



depreciation allowed or allowable in earlier years and by its salvage value.

**Declining Balance Method.**—Apply a uniform rate each year to the remaining cost or other basis figured at the start of the year. Do not adjust for salvage value, but stop depreciating when the unrecovered cost is the same amount as the salvage value. The maximum rate that may be used is twice the straight line rate. However, see the limitations below for certain types of property.

**Sum of the Years-Digits Method.**—Figure the deduction each year by multiplying a different fraction each year by the cost or other basis that has been reduced by the estimated salvage value. The bottom number, which is the same for all the fractions, is the sum of the digits representing the years of estimated useful life. For a 5-year life, the bottom number of the fractions is 15 (5+4+3+2+1). The top number of each fraction changes each year to represent the years of useful life remaining at the start of the year for which you are figuring. For the 5-year life, the top number of the fraction for the first year is 5 (5/15); for the second, 4 (4/15), etc.

**Other Methods.**—You may use any consistent method. The method must not result at the end of any year in accumulated allowances that are more than the amount that could have been deducted if the declining balance method were used at twice the straight line rate. This restriction applies only during the first two-thirds of the property's useful life.

**Limits on Use of Certain Methods Other than Straight Line.**—You may depreciate the cost or other basis of an asset using:

(1) The declining balance method at a rate not more than twice the straight line rate;

(2) Sum of the years-digits; or

(3) Any other acceptable method at a rate not more than twice the straight line rate; ONLY if:

(a) The asset is tangible,

(b) The estimated useful life to you is 3 years or more, and

(c) The asset is new (the original use started with you).

**Limit on Used Personal Property.**—You may depreciate used tangible personal property by using the straight line method, or the declining balance method at a rate not more than 1½ times the straight line rate.

**Limit on Accelerated Depreciation for New Section 1250 (Real) Property.**—You may use the declining balance and the sum of the years-digits method for new residential rental property, if at least 80% of the gross rental income is from dwelling units. You may depreciate other new real property under the straight line method or at 1½ times the straight line rate.

**Limit 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 declining balance method at 1¼ times the straight line rate. Depreciate other used real property under the straight line method.

**Change in Method.**—Generally, if you want to make any change to your method for figuring your depreciation, file Form 3115 with the same Service Center where you will file your return. File within the first 180 days of the tax year to which the change relates.

**Additional First-Year Depreciation.**—You may choose to write off 20% of the cost of

new or used tangible personal property (equipment, machinery, etc.) bought for use in a trade or business or held to produce income. For this purpose, do not adjust cost for salvage value. If the total cost of these assets is more than \$10,000 (\$20,000 for joint return), the additional depreciation is limited to \$2,000 (\$4,000 for joint return). Choose additional first-year depreciation in the year the asset is first subject to depreciation.

The cost of partnership property on which additional first-year depreciation is figured and passed through to the partners cannot be more than \$10,000. For example, if the total cost of assets on which to figure additional first-year depreciation 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 to figure additional first-year depreciation they may add the cost of their assets to their partnership share of asset cost in figuring the allowable deduction.

Use additional first-year depreciation only on property that has a remaining useful life of at least 6 years and that you did not get from a related 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 regular depreciation.

**Rehabilitation Expenditures for Low-Income Rental Housing (Under Section 167(k)).**—You may choose to figure the depreciation for rehabilitation expenditures under the straight line method, using a useful life of 60 months with no salvage value. This amount must meet the following restrictions:

• It was spent for low-income housing only.

• It was spent under a contract you entered into after 1975 and before 1982. For property held by a partnership, only the partnership may make the choice.

Low-income rental housing is any building whose dwelling units are for rent by low or moderate income families and individuals, as established by the Secretary or his or her delegate, consistent with the Leased Housing Program under section 8 of the United States Housing Act of 1937, as amended.

**Limits.**—The amount you spent: (1) must not be more than \$20,000 per dwelling unit in the building, and (2) must be more than \$3,000 per unit over two consecutive tax years. This rapid writeoff does not apply to motels, hotels, or other establishments in which more than one-half of the units are rented on a transient basis.

**How to Take the Deduction.**—Attach a statement to the income tax return filed for the first tax year in which you figure the deduction using a 60-month useful life. In general, you must do this by the due date including extension, for filing for the tax 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 later tax year in which you figure depreciation under section 167(k).

**Information Required for the Year of the Deduction.**—

(1) Your name, address, and taxpayer identifying number.

(2) Description of property for which an election is made.

(3) Date the property was placed in service.

(4) Location and description of building being rehabilitated.

(5) Number of dwelling units in the structure.

(6) Number of dwelling units used on a transient basis (see I.T. Regs. 1.167(k)-3(c)(2)).

(7) Date rehabilitation expenditures are incurred (see I.T. Regs. 1.167(k)-1(a)(2)).

(8) Statement that you have gotten all income certifications required by I.T. Regs. 1.167(k)-3(b)(4).

(9) For each dwelling unit which you want to qualify as low-income housing under section 167(k):

(a) List rehabilitation expenditures for that unit (see I.T. Regs. 1.167(k)-2(d));

(b) List for each period of occupancy during the tax year the number of occupants, the maximum income level allowed under I.T. Regs. 1.167(k)-3(b)(2) for them, their adjusted income, which is set 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) List for each period in which the unit is vacant during the tax year, the number of rooms of each unit, the low or moderate income level in that area for the number of persons occupying similar units, and the rent at which each vacant unit is offered.

(10) If required under I.T. Regs. 1.167(k)-2(d), the area set aside for dwelling units and for nondwelling units.

(11) If required, a statement of intent to fulfill the \$3,000 minimum amount limitation (see I.T. Regs. 1.167(k)-4(a)(2)).

(12) If you are treated as if you have paid or incurred expenditures under I.T. Regs. 1.167(k)-1(b):

(a) the amount of those expenditures,

(b) the date they were incurred,

(c) the date the property attributable to the expenditures was placed in service,

(d) the accounting method used by the person who made the expenditures, and

(e) the purchase price of the property attributable to them.

**Information Required for Later Years.**—For each later tax year in which you figure depreciation under section 167(k) include in the statement the rental charge for each occupied unit and the charge at which each vacant unit is offered. If any unit is rented to a new tenant during the tax year, include:

(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 allowed under I.T. Regs. 1.167(k)-3(b)(2) for that number of occupants, and the total adjusted income of the occupants, set solely by 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.