Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation

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

1977

Name(s) as shown on return | **Identifying number**

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

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

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

Instructions

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

Note: *Instructions for Class Life Asset Depreciation Range (CLADR) System are contained in separate instructions for Form 4832 (Class Life Asset Depreciation Range (CLADR) System). Also see Publication 534, Tax Information on Depreciation.*

Reasonable Allowance.—You may deduct a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business, or held for the production of income. The allowance is not allowed for stock in trade, inventories, land, and personal assets.

Charge off the cost (or other basis) to be recovered over the expected useful life of the property. Depreciation begins when the asset is placed in service and ends when it is retired from service.

In computing the depreciation basis for personal property other than livestock, you need not take into account salvage value that does not exceed 10 percent of the property cost or other basis. If the salvage value exceeds 10 percent, take only the excess into account. These provisions apply to property with a useful life of three or more years.

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

Straight Line Method.—Determine the depreciation for each year by dividing the

(Continued on back)

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

Declining Balance Method.—Apply a uniform rate each year to the remaining cost or other basis of property, determined at the beginning of the year. Do not adjust for salvage value, but stop depreciation when the unrecovered cost is reduced to salvage value. The depreciation rate for used property under this method may not exceed $1\frac{1}{2}$ times the applicable straight line rate. **Note:** *See "Limitation on Accelerated Depreciation for Used Section 1250 (Real) Property."*

Special Rules for New Assets.—You may depreciate the cost or other basis of a new asset under any of the following methods, provided (a) the asset is tangible, (b) it has an estimated useful life to you of three or more years, and (c) its original use commenced with you. *Note: See "Limitation on Accelerated Depreciation for New Section 1250 (Real) Property."*

(1) Declining balance method.—Use this method with a rate not in excess of twice the applicable straight line rate.

(2) Sum of the years-digits method.—Compute the deduction for each year by multiplying the property's cost or other basis (reduced by estimated salvage value) by the number of years of useful life remaining (including this year), and dividing the product by the sum of all the digits corresponding to the years of estimated useful life of the asset. For a 5-year life, this sum would be 15 (5+4+3+2+1). For the first year five-fifteenths of the cost reduced by estimated salvage value would be allowable; for the second year, four-fifteenths, etc.

(3) Other methods.—You may use any consistent method which does not result at the end of any year in accumulated allowances greater than the total of the accumulated allowances which would have resulted from use of the 200 percent declining balance method. This limitation applies only during the first two-thirds of the property's useful life.

Change in Method.—If you wish to change your depreciation computation method, the tax treatment of salvage recoveries on sale, exchange, or other disposition of business property, or the tax treatment of additions or retirements from multiple asset accounts, file Form 3115 with the Service Center where you will file your return. You must file within the first 180 days of the taxable year to which the change relates.

Additional First-Year Depreciation.—In the year assets are first subject to depreciation, you may elect to write off 20 percent of their cost (before adjustment for salvage value) if they are tangible personal property (equipment, machinery, etc.) acquired by purchase for use in a trade or business or held for the production of income. If the total cost of these assets exceeds $10,000 ($20,000 for joint return), the additional depreciation is limited to $2,000 ($4,000 for joint return).

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

The additional depreciation is limited to property with a remaining useful life of six or more years which was not acquired from a person (other than a brother or sister) whose relationship to you would result in the disallowance of losses. You may also take normal depreciation on the cost of the asset reduced by the first-year depreciation.

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

Limitation on Accelerated Depreciation for New Section 1250 (Real) Property.—You may not use the double declining balance and sum of the years-digits methods except for new residential rental property from which at least 80 percent of the gross rental income is derived from rental of residential units. Other new real property may be depreciated under the straight line or 150 percent declining balance method.

Limitation on Accelerated Depreciation for Used Section 1250 (Real) Property.—You may depreciate used residential rental property with a useful life of 20 years or more under the 125 percent declining balance method. Other used real property must be depreciated under the straight line method.

Rehabilitation Expenditures for Low-Income Rental Housing.—You may elect to compute the depreciation deduction under section 167(k) for rehabilitation expenditures made pursuant to a binding contract entered into after December 31, 1975, and before January 1, 1978, for low-income rental housing under the straight line method using a useful life of 60 months and no salvage value, instead of any other depreciation computation method. If this election is for property held by a partnership, the partnership must make the election. (The term "low-income rental housing" means any building whose dwelling units are for rental occupancy by low or moderate income families and individuals, as determined by the Secretary or his delegate, consistent with the Leased Housing Program under section 8 of the United States Housing Act of 1937, as amended.)

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

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

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

Information Required for Election Year.—

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

(2) Description of property for which an election is made, and the date the property was placed in service.

(3) Location and description of building being rehabilitated.

(4) Number of dwelling units in the structure, and number used on a transient basis (see I.T. Regs. § 1.167(k)–3(c)(2)).

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

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

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

(a) Rehabilitation expenditures allocated to that unit (see I.T. Regs. § 1.167(k)–2(d)),

(b) For each period of occupancy during the taxable year, the number of occupants, the maximum income level permissible under I.T. Regs. § 1.167 (k)–3(b)(2) for them, their adjusted income (determined solely from the income certifications required by I.T. Regs. § 1.167(k)–3(b)(4)), and the rent charged for that unit, and

(c) For each period in which the unit is vacant during the taxable year, a description of each as to number of rooms, the low or moderate income level in that area for the number of persons occupying comparable units, and the rental at which each vacant unit is offered.

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

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

(10) If you are treated as having paid or incurred expenditures by reason of I.T. Regs. § 1.167(k)–1(b), the amount of those expenditures, the date they were incurred, the date the property attributable to the expenditures was placed in service, the accounting method used by the person who made the expenditures, and the purchase price of the property attributable to them.

Information Required for Subsequent Years.—For each taxable year in which you compute depreciation under section 167(k) after the taxable year of the election, the statement required by this section must state the rental charge for each occupied unit and at which each vacant unit is offered. In addition, if any such unit is rented to a new tenant during the taxable year, the statement must contain the following information:

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

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

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

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