4.98	7.64	7.32	7.04	6.80	6.54	6.31	5.90	5.55	5.38	5.23
13				0.95	4.58	7.05	6.79	6.55	6.32	5.91	5.55	5.39	5.22
14						0.88	4.25	6.54	6.31	5.90	5.55	5.38	5.23
15								0.82	3.95	5.91	5.55	5.39	5.22
16										3.69	5.55	5.38	5.23
17											3.47	5.39	5.22
18												0.67	3.27

Table A-17. *(Continued)*

Year	Recovery periods in years												
	18	19	20	22	24	25	26.5	28	30	35	40	45	50
1	3.13%	2.96%	2.813%	2.557%	2.344%	2.250%	2.123%	2.009%	1.875%	1.607%	1.406%	1.250%	1.125%
2	8.07	7.66	7.289	6.644	6.104	5.865	5.540	5.250	4.906	4.217	3.697	3.292	2.966
3	7.40	7.06	6.742	6.191	5.722	5.513	5.227	4.968	4.661	4.036	3.559	3.182	2.877
4	6.78	6.50	6.237	5.769	5.364	5.182	4.931	4.702	4.428	3.863	3.425	3.076	2.791
5	6.22	5.99	5.769	5.375	5.029	4.871	4.652	4.450	4.207	3.698	3.297	2.973	2.707
6	5.70	5.51	5.336	5.009	4.715	4.579	4.388	4.212	3.996	3.539	3.173	2.874	2.626
7	5.23	5.08	4.936	4.667	4.420	4.304	4.140	3.986	3.796	3.387	3.054	2.778	2.547
8	4.94	4.69	4.566	4.349	4.144	4.046	3.906	3.773	3.607	3.242	2.940	2.686	2.471
9	4.94	4.69	4.460	4.064	3.885	3.803	3.685	3.571	3.426	3.103	2.829	2.596	2.397
10	4.94	4.69	4.460	4.064	3.729	3.584	3.476	3.379	3.255	2.970	2.723	2.510	2.325
11	4.94	4.69	4.460	4.064	3.730	3.584	3.383	3.205	3.092	2.843	2.621	2.426	2.255
12	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.721	2.523	2.345	2.187
13	4.94	4.69	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.605	2.428	2.267	2.122
14	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.205	2.994	2.571	2.337	2.192	2.058
15	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.118	1.996
16	4.95	4.69	4.460	4.064	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.048	1.937
17	4.94	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.878
18	4.95	4.69	4.460	4.065	3.729	3.584	3.383	3.206	2.994	2.571	2.253	2.005	1.822
19	3.09	4.70	4.461	4.064	3.730	3.584	3.383	3.205	2.994	2.571	2.253	2.005	1.806
20		2.93	4.460	4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
21			2.788	4.064	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
22				4.065	3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
23				2.540	3.730	3.585	3.383	3.205	2.994	2.571	2.253	2.005	1.806
24					3.729	3.584	3.383	3.206	2.993	2.571	2.253	2.005	1.806
25					2.331	3.585	3.382	3.205	2.994	2.571	2.253	2.004	1.806
26						2.240	3.383	3.206	2.993	2.571	2.253	2.005	1.806
27							3.382	3.205	2.994	2.571	2.253	2.004	1.806
28							0.423	3.206	2.993	2.571	2.253	2.005	1.806
29								2.003	2.994	2.571	2.253	2.004	1.806
30									2.993	2.571	2.253	2.005	1.806
31									1.871	2.571	2.253	2.004	1.806
32										2.571	2.253	2.005	1.806
33										2.571	2.253	2.004	1.806
34										2.571	2.253	2.005	1.806
35										2.571	2.253	2.004	1.806
36										1.607	2.253	2.005	1.806
37											2.253	2.004	1.805
38											2.254	2.005	1.806
39											2.253	2.004	1.805
40											2.254	2.005	1.806
41											1.408	2.004	1.805
42												2.005	1.806
43												2.004	1.805
44												2.005	1.806
45												2.004	1.805
46												1.253	1.806
47													1.805
48													1.806
49													1.805
50													1.806
51													1.128

Table A-18. **150% Declining Balance Method**
Mid-Quarter Convention
Property Placed in Service in Fourth Quarter

Year	Recovery periods in years												
	2.5	**3**	**3.5**	**4**	**5**	**6**	**6.5**	**7**	**7.5**	**8**	**8.5**	**9**	**9.5**
1	7.50%	6.25%	5.36%	4.69%	3.75%	3.13%	2.88%	2.68%	2.50%	2.34%	2.21%	2.08%	1.97%
2	55.50	46.88	40.56	35.74	28.88	24.22	22.41	20.85	19.50	18.31	17.26	16.32	15.48
3	26.91	25.00	23.18	22.34	20.21	18.16	17.24	16.39	15.60	14.88	14.21	13.60	13.03
4	10.09	21.87	22.47	19.86	16.40	14.06	13.26	12.87	12.48	12.09	11.70	11.33	10.98
5			8.43	17.37	16.41	14.06	13.10	12.18	11.41	10.74	10.16	9.65	9.24
6					14.35	14.06	13.10	12.18	11.41	10.75	10.16	9.65	9.17
7						12.31	13.10	12.19	11.41	10.74	10.16	9.64	9.17
8							4.91	10.66	11.41	10.75	10.16	9.65	9.17
9									4.28	9.40	10.17	9.64	9.17
10											3.81	8.44	9.18
11													3.44

Table A-18. *(Continued)*

Year	Recovery periods in years												
	10	**10.5**	**11**	**11.5**	**12**	**12.5**	**13**	**13.5**	**14**	**15**	**16**	**16.5**	**17**
1	1.88%	1.79%	1.70%	1.63%	1.56%	1.50%	1.44%	1.39%	1.34%	1.25%	1.17%	1.14%	1.10%
2	14.72	14.03	13.40	12.83	12.31	11.82	11.37	10.96	10.57	9.88	9.27	8.99	8.73
3	12.51	12.03	11.58	11.16	10.77	10.40	10.06	9.74	9.44	8.89	8.40	8.17	7.96
4	10.63	10.31	10.00	9.70	9.42	9.15	8.90	8.66	8.43	8.00	7.61	7.43	7.25
5	9.04	8.83	8.63	8.44	8.24	8.06	7.87	7.69	7.52	7.20	6.90	6.75	6.61
6	8.72	8.32	7.95	7.63	7.33	7.09	6.96	6.84	6.72	6.48	6.25	6.14	6.03
7	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.66	5.58	5.50
8	8.72	8.32	7.95	7.62	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.22
9	8.72	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
10	8.71	8.32	7.95	7.62	7.32	7.05	6.78	6.54	6.31	5.91	5.54	5.38	5.22
11	7.63	8.31	7.96	7.63	7.33	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
12		3.12	6.96	7.62	7.32	7.04	6.78	6.54	6.30	5.91	5.55	5.38	5.22
13				2.86	6.41	7.05	6.78	6.53	6.31	5.90	5.54	5.38	5.23
14						2.64	5.94	6.54	6.30	5.91	5.55	5.38	5.22
15								2.45	5.52	5.90	5.54	5.37	5.23
16										5.17	5.55	5.38	5.22
17											4.85	5.37	5.23
18												2.02	4.57

Table A-18. *(Continued)*

Year	Recovery periods in years												
	18	**19**	**20**	**22**	**24**	**25**	**26.5**	**28**	**30**	**35**	**40**	**45**	**50**
1	1.04%	0.99%	0.938%	0.852%	0.781%	0.750%	0.708%	0.670%	0.625%	0.536%	0.469%	0.417%	0.375%
2	8.25	7.82	7.430	6.760	6.201	5.955	5.620	5.321	4.969	4.263	3.732	3.319	2.989
3	7.56	7.20	6.872	6.299	5.814	5.598	5.302	5.036	4.720	4.080	3.592	3.209	2.899
4	6.93	6.63	6.357	5.870	5.450	5.262	5.002	4.766	4.484	3.905	3.458	3.102	2.812
5	6.35	6.11	5.880	5.469	5.110	4.946	4.719	4.511	4.260	3.738	3.328	2.998	2.728
6	5.82	5.63	5.439	5.097	4.790	4.649	4.452	4.269	4.047	3.578	3.203	2.898	2.646
7	5.34	5.18	5.031	4.749	4.491	4.370	4.200	4.041	3.845	3.424	3.083	2.802	2.567
8	4.94	4.77	4.654	4.425	4.210	4.108	3.962	3.824	3.653	3.278	2.968	2.708	2.490
9	4.94	4.69	4.458	4.124	3.947	3.862	3.738	3.619	3.470	3.137	2.856	2.618	2.415
10	4.94	4.69	4.458	4.062	3.730	3.630	3.526	3.426	3.296	3.003	2.749	2.531	2.342
11	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.242	3.132	2.874	2.646	2.447	2.272
12	4.94	4.69	4.458	4.062	3.730	3.582	3.382	3.204	2.994	2.751	2.547	2.365	2.204
13	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.633	2.451	2.286	2.138
14	4.94	4.69	4.458	4.061	3.730	3.582	3.382	3.204	2.994	2.570	2.359	2.210	2.074
15	4.95	4.69	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.271	2.136	2.011
16	4.94	4.69	4.458	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.065	1.951
17	4.95	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.994	2.571	2.253	2.005	1.893
18	4.94	4.69	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.836
19	4.33	4.68	4.458	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
20		4.10	4.459	4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
21			3.901	4.062	3.729	3.582	3.383	3.204	2.993	2.571	2.253	2.005	1.806
22				4.061	3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.806
23				3.554	3.729	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
24					3.730	3.583	3.382	3.204	2.994	2.570	2.253	2.005	1.805
25					3.263	3.582	3.383	3.205	2.993	2.571	2.253	2.005	1.806
26						3.135	3.382	3.204	2.994	2.570	2.252	2.005	1.805
27							3.383	3.205	2.993	2.571	2.253	2.004	1.806
28							1.268	3.204	2.994	2.570	2.252	2.005	1.805
29								2.804	2.993	2.571	2.253	2.004	1.806
30									2.994	2.570	2.252	2.005	1.805
31									2.619	2.571	2.253	2.004	1.806
32										2.570	2.252	2.005	1.805
33										2.571	2.253	2.004	1.806
34										2.570	2.252	2.005	1.805
35										2.571	2.253	2.004	1.806
36										2.249	2.252	2.005	1.805
37											2.253	2.004	1.806
38											2.252	2.005	1.805
39											2.253	2.004	1.806
40											2.252	2.005	1.805
41											1.971	2.004	1.806
42												2.005	1.805
43												2.004	1.806
44												2.005	1.805
45												2.004	1.806
46												1.754	1.805
47													1.806
48													1.805
49													1.806
50													1.805
51													1.580

RATES TO FIGURE INCLUSION AMOUNTS FOR LEASED LISTED PROPERTY

Table A-19. **Amount A Percentages**

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	2.1%	–7.2%	–19.8%	–20.1%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%	–12.4%
7 to 10 years	3.9%	–3.8%	–17.7%	–25.1%	–27.8%	–27.2%	–27.1%	–27.6%	–23.7%	–14.7%	–14.7%	–14.7%
More than 10 years	6.6%	–1.6%	–16.9%	–25.6%	–29.9%	–31.1%	–32.8%	–35.1%	–33.3%	–26.7%	–19.7%	–12.2%

Table A-20. **Amount B Percentages**

Recovery Period of Property Under ADS	First Tax Year During Lease in Which Business Use is 50% or Less											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12 & Later**
Less than 7 years	0.0%	10.0%	22.0%	21.2%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
7 to 10 years	0.0%	9.3%	23.8%	31.3%	33.8%	32.7%	31.6%	30.5%	25.0%	15.0%	15.0%	15.0%
More than 10 years	0.0%	10.1%	26.3%	35.4%	39.6%	40.2%	40.8%	41.4%	37.5%	29.2%	20.8%	12.5%

Qualified Indian Reservation Property Tables

Table A-21. **2-Year Qualified Indian Reservation Property Half-Year and Mid-Quarter Conventions**

Year	Half-Year Convention	Q-1	Q-2	Q-3	Q-4
1	50.00%	87.50%	62.50%	37.50%	12.50%
2	50.00	12.50	37.50	62.50	87.50

Table A-22. **4-Year Qualified Indian Reservation Property Half-Year and Mid-Quarter Conventions**

Year	Half-Year Convention	Q-1	Q-2	Q-3	Q-4
1	25.00%	43.75%	31.25%	18.75%	6.25%
2	37.50	28.13	34.37	40.63	46.87
3	18.75	14.06	17.19	20.31	23.44
4	12.50	12.50	12.50	12.50	12.50
5	6.25	1.56	4.69	7.81	10.94

Table A-23. **6-Year Qualified Indian Reservation Property Half-Year and Mid-Quarter Conventions**

Year	Half-Year Convention	Q-1	Q-2	Q-3	Q-4
1	16.67%	29.17%	20.83%	12.50%	4.17%
2	27.78	23.61	26.39	29.17	31.94
3	18.52	15.74	17.59	19.44	21.30
4	12.35	10.49	11.73	12.96	14.20
5	9.87	9.88	9.88	9.88	9.87
6	9.87	9.88	9.88	9.88	9.88
7	4.94	1.23	3.70	6.17	8.64

Table A-24. **Qualified Nonresidential Real Indian Reservation Property**
Mid-Month Convention
Straight Line—22 Years

Year	Month property placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1	4.356%	3.977%	3.598%	3.220%	2.841%	2.462%	2.083%	1.705%	1.326%	0.947%	0.568%	0.189%
2-3	4.545	4.545	4.545	4.545	4.545	4.545	4.545	4.545	4.545	4.545	4.545	4.545
4	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
5	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
6	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
7	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
8	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
9	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
10	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
11	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
12	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
13	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
14	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
15	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
16	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
17	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
18	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
19	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
20	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
21	4.545	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.545
22	4.546	4.546	4.546	4.545	4.545	4.546	4.546	4.545	4.545	4.546	4.546	4.546
23	0.189%	0.568%	0.947%	1.326%	1.705%	2.083%	2.462%	2.841%	3.220%	3.598%	3.977%	4.356%

Appendix B — Table of Class Lives and Recovery Periods

The *Table of Class Lives and Recovery Periods* has two sections. The first section, *Specific Depreciable Assets Used In All Business Activities, Except As Noted,* generally lists assets used in all business activities. It is shown as Table B-1. The second section, *Depreciable Assets Used In The Following Activities,* describes assets used only in certain activities. It is shown as Table B-2.

How To Use the Tables

You will need to look at both Table B-1 and B-2 to find the correct recovery period. Generally, if the property is listed in Table B-1 you use the recovery period shown in that table. However, if the property is specifically listed in Table B-2 under the type of activity in which it is used, you use the recovery period listed under the activity in that table. Use the tables in the order shown below to determine the recovery period of your depreciable property.

Table B-1. Check Table B-1 for a description of the property. If it is described in Table B-1, also check Table B-2 to find the activity in which the property is being used. If the activity is described in Table B-2, read the text (if any) under the title to determine if the property is specifically included in that asset class. If it is, use the recovery period shown in the appropriate column of Table B-2 following the description of the activity. If the activity is not described in Table B-2 or if the activity is described but the property either is not specifically included in or is specifically excluded from that asset class, then use the recovery period shown in the appropriate column following the description of the property in Table B-1.

Tax-exempt use property subject to a lease. The recovery period for ADS cannot be less than 125 percent of the lease term for any property leased under a leasing arrangement to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership).

Table B-2. If the property is not listed in Table B-1, check Table B-2 to find the activity in which the property is being used and use the recovery period shown in the appropriate column following the description.

Property not in either table. If the activity or the property is not included in either table, check the end of Table B-2 to find *Certain Property for Which Recovery Periods Assigned.* This property generally has a recovery period of 7 years for GDS or 12 years for ADS. See *Which Property Class Applies Under GDS* and *Which Recovery Period Applies* in chapter 4 for the class lives or the recovery periods for GDS and ADS for the following.

- Residential rental property and nonresidential real property (also see Appendix A, Chart 2).
- Qualified rent-to-own property.
- A motorsport entertainment complex placed in service before January 1, 2017.
- Any retail motor fuels outlet.
- Any qualified leasehold improvement property.
- Any qualified restaurant property.
- Initial clearing and grading land improvements for gas utility property and electric utility transmission and distribution plants.
- Any water utility property.
- Certain electric transmission property used in the transmission at 69 or more kilovolts of electricity for sale and placed in service after April 11, 2005.
- Natural gas gathering and distribution lines placed in service after April 11, 2005.

Example 1. Richard Green is a paper manufacturer. During the year, he made substantial improvements to the land on which his paper plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, paper manufacturing, under asset class 26.1, *Manufacture of Pulp and Paper.* He uses the recovery period under this asset class because it specifically includes land improvements. The land improvements have a 13-year class life and a 7-year recovery period for GDS. If he elects to use ADS, the recovery period is 13 years. If Richard only looked at Table B-1, he would select asset class 00.3, *Land Improvements*, and incorrectly use a recovery period of 15 years for GDS or 20 years for ADS.

Example 2. Sam Plower produces rubber products. During the year, he made substantial improvements to the land on which his rubber plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, producing rubber products, under asset class 30.1, *Manufacture of Rubber Products.* Reading the headings and descriptions under asset class 30.1, Sam finds that it does not include land improvements. Therefore, Sam uses the recovery period under asset class 00.3. The land improvements have a 20-year class life and a 15-year recovery period for GDS. If he elects to use ADS, the recovery period is 20 years.

Example 3. Pam Martin owns a retail clothing store. During the year, she purchased a desk and a cash register for use in her business. She checks Table B-1 and finds office furniture under asset class 00.11. Cash registers are not listed in any of the asset classes in Table B-1. She then checks Table B-2 and finds her activity, retail store, under asset class 57.0, *Distributive Trades and Services,* which includes ***assets used in wholesale and retail trade***. This asset class does not specifically list office furniture or a cash register. She looks back at Table B-1 and uses asset class 00.11 for the desk. The desk has a 10-year class life and a 7-year recovery period for GDS. If she elects to use ADS, the recovery period is 10 years. For the cash register, she uses asset class 57.0 because cash registers are not listed in Table B-1 but it is an ***asset*** used in her retail business. The cash

register has a 9-year class life and a 5-year recovery period for GDS. If she elects to use the ADS method, the recovery period is 9 years.

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

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

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

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

* Property described in asset classes 01.223, 01.224, and 01.225 are assigned recovery periods but have no class lives.
** A horse is more than 2 (or 12) years old after the day that is 24 (or 144) months after its actual birthdate.
*** 7 if property was placed in service before 1989.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

Abstract fees: Expenses generally paid by a buyer to research the title of real property.

Active conduct of a trade or business: Generally, for the section 179 deduction, a taxpayer is considered to conduct a trade or business actively if he or she meaningfully participates in the management or operations of the trade or business. A mere passive investor in a trade or business does not actively conduct the trade or business.

Adjusted basis: The original cost of property, plus certain additions and improvements, minus certain deductions such as depreciation allowed or allowable and casualty losses.

Amortization: A ratable deduction for the cost of intangible property over its useful life.

Amount realized: The total of all money received plus the fair market value of all property or services received from a sale or exchange. The amount realized also includes any liabilities assumed by the buyer and any liabilities to which the property transferred is subject, such as real estate taxes or a mortgage.

Basis: A measure of an individual's investment in property for tax purposes.

Business/investment use: Usually, a percentage showing how much an item of property, such as an automobile, is used for business and investment purposes.

Capitalized: Expended or treated as an item of a capital nature. A capitalized amount is not deductible as a current expense and must be included in the basis of property.

Circumstantial evidence: Details or facts which indirectly point to other facts.

Class life: A number of years that establishes the property class and recovery period for most types of property under the General Depreciation System (GDS) and Alternative Depreciation System (ADS).

Commuting: Travel between a personal home and work or job site within the area of an individual's tax home.

Convention: A method established under the Modified Accelerated Cost Recovery System (MACRS) to determine the portion of the year to depreciate property both in the year the property is placed in service and in the year of disposition.

Declining balance method: An accelerated method to depreciate property. The General Depreciation System (GDS) of MACRS uses the 150% and 200% declining balance methods for certain types of property. A depreciation rate (percentage) is determined by dividing the declining balance percentage by the recovery period for the property.

Disposition: The permanent withdrawal from use in a trade or business or from the production of income.

Documentary evidence: Written records that establish certain facts.

Exchange: To barter, swap, part with, give, or transfer property for other property or services.

Fair market value (FMV): The price that property brings when it is offered for sale by one who is willing but not obligated to sell, and is bought by one who is willing or desires to buy but is not compelled to do so.

Fiduciary: The one who acts on behalf of another as a guardian, trustee, executor, administrator, receiver, or conservator.

Fungible commodity: A commodity of a nature that one part may be used in place of another part.

Goodwill: An intangible property such as the advantage or benefit received in property beyond its mere value. It is not confined to a name but can also be attached to a particular area where business is transacted, to a list of customers, or to other elements of value in business as a going concern.

Grantor: The one who transfers property to another.

Improvement: An addition to or partial replacement of property that adds to its value, appreciably lengthens the time you can use it, or adapts it to a different use.

Intangible property: Property that has value but cannot be seen or touched, such as goodwill, patents, copyrights, and computer software.

Listed property: Passenger automobiles; any other property used for transportation; property of a type generally used for entertainment, recreation or amusement; and computers and their peripheral equipment (unless used only at a regular business establishment and owned or leased by the person operating the establishment).

Nonresidential real property: Most real property other than residential rental property.

Placed in service: Ready and available for a specific use whether in a trade or business, the production of income, a tax-exempt activity, or a personal activity.

Property class: A category for property under MACRS. It generally determines the depreciation method, recovery period, and convention.

Recapture: To include as income on your return an amount allowed or allowable as a deduction in a prior year.

Recovery period: The number of years over which the basis of an item of property is recovered.

Remainder interest: That part of an estate that is left after all the other provisions of a will have been satisfied.

Residential rental property: Real property, generally buildings or structures, if 80% or more of its annual

gross rental income is from dwelling units.

Salvage value: An estimated value of property at the end of its useful life. Not used under MACRS.

Section 1245 property: Property that is or has been subject to an allowance for depreciation or amortization. Section 1245 property includes personal property, single purpose agricultural and horticultural structures, storage facilities used in connection with the distribution of petroleum or primary products of petroleum, and railroad grading or tunnel bores.

Section 1250 property: Real property (other than section 1245 property) which is or has been subject to an allowance for depreciation.

Standard mileage rate: The established amount for optional use in determining a tax deduction for automobiles instead of deducting depreciation and actual operating expenses.

Straight line method: A way to figure depreciation for property that ratably deducts the same amount for each year in the recovery period. The rate (in percentage terms) is determined by dividing 1 by the number of years in the recovery period.

Structural components: Parts that together form an entire structure, such as a building. The term includes those parts of a building such as walls, partitions, floors, and ceilings, as well as any permanent coverings such as paneling or tiling, windows and doors, and all components of a central air conditioning or heating system including motors, compressors, pipes and ducts. It also includes plumbing fixtures such as sinks, bathtubs, electrical wiring and lighting fixtures, and other parts that form the structure.

Tangible property: Property you can see or touch, such as buildings, machinery, vehicles, furniture, and equipment.

Tax-exempt: Not subject to tax.

Term interest: A life interest in property, an interest in property for a term of years, or an income interest in a trust. It generally refers to a present or future interest in income from property or the right to use property that terminates or fails upon the lapse of time, the occurrence of an event, or the failure of an event to occur.

Unadjusted basis: The basis of an item of property for purposes of figuring gain on a sale without taking into account any depreciation taken in earlier years but with adjustments for other amounts, including amortization, the section 179 deduction, any special depreciation allowance, any deduction claimed for clean-fuel vehicles or clean-fuel vehicle refueling property placed in service before January 1, 2006, and any electric vehicle credit.

Unit-of-production method: A way to figure depreciation for certain property. It is determined by estimating the number of units that can be produced before the property is worn out. For example, if it is estimated that a machine will produce 1000 units before its useful life ends, and it actually produces 100 units in a year, the percentage to figure depreciation for that year is 10% of the machine's cost less its salvage value.

Useful life: An estimate of how long an item of property can be expected to be usable in trade or business or to produce income.

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Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

A

Addition to property 35
Adjusted basis 12
Alternative Depreciation System (ADS):
Recovery periods 35
Required use 29
Amended return 13
Apartment:
Cooperative 4
Rental 31
Assistance (*See* Tax help)
Automobile (*See* Passenger automobile)

B

Basis:
Adjustments 13, 22, 39
Basis for depreciation 33
Casualty loss 39
Change in use 12
Cost 11
Depreciable basis 27
Other than cost 12
Recapture of clean-fuel vehicle deduction or credit 39
Term interest 6
Unadjusted 39
Business-use limit, recapture of Section 179 deduction 23
Business use of property, partial 5
Business-use requirement, listed property 56

C

Car (*See* Passenger automobile)
Carryover of section 179 deduction 21
Casualty loss, effect of 39
Changing accounting method 14
Communication equipment (*See* Listed property)
Commuting 57
Computer (*See* Listed property)
Computer software 10, 16
Containers 5
Conventions 36
Cooperative apartment 4
Copyright 10
(*See also* Section 197 intangibles)
Correcting depreciation deductions 13
Cost basis 11

D

Declining balance:
Method 42
Rates 42
Deduction limit:
Automobile 60
Section 179 18
Depreciation:
Deduction:
Employee 55
Listed property 55
Determinable useful life 6
Excepted property 6
Incorrect amount deducted 13
Methods 36
Property lasting more than one year 6
Property owned 4
Property used in business 5
Recapture 53, 58
Depreciation allowable 13
Depreciation allowed 13
Depreciation deduction:
Listed property 56
Determinable useful life 6
Disposition:
Before recovery period ends 41
General asset account property 49
Section 179 deduction 23

E

Election:
ADS 29, 37
Declining balance (150% DB) method 37
Exclusion from MACRS 11
General asset account 52
Not to claim special depreciation allowance 28
Section 179 deduction 22
Straight line method 37
Electric vehicle 61
Employee:
Depreciation deduction 55
How to claim depreciation 13
Employee deduction, listed property 55
Energy property 18
Exchange of MACRS property 45

F

Farm:
Property 37
Figuring MACRS:
Using percentage tables 37
Without using percentage tables 42
Films 11

G

General asset account:
Abusive transaction 51
Disposing of property 49
Grouping property in 49
Nonrecognition transaction 51
General Depreciation System (GDS), recovery periods 34
Gift (*See* Basis, other than cost)
Glossary 110

I

Identity theft 67
Idle property 7
Improvements 13, 35
Income forecast method 10
Incorrect depreciation deductions 13
Indian reservation:
Defined 35
Qualified infrastructure property 35
Qualified property 34
Recovery periods for qualified property 34
Related person 35
Inheritance (*See* Basis, other than cost)
Intangible property:
Depreciation method 10
Income forecast method 10
Straight line method 10
Inventory 5
Investment use of property, partial 5
Involuntary conversion of MACRS property 45

L

Land:
Not depreciable 6
Preparation costs 6
Leased property 17
Leasehold improvement property, defined 25, 32
Life tenant 4
(*See also* Term interests)
Limit on deduction:
Automobile 60
Section 179 18
Listed property:
5% owner 57
Computer 55
Condition of employment 56
Defined 54
Employee deduction 55
Employer convenience 56
Improvements to 54
Leased 59
Passenger automobile 54
Qualified business use 57
Recordkeeping 64
Related person 58
Reporting on Form 4562 66
Lodging 18

M

Maximum deduction:
Electric vehicles 61
Passenger automobiles 61
Trucks 62
Vans 62
Mobile home (*See* Residential rental property)
Modified ACRS (MACRS):
Addition or improvement 35
Alternative Depreciation System (ADS) 29
Conventions 36
Declining balance method 42
Depreciation methods 36
Farm property 37
Figuring, short tax year 47
General Depreciation System (GDS) 29
Percentage tables 38
Property classes 30
Recovery periods 33
Short tax year 46
Straight line method 42

N

Nonresidential real property 31
Nontaxable transfer of MACRS property 46

O

Office in the home 5, 34
Ownership, incidents of 4

P

Partial business use 17
Passenger automobile:
Defined 54
Electric vehicles 61
Limit on 60
Maximum depreciation deduction 61
Trucks 62
Vans 62
Patent 10
(*See also* Section 197 intangibles)
Personal property 8
Phonographic equipment (*See* Listed property)
Photographic equipment (*See* Listed property)
Placed in service:
Before 1987 8
Date 33
Rule 7
Property:
Classes 30
Depreciable 4
Idle 7
Improvements 13
Leased 4, 17

Listed 54
Personal 8
Real 9
Retired from service 7
Tangible personal 16
Term interest 6
Publications (*See* Tax help)

Q

Qualified leasehold improvement property, defined 25, 32
Qualified property, special depreciation allowance 24

R

Real property 9
Recapture:
Clean-fuel vehicle deduction or credit 39
General asset account, abusive transaction 51
Listed property 58
MACRS depreciation 53
Section 179 deduction 23
Special depreciation allowance 28
Recordkeeping:
Listed property 64
Section 179 23
Recovery periods:
ADS 35
GDS 34
Related persons 6, 9, 17, 35, 58
Rental home (*See* Residential rental property)
Rented property, improvements 13
Rent-to-own property, defined 31
Repairs 13
Residential rental property 31
Retail motor fuels outlet 32
Revoking:
ADS election 29
General asset account election 53
Section 179 election 23

S

Sale of property 41
Section 179 deduction:
Business use required 17
Carryover 21
Dispositions 23
Electing 22
Limits:
Business (taxable) income 20
Business-use, recapture 23
Dollar 18
Enterprise zone business 19
Partial business use 17
Married filing separate returns 19
Partnership rules 21
Property:
Eligible 15
Excepted 17
Purchase required 17
Recapture 23
Recordkeeping 23
S corporation rules 22
Settlement fees 12
Short tax year:
Figuring depreciation 47
Figuring placed-in-service date 46
Software, computer 10, 16
Sound recording 11
Special depreciation allowance:
Election not to claim 28
Qualified property 24
Recapture 28
Stock, constructive ownership of 9
Straight line method 10, 42
Created intangibles 10

T

Tangible personal property 16
Tax help
Term interest 6
Trade-in of property 18
Trucks 62

U

Unadjusted basis 39
Useful life 6

V

Vans 62
Video-recording equipment (*See* Listed property)
Video tape 11

W

When to use ADS 29
Worksheet:
Leased listed property 59
MACRS 39

Tax Publications for Business Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- **1** Your Rights as a Taxpayer
- **17** Your Federal Income Tax
- **334** Tax Guide for Small Business
- **910** IRS Guide to Free Tax Services

Employer's Guides

- **15** (Circular E), Employer's Tax Guide
- **15-A** Employer's Supplemental Tax Guide
- **15-B** Employer's Tax Guide to Fringe Benefits
- **51** (Circular A), Agricultural Employer's Tax Guide
- **80** (Circular SS), Federal Tax Guide for Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands
- **926** Household Employer's Tax Guide

Specialized Publications

- **225** Farmer's Tax Guide
- **463** Travel, Entertainment, Gift, and Car Expenses
- **505** Tax Withholding and Estimated Tax
- **510** Excise Taxes
- **515** Withholding of Tax on Nonresident Aliens and Foreign Entities
- **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- **527** Residential Rental Property
- **534** Depreciating Property Placed in Service Before 1987
- **535** Business Expenses
- **536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- **537** Installment Sales
- **538** Accounting Periods and Methods
- **541** Partnerships
- **542** Corporations
- **544** Sales and Other Dispositions of Assets
- **551** Basis of Assets
- **556** Examination of Returns, Appeal Rights, and Claims for Refund
- **560** Retirement Plans for Small Business
- **561** Determining the Value of Donated Property
- **583** Starting a Business and Keeping Records
- **587** Business Use of Your Home
- **594** The IRS Collection Process
- **597** Information on the United States-Canada Income Tax Treaty
- **598** Tax on Unrelated Business Income of Exempt Organizations
- **901** U.S. Tax Treaties
- **908** Bankruptcy Tax Guide
- **925** Passive Activity and At-Risk Rules
- **946** How To Depreciate Property
- **947** Practice Before the IRS and Power of Attorney
- **966** Electronic Federal Tax Payment System: A Guide to Getting Started
- **1544** Reporting Cash Payments of Over $10,000
- **1546** Taxpayer Advocate Service: Your Voice at the IRS

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **179** (Circular PR), Guía Contributiva Federal para Patronos Puertorriqueños
- **594SP** El Proceso de Cobro del IRS
- **850 (EN/SP)** English-Spanish Glossary of Words and Phrases
- **1544SP** Informe de Pagos en Efectivo en Exceso de $10,000

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, phone, and mail.

Form Number and Title		Catalog Number
W-2	Wage and Tax Statement	10134
W-4	Employee's Withholding Allowance Certificate	10220
940	Employer's Annual Federal Unemployment (FUTA) Tax Return	11234
941	Employer's QUARTERLY Federal Tax Return	17001
1040	U.S. Individual Income Tax Return	11320
Sch A	Itemized Deductions	17145
Sch B	Interest and Ordinary Dividends	17146
Sch C	Profit or Loss From Business	11334
Sch C-EZ	Net Profit From Business	14374
Sch D	Capital Gains and Losses	11338
Sch E	Supplemental Income and Loss	11344
Sch F	Profit or Loss From Farming	11346
Sch H	Household Employment Taxes	12187
Sch J	Income Averaging for Farmers and Fishermen	25513
Sch R	Credit for the Elderly or the Disabled	11359
Sch SE	Self-Employment Tax	11358
1040-ES	Estimated Tax for Individuals	11340
1040X	Amended U.S. Individual Income Tax Return	11360
1065	U.S. Return of Partnership Income	11390
Sch D	Capital Gains and Losses	11393
Sch K-1	Partner's Share of Income, Deductions, Credits, etc.	11394
1120	U.S. Corporation Income Tax Return	11450
1120S	U.S. Income Tax Return for an S Corporation	11510
Sch D	Capital Gains and Losses and Built-In Gains	11516
Sch K-1	Shareholder's Share of Income, Deductions, Credits, etc.	11520

Form Number and Title		Catalog Number
2106	Employee Business Expenses	11700
2106-EZ	Unreimbursed Employee Business Expenses	20604
2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
2441	Child and Dependent Care Expenses	11862
2848	Power of Attorney and Declaration of Representative	11980
3800	General Business Credit	12392
3903	Moving Expenses	12490
4562	Depreciation and Amortization	12906
4797	Sales of Business Property	13086
4868	Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
6252	Installment Sale Income	13601
8283	Noncash Charitable Contributions	62299
8300	Report of Cash Payments Over $10,000 Received in a Trade or Business	62133
8582	Passive Activity Loss Limitations	63704
8606	Nondeductible IRAs	63966
8822	Change of Address	12081
8822-B	Change of Address or Responsible Party—Business	57465
8829	Expenses for Business Use of Your Home	13232
8949	Sales and Other Dispositions of Capital Assets	37768
8959	Additional Medicare Tax	59475