



Instructions for Form 4562

Depreciation and Amortization (Including Information on Listed Property)

Section references are to the Internal Revenue Code, unless otherwise noted.

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 33 hr., 43 min.

Learning about the law or the form 4 hr., 28 min.

Preparing and sending the form to the IRS 5 hr., 13 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

General Instructions

Purpose of Form

Use Form 4562 to claim your deduction for depreciation and amortization; to make the election to expense certain tangible property (section 179); and to provide information on the business/investment use of automobiles and other listed property.

Who Must File

Except as otherwise noted, complete and file Form 4562 if you are claiming:

- Depreciation for property placed in service during the 1994 tax year;
- A section 179 expense deduction (which may include a carryover from a previous year);
- Depreciation on any vehicle or other listed property (regardless of when it was placed in service);
- A deduction for any vehicle reported on a form other than **Schedule C (Form 1040)**, Profit or Loss From Business, or **Schedule C-EZ (Form 1040)**, Net Profit From Business;
- Any depreciation on a corporate income tax return (other than Form 1120S); or
- Amortization of costs that begins during the 1994 tax year.

However, **do not** file Form 4562 to report depreciation and information on the use of vehicles if you are an employee deducting job-related vehicle expenses using either the standard mileage rate or actual expenses. Instead, use **Form 2106**, Employee Business Expenses, or **Form 2106-EZ**, Unreimbursed Employee Business Expenses, for this purpose.

Prepare and submit a separate Form 4562 for each business or activity on your return. If you need more space, attach additional sheets. However, complete only one Part I in its entirety when computing your allowable section 179 expense deduction.

Definitions

Depreciation

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income-producing property with a determinable useful life of more than 1 year. However, land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income.

If you acquired depreciable property for the first time in 1994, get **Pub. 946**, How To Begin Depreciating Your Property. For a more comprehensive guide on depreciation, get **Pub. 534**, Depreciation.

Amortization

Amortization is similar to the straight line method of depreciation in that an annual deduction is allowed to recover certain costs over a fixed time period. You can amortize such items as the costs of starting a business, goodwill and certain other intangibles, reforestation, and pollution control facilities. For additional information, get **Pub. 535**, Business Expenses.

Listed Property

For a definition of "listed property" see the instructions for Part V on page 4.

Recordkeeping

Except for Part V (relating to listed property), the IRS does not require you to submit detailed information with your return on the depreciation of assets placed in service in previous tax years. However, the information needed to compute your depreciation deduction (basis, method, etc.) must be part of your permanent records.

Because Form 4562 does not provide for permanent recordkeeping, you may use the depreciation worksheet on page 8 to assist you in maintaining depreciation records. However, the worksheet is designed only for Federal income tax purposes. You may need to keep additional records for accounting and state income tax purposes.

Specific Instructions

Part I—Election To Expense Certain Tangible Property (Section 179)

Note: An estate or trust cannot make this election.

You may elect to expense part of the cost of certain tangible personal property used in your trade or business and certain other property described in Pub. 534. To do so, you must have purchased the property (as defined in section 179(d)(2)) and placed it in service during the 1994 tax year.

You must make the election with:

1. The original return you file for the tax year the property was placed in service (whether or not you file your return on time), or
2. An amended return filed no later than the due date (including extensions) for your return for the tax year the property was placed in service.

Once made, the election (and the selection of the property you elect to expense) may not be revoked without IRS consent.

If you elect this deduction, reduce the amount on which you figure your depreciation or amortization deduction by the section 179 expense deduction.

Section 179 property does **not** include:

1. Property used 50% or less in your trade or business,
2. Property held for investment (section 212 property), or
3. Property you lease to others (if you are a noncorporate lessor) **unless (a)** you manufactured or produced the property or **(b)** the term of the lease is less than 50% of the property's class life, and for the first 12 months after the property is transferred to the lessee, the sum of the deductions related to the property that are allowed to you solely under section 162 (except rents and reimbursed amounts) is more than 15% of the rental income from the property.

The section 179 expense deduction is subject to two separate limitations: a dollar limitation and a taxable income limitation. Both limitations are figured in Part I.

For a partnership, these limitations apply to the partnership and each partner. For an S corporation, these limitations apply to the S corporation and each shareholder. For a controlled group, all component members are treated as one taxpayer.

Line 1

For an enterprise zone business, the maximum section 179 expense deduction of \$17,500 is increased by the **smaller** of **(a)** \$20,000, or **(b)** the cost of section 179 property that is also qualified zone property (including such property placed in service by your spouse, even if you are filing a separate return). Cross out the preprinted entry on line 1 and enter in the margin the larger amount if your business is an enterprise zone business. For the definitions of enterprise zone business and qualified zone property, see sections 1397B and 1397C.

Line 2

Enter the cost of all section 179 property placed in service during the tax year. Include amounts from any listed property from Part V. Also include any section 179 property placed in service by your spouse, even if you are filing a separate return.

For an enterprise zone business, include on this line only 50% of the cost of section 179 property that is also qualified zone property.

Line 5

If line 5 is zero, you cannot elect to expense any property. Skip lines 6 through 11, enter zero on line 12, and enter the carryover of disallowed deduction from 1993, if any, on line 13.

If you are married filing separately, you and your spouse must allocate the dollar limitation for the tax year between you. To do so, multiply the total limitation that you would otherwise enter on line 5 by 50%, unless you and your spouse elect a different allocation. If you and your spouse elect a different allocation, multiply the total limitation by the percentage you elect. If a different allocation is elected, the sum of the percentages you and your spouse elect must equal 100%. Do not enter on line 5 more than your share of the total dollar limitation.

Line 6

Caution: Do not include any listed property on line 6.

Column (a).—Enter a brief description of the property for which you are making the election (e.g., truck, office furniture, etc.).

Column (b).—Enter the cost of the property. If you acquired the property through a trade-in, do not include any undepreciated basis of the assets you traded in. Get **Pub. 551**, Basis of Assets, for more information.

Column (c).—Enter the amount you elect to expense. You do not have to elect to expense the entire cost of the property. You can depreciate the amount you do not elect to expense. See the line 14 and line 15 instructions.

To report your share of a section 179 expense deduction from a partnership or an S corporation, instead of completing columns (a) and (b), write “from Schedule K-1 (Form 1065)” or “from Schedule K-1 (Form 1120S)” across the columns.

Line 9

The tentative deduction represents the amount you may expense in 1994 or carry over to 1995. If this amount is less than the taxable income limitation on line 11, you may expense the entire amount. If this amount is more than line 11, you may expense in 1994 only an amount equal to line 11. Carry over any excess to 1995.

Line 10

The carryover of disallowed deduction from 1993 is the amount of section 179 property, if any, elected to be expensed in previous years, but not allowed as a deduction due to the taxable income limitation. If you filed Form 4562 for 1993, enter the amount from line 13 of your 1993 Form 4562. For additional information, see **Pub. 534**.

Line 11

The section 179 expense deduction is further limited to the “taxable income” limitation under section 179(b)(3).

If you are an individual, enter the smaller of line 5 or the aggregate taxable income from any trade or business actively conducted by you, computed without regard to any section 179 expense deduction, the deduction for one-half of self-employment taxes under section 164(f), or any net operating loss deduction. Include in aggregate taxable income the wages, salaries, tips, and other compensation you earned as an employee (not reduced by unreimbursed employee business expenses). If you are married filing a joint return, combine the aggregate taxable incomes for both you and your spouse.

For a partnership, enter the smaller of line 5 or the aggregate of the partnership’s items of income and expense described in section 702(a) from any trade or business actively conducted by the partnership (other than credits, tax-exempt income, the section 179 expense deduction, and guaranteed payments under section 707(c)).

For an S corporation, enter the smaller of line 5 or the aggregate of the corporation’s items of income and expense described in section 1366(a) from any trade or business actively conducted by the corporation (other than credits, tax-exempt income, the section 179 expense deduction, and the deduction for compensation paid to the corporation’s shareholder-employees).

For a corporation (other than an S corporation), enter the smaller of line 5 or the corporation’s taxable income before the net operating loss deduction and special deductions (excluding items not derived from a trade or business actively conducted by the corporation).

If you have to apply another Code section that has a limitation based on taxable income, see Regulations section 1.179-2(c)(5) for rules for applying the taxable income limitation under section 179 in such a case.

You are considered to actively conduct a trade or business if you meaningfully participate in the management or operations of the trade or business. A mere passive investor is not considered to actively conduct a trade or business.

Line 12

The limitations on lines 5 and 11 apply to the taxpayer, and not to each separate business or activity. Therefore, if you have more than one business or activity, you may allocate your allowable section 179 expense deduction among them. To do so, write “Summary” at the top of Part I of the separate Form 4562 you are completing for the aggregate amounts from all businesses or activities. Do not complete the rest of that form. On line 12 of the Form 4562 you prepare for each separate business or activity, enter the amount allocated to the business or activity from the “Summary.” No other entry is required in Part I of the separate Form 4562 prepared for each business or activity.

Part II—MACRS Depreciation For Assets Placed in Service ONLY During Your 1994 Tax Year

Note: The term “Modified Accelerated Cost Recovery System” (MACRS) includes the General Depreciation System and the Alternative Depreciation System. Generally, MACRS is used to depreciate any tangible property placed in service after 1986. However, MACRS does not apply to films, videotapes, and sound recordings. See section 168(f) for other exceptions.

Depreciation may be an adjustment for alternative minimum tax purposes. For details, get **Form 4626**, Alternative Minimum Tax—Corporations; **Form 6251**, Alternative Minimum Tax—Individuals; or Schedule H of **Form 1041**, U.S. Income Tax Return for Estates and Trusts.

Section A—General Depreciation System (GDS)

Lines 14a Through 14h

Note: Use lines 14a through 14h only for assets placed in service during the tax year beginning in 1994 and depreciated under the General Depreciation System, except for automobiles and other listed property (which are reported in Part V).

Column (a).—Determine which property you acquired and placed in service during the tax year beginning in 1994. Then, sort that property according to its classification (3-year property, 5-year property, etc.) as shown in column (a) of lines 14a through 14h. The classifications for

some property are shown below. For property not shown, see **Determining the classification** below.

- **3-year property** includes (a) a race horse that is more than 2 years old at the time it is placed in service and (b) any horse (other than a race horse) that is more than 12 years old at the time it is placed in service.
- **5-year property** includes (a) automobiles; (b) light general purpose trucks; (c) typewriters, calculators, copiers, and duplicating equipment; (d) any semi-conductor manufacturing equipment; (e) any computer or peripheral equipment; (f) any section 1245 property used in connection with research and experimentation; and (g) certain energy property specified in section 168(e)(3)(B)(vi).
- **7-year property** includes (a) office furniture and equipment; (b) appliances, carpets, furniture, etc., used in residential rental property; (c) railroad track; and (d) any property that does not have a class life and is not otherwise classified.
- **10-year property** includes (a) vessels, barges, tugs, and similar water transportation equipment; (b) any single purpose agricultural or horticultural structure (see section 168(i)(13)); and (c) any tree or vine bearing fruit or nuts.
- **15-year property** includes (a) any municipal wastewater treatment plant and (b) any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.
- **20-year property** includes any municipal sewers.
- **Residential rental property** is a building in which 80% or more of the total rent is from dwelling units.
- **Nonresidential real property** is any real property that is neither residential rental property nor property with a class life of less than 27.5 years.
- **50-year property** includes any improvements necessary to construct or improve a roadbed or right-of-way for railroad track that qualifies as a railroad grading or tunnel bore under section 168(e)(4).

There is no separate line to report 50-year property. Therefore, attach a statement showing the same information as required in columns (a) through (g). Include the deduction in the line 20 “Total” and write “See attachment” in the bottom margin of the form.

Determining the classification.—If your depreciable property is not listed above, determine the classification as follows.

1. Find the property’s class life. The class life of most property can be found in the Table of Class Lives and Recovery Periods in **Pub. 534**.
2. Use the following table to find the classification in column (b) that corresponds to the class life of the property in column (a).

(a) Class life (in years) (See Pub. 534)	(b) Classification
4 or less	3-year property
More than 4 but less than 10	5-year property
10 or more but less than 16	7-year property
16 or more but less than 20	10-year property
20 or more but less than 25	15-year property
25 or more	20-year property

Column (b).—For lines 14g and 14h, enter the month and year you placed the property in service. 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.

Column (c).—To find the basis for depreciation, multiply the cost or other basis of the property by the percentage of business/investment use. From that result, subtract any section 179 expense deduction, deduction for removal of barriers to the disabled and the elderly, disabled access credit, and enhanced oil recovery credit. See section 50(c) to determine the basis adjustment for investment credit property.

Column (d).—Determine the recovery period from **Table 1** below, unless either **1** or **2** below applies.

1. You make an irrevocable election to use the 150% declining balance method of depreciation for 3-, 5-, 7-, or 10-year property (excluding any tree or vine bearing fruit or nuts). The election applies to all property within the classification for which it is made that was placed in service during the tax year. If you elect this method, you must use the recovery period under the Alternative Depreciation System (ADS) discussed in the line 15 instructions. You will not have an adjustment for alternative minimum tax purposes on the property for which you make this election.

2. You acquired qualified Indian reservation property (as defined in section 168(j)(4)). Use **Table 2** for qualified Indian reservation property placed in service after 1993.

Note: *Qualified Indian reservation property does not include property placed in service to conduct class I, II, or III gaming activities.*

Table 1—Recovery Period for Most Property

In the case of:	The applicable recovery period is:
3-year property	3 yrs.
5-year property	5 yrs.
7-year property	7 yrs.
10-year property	10 yrs.
15-year property	15 yrs.
20-year property	20 yrs.
Residential rental property	27.5 yrs.
Nonresidential real property placed in service before May 13, 1993	31.5 yrs.
Nonresidential real property placed in service after May 12, 1993	*39 yrs.
Railroad gradings and tunnel bores	50 yrs.

*The recovery period is 31.5 years for property you placed in service before 1994, if you started construction on the property before May 13, 1993, or you had a binding written contract to buy or build it before that date.

Table 2—Recovery Period for Qualified Indian Reservation Property

In the case of:	The applicable recovery period is:
3-year property	2 yrs.
5-year property	3 yrs.
7-year property	4 yrs.
10-year property	6 yrs.
15-year property	9 yrs.
20-year property	12 yrs.
Nonresidential real property	22 yrs.

Column (e).—The applicable convention determines the portion of the tax year for which depreciation is allowable during a year property is either placed in service or disposed of. There are three types of conventions (discussed

below). To select the correct convention, you must know when you placed the property in service and the type of property.

Half-year convention (HY).—This convention applies to all property reported on lines 14a through 14f, unless the mid-quarter convention applies. It does not apply to residential rental property, nonresidential real property, and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any tax year as placed in service (or disposed of) on the midpoint of that tax year.

Mid-quarter convention (MQ).—If the aggregate bases of property subject to depreciation under section 168 and placed in service during the last 3 months of your tax year exceed 40% of the aggregate bases of property subject to depreciation under section 168 and placed in service during the entire tax year, the mid-quarter, instead of the half-year, convention applies.

The mid-quarter convention treats all property placed in service (or disposed of) during any quarter as placed in service (or disposed of) on the midpoint of that quarter. However, no depreciation is allowed under this convention for property that is placed in service and disposed of within the same tax year.

In determining whether the mid-quarter convention applies, **do not** take into account:

- Property that is being depreciated under the pre-1987 rules;
- Any residential rental property, nonresidential real property, or railroad gradings and tunnel bores; and
- Property that is placed in service and disposed of within the same tax year.

Mid-month convention (MM).—This convention applies **ONLY** to residential rental property, nonresidential real property (lines 14g or 14h), and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any month as placed in service (or disposed of) on the midpoint of that month.

Enter "HY" for half-year; "MQ" for mid-quarter; or "MM" for mid-month convention.

Column (f).—Applicable depreciation methods are prescribed for each classification of property. Except for property for which you elected to use the 150% declining balance method and any tree or vine bearing fruit or nuts, the applicable method for 3-, 5-, 7-, and 10-year property is the 200% declining balance method, switching to the straight line method in the first tax year that maximizes the depreciation allowance.

For 15- and 20-year property, property used in a farming business, and property for which you elected to use the 150% declining balance method, the applicable method is the 150% declining balance method, switching to the straight line method in the first tax year that maximizes the depreciation allowance.

For residential rental property, nonresidential real property, any railroad grading or tunnel bore, or any tree or vine bearing fruit or nuts, the only applicable method is the straight line method.

You may also make an irrevocable election to use the straight line method for all property within a classification that is placed in service during the tax year.

Enter "200 DB" for 200% declining balance; "150 DB" for 150% declining balance; or "S/L" for straight line.

Column (g).—To compute the depreciation deduction you may use optional Tables A through E, starting on page 6. To do this, multiply the applicable rate from the appropriate

table by the property's **unadjusted** basis (column (c)) (see Pub. 534 for complete tables). Or you may compute the deduction yourself by completing the following steps:

Step 1.—Determine the depreciation rate as follows.

- If you are using the 200% or 150% declining balance method in column (f), divide the declining balance rate (use 2.00 for 200 DB or 1.50 for 150 DB) by the number of years in the recovery period in column (d). For example, for property depreciated using the 200 DB method over a recovery period of 5 years, divide 2.00 by 5 for a rate of 40%.
- If you are using the straight line method, divide 1.00 by the remaining number of years in the recovery period as of the beginning of the tax year (but not less than one). For example, if there are 6½ years remaining in the recovery period as of the beginning of the year, divide 1.00 by 6.5 for a rate of 15.38%.

Note: *If you are using the 200% or 150% DB method, be sure to switch to the straight line rate in the first year that the straight line rate exceeds the declining balance rate.*

Step 2.—Multiply the percentage rate determined in Step 1 by the property's unrecovered basis (basis for depreciation (as defined in column (c)) reduced by all prior year's depreciation).

Step 3.—For property placed in service or disposed of during the current tax year, multiply the result from Step 2 by the applicable decimal amount from the tables below (based on the convention shown in column (e)).

Half-year (HY) convention	0.5	
Mid-quarter (MQ) convention		
Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st quarter	0.875	0.125
2nd quarter	0.625	0.375
3rd quarter	0.375	0.625
4th quarter	0.125	0.875
Mid-month (MM) convention		
Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st month	0.9583	0.0417
2nd month	0.8750	0.1250
3rd month	0.7917	0.2083
4th month	0.7083	0.2917
5th month	0.6250	0.3750
6th month	0.5417	0.4583
7th month	0.4583	0.5417
8th month	0.3750	0.6250
9th month	0.2917	0.7083
10th month	0.2083	0.7917
11th month	0.1250	0.8750
12th month	0.0417	0.9583

Short tax years.—See Pub. 534 for rules on how to compute the depreciation deduction for property placed in service in a short tax year.

Section B—Alternative Depreciation System (ADS)

Lines 15a Through 15c

Note: *Complete lines 15a through 15c for assets, other than automobiles and other listed property, placed in service ONLY during the tax year beginning in 1994 and depreciated under the Alternative Depreciation System. Report on line 16 depreciation on assets placed in service in prior years.*

Under ADS, use the applicable depreciation method, the applicable recovery period, and the applicable convention to compute depreciation.

The following types of property **must** be depreciated under ADS:

- Any tangible property used predominantly outside the United States,
- Any tax-exempt use property,
- Any tax-exempt bond financed property,
- Any imported property covered by an executive order of the President of the United States, and
- Any property used predominantly in a farming business and placed in service during any tax year in which you made an election under section 263A(d)(3).

Instead of depreciating property under GDS (line 14), you may make an irrevocable election with respect to any classification of property for any tax year to use ADS. For residential rental and nonresidential real property, you may make this election separately for each property.

Column (a).—Use the following rules to determine the classification of the property under ADS.

• **Class life.** Under ADS, the depreciation deduction for most property is based on the property's class life. See the Table of Class Lives and Recovery Periods in Pub. 534. Use line 15a for all property depreciated under ADS, except property that does not have a class life, residential rental and nonresidential real property, and railroad gradings and tunnel bores.

Note: See section 168(g)(3)(B) for a special rule for determining the class life for certain property.

- **12-year.** Use line 15b for property that does not have a class life.
- **40-year.** Use line 15c for residential rental and nonresidential real property.

• **Railroad gradings and tunnel bores** are 50-year property under ADS. There is no separate line to report 50-year property. Therefore, attach a statement showing the same information required in columns (a) through (g). Include the deduction in the line 20 "Total" and write "See attachment" in the bottom margin of the form.

Column (b).—For 40-year property, enter the month and year placed in service or converted to use in a trade or business or for the production of income.

Column (c).—See the instructions for line 14, column (c).

Column (d).—On line 15a, enter the property's class life.

Column (e).—Under ADS, the applicable conventions are the same as those used under GDS. See the instructions for line 14, column (e).

Column (f).—Under ADS, the only applicable method is the straight line method.

Column (g).—Compute the depreciation deduction in the same manner as under GDS, except use the straight line method over the ADS recovery period and use the applicable convention.

Part III—Other Depreciation

Note: Do not use Part III for automobiles and other listed property. Instead, report this property in Part V on page 2 of Form 4562.

Line 16

For tangible property placed in service after 1986 and depreciated under MACRS (including tangible property placed in service after July 31, 1986, for which you elected to use MACRS), enter the GDS and ADS deductions for the current year. To compute the deductions, see the instructions for column (g), line 14.

Line 17

Report property that you elect, under section 168(f)(1), to depreciate under the unit-of-production method or any other method not based on a term of years (other than the retirement-replacement-betterment method).

Attach a separate sheet showing (a) a description of the property and the depreciation method you elect that excludes the property from ACRS or MACRS; and (b) the depreciable basis (cost or other basis reduced, if applicable, by salvage value, any section 179 expense deduction, deduction for removal of barriers to the disabled and the elderly, disabled access credit, and enhanced oil recovery credit). See section 50(c) to determine the basis adjustment for investment credit property.

Line 18

Enter the total depreciation you are claiming for the following types of property (except listed property and property subject to a section 168(f)(1) election):

- ACRS property (pre-1987 rules);
- Property placed in service before 1981;
- Certain public utility property, which does not meet certain normalization requirements;
- Certain property acquired from related persons;
- Property acquired in certain nonrecognition transactions;
- Certain sound recordings, movies, and videotapes; and
- Intangible property, other than section 197 intangibles, including:

1. Computer software. Use the straight line method over 36 months.

2. Any right to receive tangible property or services under a contract or granted by a governmental unit (not acquired as part of a business).

3. Any interest in a patent or copyright not acquired as part of a business.

4. Residential mortgage servicing rights. Use the straight line method over 108 months.

See section 167(f) for more details.

For ACRS property, unless you use an alternate percentage, multiply the property's unadjusted basis by the applicable percentage as follows:

- 5-year property—5th year (21%);
- 10-year property—5th and 6th years (10%), 7th through 10th years (9%);
- 15-year public utility property—5th and 6th years (7%), 7th through 15th years (6%);
- 15-year, 18-year, and 19-year real property and low-income housing—Use the tables in Pub. 534.

If you elected an alternate percentage for any ACRS property, use the straight line method over the recovery period you chose in the prior year. See Pub. 534 for more information and tables.

Include any amounts attributable to the Class Life Asset Depreciation Range (CLADR) system. If you previously elected the CLADR system, you must continue to use it to depreciate assets left in your vintage accounts. You must continue to meet recordkeeping requirements.

Prior years' depreciation, plus current year's depreciation, can never exceed the depreciable basis of the property.

The basis and amounts claimed for depreciation should be part of your permanent

books and records. **No attachment is necessary.**

Part IV—Summary

Line 20

A partnership or S corporation does not include any section 179 expense deduction (line 12) on this line. Any section 179 expense deduction is passed through separately to the partners and shareholders on the appropriate line of their Schedules K-1.

Line 21

If you are subject to the uniform capitalization rules of section 263A, enter the increase in basis from costs you must capitalize. For a detailed discussion of who is subject to these rules, which costs must be capitalized, and allocation of costs among activities, see Regulations section 1.263A-1.

Part V—Listed Property

If you claim the standard mileage rate, actual vehicle expenses (including depreciation), or depreciation on other listed property, you must provide the information requested in Part V, regardless of the tax year the property was placed in service. However, if you file Form 2106, 2106-EZ, or Schedule C-EZ (Form 1040), report this information on that form and not in Part V. 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.

Listed property generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones (or other similar telecommunications equipment).
- Computers or peripheral equipment.

Exception. Listed property does not include (a) photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or at the taxpayer's regular business establishment; (b) any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment; or (c) an ambulance, hearse, or vehicle used for transporting persons or property for hire. For purposes of the preceding sentence, a portion of the taxpayer's home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses attributable to the business use of a home. (However, for any property listed under (a) above, the regular business establishment of an employee is his or her employer's regular business establishment.)

Section A—Depreciation and Other Information

Lines 23 and 24

Qualified business use.—To determine whether to use line 23 or line 24 to report your listed property, you must first determine the percentage of qualified business use for each property. Generally, a qualified business use is

any use in your trade or business. However, it does not include:

- Any investment use;
- Leasing the property to a 5% owner or related person;
- The use of the property as compensation for services performed by a 5% owner or related person; or
- The use of the property as compensation for services performed by any person (who is not a 5% owner or related person), unless an amount is included in that person's income for the use of the property and, if required, income tax was withheld on that amount.

As an exception to the general rule, if at least 25% of the total use of any aircraft during the tax year is for a qualified business use, the leasing or compensatory use of the aircraft by a 5% owner or related person is treated as a qualified business use.

Determine your percentage of qualified business use similar to the method used to figure the business/investment use percentage in column (c). Your percentage of qualified business use may be smaller than the business/investment use percentage.

For more information, see Pub. 534.

Column (a).—List on a property-by-property basis all your listed property in the following order:

1. Automobiles and other vehicles; and
2. Other listed property (computers and peripheral equipment, etc.).

In column (a), list the make and model of automobiles, and give a general description of other listed property.

If you have more than five vehicles used 100% for business/investment purposes, you may group them by tax year. Otherwise, list each vehicle separately.

Column (b).—Enter the date the property was placed in service. If property held for personal use is converted to business/investment use, treat the property as placed in service on the date of conversion.

Column (c).—Enter the percentage of business/investment use. For automobiles and other vehicles, determine this percentage by dividing the number of miles the vehicle is driven for trade or business purposes or for the production of income during the year (not to include any commuting mileage) by the total number of miles the vehicle is driven for all purposes. Treat vehicles used by employees as being used 100% for business/investment purposes if the value of personal use is included in the employees' gross income, or the employees reimburse the employer for the personal use.

Employers who report the amount of personal use of the vehicle in the employee's gross income, and withhold the appropriate taxes, should enter "100%" for the percentage of business/investment use. For more information, see Pub. 917. For listed property (such as computers or video equipment), allocate the use based on the most appropriate unit of time the property is actually used. See Temporary Regulations section 1.280F-6T.

If during the tax year you convert property used solely for personal purposes to business/investment use, figure the percentage of business/investment use only for the number of months you use the property in your business or for the production of income. Multiply that percentage by the number of months you use the property in your business or for the

production of income, and divide the result by 12.

Column (d).—Enter the property's actual cost or other basis (unadjusted for prior years' depreciation). If you traded in old property, your basis is the adjusted basis of the old property (figured as if 100% of the property's use had been for business/investment purposes) plus any additional amount you paid for the new property. For a vehicle, reduce your basis by any diesel-powered highway vehicle credit, qualified electric vehicle credit, or deduction for clean-fuel vehicles you claimed. For property purchased after 1986, add to your basis any sales tax paid on the property.

If you converted the property from personal use to business/investment use, your basis for depreciation is the smaller of the property's adjusted basis or its fair market value on the date of conversion.

Column (e).—Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense deduction and half of any investment credit taken before 1986 (unless you took the reduced credit). For automobiles and other listed property placed in service after 1985 (i.e., transition property), reduce the depreciable basis by the entire investment credit.

Column (f).—Enter the recovery period. For property placed in service after 1986 and used more than 50% in a qualified business use, see the table in the line 14, column (d) instructions. For property placed in service after 1986 and used 50% or less in a qualified business use, depreciate the property using the straight line method over its ADS recovery period. The ADS recovery period is 5 years for automobiles and computers.

Column (g).—Enter the method and convention used to figure your depreciation deduction. See the instructions for line 14, columns (e) and (f). Write "200 DB," "150 DB," or "S/L," for the depreciation method, and "HY," "MM," or "MQ," for half-year, mid-month, or mid-quarter conventions, respectively. For property placed in service before 1987, write "PRE" if you used the prescribed percentages under ACRS. If you elected an alternate percentage, enter "S/L."

Column (h).—See **Limitations for automobiles** below before entering an amount in column (h).

For property used more than 50% in a qualified business use (line 23) and placed in service after 1986, figure column (h) by following the instructions for line 14, column (g). If placed in service before 1987, multiply column (e) by the applicable percentage given in the line 18 instructions for ACRS property. If the recovery period for an automobile ended before your tax year beginning in 1994, enter your unrecovered basis, if any, in column (h).

For property used 50% or less in a qualified business use (line 24) and placed in service after 1986, figure column (h) by dividing column (e) by column (f) and using the same conventions as discussed in the instructions for line 14, column (e). The amount in column (h) cannot exceed the property's unrecovered basis. If the recovery period for an automobile ended before your tax year beginning in 1994, enter your unrecovered basis, if any, in column (h).

For computers placed in service after June 18, 1984, and before 1987, multiply column (e) by 8.333%.

For property placed in service before 1987 that was disposed of during the year, enter zero.

Limitations for automobiles.—The depreciation deduction plus section 179 expense deduction for automobiles is limited for any tax year. The limitation depends on when you placed the

property in service. Use Table F on page 7 to determine the limitation. For any automobile you list on line 23 or 24, the total of columns (h) and (i) for that automobile cannot exceed the limit shown in Table F. These limitations are further reduced when the business/investment use percentage (column (c)) is less than 100%. For example, if an automobile placed in service in 1994 is used 60% for business/investment purposes, then the first year depreciation plus section 179 expense deduction is limited to 60% of \$2,960, which is \$1,776. For help in figuring the limitations, use the **Worksheet for Passenger Automobiles** in Pub. 534 or Pub. 946.

Column (i).—Enter the amount you choose to expense for section 179 property used more than 50% in a qualified business use (subject to the limitations for automobiles noted above). Refer to the Part I instructions to determine if the property qualifies under section 179. Be sure to include the total cost of such property (50% of the cost if qualified zone property placed in service by an enterprise zone business) on line 2, page 1.

Recapture of depreciation and section 179 expense deduction.—For listed property used more than 50% in a qualified business use in the year placed in service and used 50% or less in a later year, you may have to recapture in the later year part of the depreciation and section 179 expense deduction. Use **Form 4797, Sales of Business Property**, to figure the recapture amount.

Section B—Information on Use of Vehicles

Except as noted below, you must complete items 27 through 33 for each vehicle identified in Section A.

Employees must provide their employers with the information requested in items 27 through 33 for each automobile or vehicle provided for their use.

Employers providing more than five vehicles to their employees, who are not more than 5% owners or related persons, are not required to complete items 27 through 33 for such vehicles. Instead, they must get this information from their employees, answer "Yes" to Question 37, and keep the information received as part of their permanent records.

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

For employers providing vehicles to their employees, two types of written policy statements will satisfy the employer's substantiation requirements under section 274(d): (a) a policy statement that prohibits personal use including commuting; and (b) a policy statement that prohibits personal use except for commuting. An employee does not need to keep a separate set of records for any vehicle that satisfies these written policy statement rules.

Line 34

A policy statement that prohibits personal use (including commuting) must meet all the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business.
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere (e.g., for maintenance or because of a mechanical failure).

- No employee using the vehicle lives at the employer's business premises.
- No employee may use the vehicle for personal purposes, other than de minimis personal use (e.g., a stop for lunch between two business deliveries).
- Except for de minimis use, the employer reasonably believes that no employee uses the vehicle for any personal purpose.

Line 35

A policy statement that prohibits personal use (except for commuting) is NOT available if the commuting employee is an officer, director, or 1% or more owner. This policy must meet all the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business, and it is used in the employer's trade or business.
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle.
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (e.g., a stop for a personal errand between a business delivery and the employee's home).
- Except for de minimis use, the employer reasonably believes that the employee does not use the vehicle for any personal purpose other than commuting.
- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

For both written policy statements, there must be evidence that would enable the IRS to determine whether use of the vehicle meets the conditions stated above.

Line 38

An automobile meets the requirements for qualified demonstration use if the employer maintains a written policy statement that:

- Prohibits its use by individuals other than full-time automobile salesmen;
- Prohibits its use for personal vacation trips;
- Prohibits storage of personal possessions in the automobile; and
- Limits the total mileage outside the salesmen's normal working hours.

Part VI—Amortization

Each year you may elect to deduct part of certain capital costs over a fixed period. If you amortize property, the part you amortize does not qualify for the election to expense certain tangible property or for depreciation.

For individuals reporting amortization of bond premium for bonds acquired before October 23, 1986, do not report the deduction here. See the instructions for Schedule A (Form 1040), line 28.

For taxpayers (other than corporations) claiming a deduction for amortization of bond premium for bonds acquired after October 22, 1986, but before January 1, 1988, the deduction is treated as interest expense and is subject to the investment interest limitations. Use **Form 4952**, Investment Interest Expense Deduction, to compute the allowable deduction.

For taxable bonds acquired after 1987, the amortization offsets the interest income. Get **Pub. 550**, Investment Income and Expenses.

Line 39

Complete line 39 only for those costs for which the amortization period begins during your tax year beginning in 1994.

Column (a).—Describe the costs you are amortizing. You may amortize:

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Certain bond premiums (section 171).
- Research and experimental expenditures (section 174).
- The cost of acquiring a lease (section 178).
- Qualified forestation and reforestation costs (section 194).
- Business start-up expenditures (section 195).
- Organizational expenditures for a corporation (section 248) or partnership (section 709).
- Optional write-off of certain tax preferences over the period specified in section 59(e).
- Section 197 intangibles, which generally include:
 1. Goodwill,
 2. Going concern value,
 3. Workforce in place,
 4. Business books and records, operating systems, or any other information base,

5. Any patent, copyright, formula, process, design, pattern, knowhow, format, or similar item,
6. Any customer-based intangible (e.g., composition of market or market share),
7. Any supplier-based intangible,
8. Any license, permit, or other right granted by a governmental unit,
9. Any covenant not to compete entered into in connection with the acquisition of a business, and
10. Any franchise (other than a sports franchise), trademark, or trade name.

Section 197 intangibles must be amortized over 15 years starting with the month the intangibles were acquired.

Note: Section 197 does not apply to an acquisition of property under a binding contract in effect on August 10, 1993, and all times thereafter until you acquired the property, if you elected to exclude the property from this provision under Temporary Regulations section 1.197-1T(d).

Column (b).—Enter the date the amortization period begins under the applicable Code section.

Column (c).—Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d).—Enter the Code section under which you amortize the costs.

Column (f).—Compute the amortization deduction by:

1. Dividing column (c) by the number of months over which the costs are to be amortized, and multiplying the result by the number of months in the amortization period included in your tax year beginning in 1994; or
2. Multiplying column (c) by the percentage in column (e).

Attach any other information the Code and regulations may require to make a valid election. See Pub. 535 for more information.

Line 40

Enter the amount of amortization attributable to those costs for which the amortization period began before 1994.

Table A—General Depreciation System

Method: 200% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:			
	3 years	5 years	7 years	10 years
1	33.33%	20.00%	14.29%	10.00%
2	44.45%	32.00%	24.49%	18.00%
3	14.81%	19.20%	17.49%	14.40%
4	7.41%	11.52%	12.49%	11.52%
5		11.52%	8.93%	9.22%
6		5.76%	8.92%	7.37%
7			8.93%	6.55%
8			4.46%	6.55%
9				6.56%

Table B—General and Alternative Depreciation System

Method: 150% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:					
	5 years	7 years	10 years	12 years	15 years	20 years
1	15.00%	10.71%	7.50%	6.25%	5.00%	3.750%
2	25.50%	19.13%	13.88%	11.72%	9.50%	7.219%
3	17.85%	15.03%	11.79%	10.25%	8.55%	6.677%
4	16.66%	12.25%	10.02%	8.97%	7.70%	6.177%
5	16.66%	12.25%	8.74%	7.85%	6.93%	5.713%
6	8.33%	12.25%	8.74%	7.33%	6.23%	5.285%
7		12.25%	8.74%	7.33%	5.90%	4.888%
8		6.13%	8.74%	7.33%	5.90%	4.522%
9			8.74%	7.33%	5.91%	4.462%

Table C—General Depreciation System

Method: Straight line

Convention: Mid-month

Recovery period: 27.5 years

Year	The month in the 1st recovery year the property is 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%

Table D—General Depreciation System

Method: Straight line

Convention: Mid-month

Recovery period: 31.5 years

Year	The month in the 1st recovery year the property is placed in service:											
	1	2	3	4	5	6	7	8	9	10	11	12
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%

Table E—General Depreciation System

Method: Straight line

Convention: Mid-month

Recovery period: 39 years

Year	The month in the 1st recovery year the property is 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%

Table F—Limitations for Automobiles

Date Placed in Service	Year of Deduction			
	1st Tax Year	2nd Tax Year	3rd Tax Year	4th & Later Tax Years
June 19–Dec. 31, 1984				\$6,000
Jan. 1–April 2, 1985				\$6,200
April 3, 1985–Dec. 31, 1986				\$4,800
Jan. 1, 1987–Dec. 31, 1990				\$1,475
Jan. 1–Dec. 31, 1991				\$1,575
Jan. 1–Dec. 31, 1992			\$2,650	\$1,575
Jan. 1–Dec. 31, 1993		\$4,600	\$2,750	\$1,675
Jan. 1–Dec. 31, 1994	\$2,960	\$4,700	\$2,850	\$1,675
After Dec. 31, 1994	*	*	*	*

* The limitations for automobiles placed in service after Dec. 31, 1994, will be published in the Internal Revenue Bulletin. These amounts were not available at the time these instructions were printed.

