2005

Instructions for Form 4562
(Rev. January 2006)

Depreciation and Amortization (Including Information on Listed Property)

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

What’s New
• The January 2006 revision of the 2005 Form 4562 reflects changes made by the Gulf Opportunity Zone Act of 2005 for qualified Gulf Opportunity Zone (GO Zone) property acquired after August 27, 2005.
• For tax years beginning in 2005, the maximum section 179 expense deduction is $1,080,000 ($530,000 for qualified enterprise zone, renewal community, and New York Liberty Zone (NYL 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 $420,000. See the instructions beginning on page 2.
• For qualified section 179 GO Zone property acquired after August 27, 2005, the maximum section 179 expense deduction is higher than the deduction for most section 179 property. See page 3 of the instructions.
• The special depreciation allowance and the increased limits on depreciation for passenger automobiles do not apply to most property placed in service in 2005 or later. You can only claim the special allowance for certain aircraft, certain property in a long production period, qualified NYL Zone property, and qualified GO Zone property. See the instructions for line 14 on page 4 (for listed property, see the instructions for line 25 on page 9).
• Certain natural gas gathering lines placed in service after April 11, 2005, are treated as 7-year property under the Modified Accelerated Cost Recovery System (MACRS). See the instructions for line 19, column (a). Certain electric transmission property and natural gas distribution lines placed in service after April 11, 2005, will not be treated as 15-year property under MACRS. See the instructions for line 19, column (a).
• Qualified leasehold improvement property and qualified restaurant property placed in service after December 31, 2005, will be treated as 15-year property under MACRS. See the instructions for line 19, column (a).
• The accelerated depreciation of property on an Indian Reservation will not apply to property placed in service after December 31, 2005. See the instructions for line 19, column (d).
• You can elect to amortize certain atmospheric pollution control facilities placed in service after April 11, 2005, over an 84-month period. See the instructions for line 42 on page 11.
• For tax years beginning after August 8, 2005, you can elect to amortize certain geological and geophysical expenses over a 24-month period. See page 11 of the instructions.

General Instructions

Purpose of Form
Use Form 4562 to:
• Claim your deduction for depreciation and amortization,
• Make the election under section 179 to expense certain property, and
• 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 any of the following:
• Depreciation for property placed in service during the 2005 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).
• Amortization of costs that begins during the 2005 tax year.

If you are an employee deducting job-related vehicle expenses using either the standard mileage rate or actual expenses, use Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses, for this purpose.

File a separate Form 4562 for each business or activity on your return for which Form 4562 is required. If you need more space, attach additional sheets. However, complete only one Part I in its entirety when computing your section 179 expense deduction. See the instructions for line 12 on page 4.

Additional Information
For more information about depreciation and amortization (including information on listed property) see the following:
• Pub. 463, Travel, Entertainment, Gift, and Car Expenses.
• Pub. 535, Business Expenses.
• Pub. 553, Highlights of 2005 Tax Changes.
• Pub. 551, Basis of Assets.
• Pub. 946, How To Depreciate Property.
• Pub. 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

Definitions
Depreciation
Depreciation is the annual deduction that allows you to recover the cost or other basis of your business or investment property over a certain number of years. Depreciation starts when you first use the property in your business or for the production of income. It ends when you either take the property out of service, deduct all your depreciable cost or basis, or no longer use the property in your business or for the production of income.

Generally, you can depreciate:
• Tangible property such as buildings, machinery, vehicles, furniture, and equipment; and
• Intangible property such as patents, copyrights, and computer software.

Exception. You cannot depreciate land.

Section 179 Property
Section 179 property is property that you acquire by purchase for use in the active conduct of your trade or business, and is one of the following:
• Tangible personal property.
• Other tangible property (except buildings and their structural components) used as:
  1. An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;
  2. A research facility used in the conduct of your trade or business, and is

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3. A facility used in connection with any of the activities in (1) above for the bulk storage of fungible commodities.
   • Single purpose agricultural (livestock) or horticultural structures.
   • Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
   • Gas or oil company computer equipment.  

Section 179 property does not include the following.

- Property held for investment (section 1221 property).
- Property used mainly outside the United States (except for property described in section 168(g)(4)).
- Property used mainly to furnish lodging or in connection with the furnishing of lodging (except as provided in section 50(b)(2)).
- Property used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in a taxable unrelated trade or business.
- Property used by a governmental unit or foreign person or entity (except for property used under a lease with a term of less than 6 months).
- Air conditioning or heating units.

See the instructions for Part I and Pub. 946.

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 elect to amortize such items as the costs of starting a business, goodwill, and certain other intangibles. See the instructions for Part VI.

Listed Property

Listed property generally includes the following:

- Passenger automobiles weighing 6,000 pounds or less. See Limits for passenger automobiles on page 10.
- Any other property used for transportation if the nature of the property lends itself to personal or business use such as motorcycles, pick-up trucks, sport utility vehicles, 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).

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.

You may use the depreciation worksheet on page 16 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 Property Under Section 179

Note. An estate or trust cannot make this election.

You can elect to expense part or all of the cost of section 179 property that you placed in service in the tax year and used predominantly (more than 50%) in your trade or business.

However, for taxpayers other than a corporation, this election does not apply to any section 179 property you purchased and leased to others unless:

- You manufactured or produced the property or
- 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 deductions related to the property allowed to you as trade or business expenses (except rents and reimbursed amounts) are more than 15% of the rental income from the property.

Election. You must make the election on Form 4562 filed with either:

- 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
- An amended return filed within the time prescribed by law for the applicable tax year. The election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each such item to be taken into account. The amended return must also include any resulting adjustments to taxable income.

Revocation. The election (or any specification made in the election) can be revoked without IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law for the applicable tax year. The amended return must include any resulting adjustments to taxable income or to the tax liability (for example, allowable depreciation in that tax year for the item of section 179 property which the revocation pertains). For more information and examples, see Regulations section 1.179-5.  

Once made, the revocation is irrevocable.

Limitations. The amount of section 179 property for which you can make the election is limited to the maximum dollar amount on line 1. In most cases, this amount is reduced if the cost of all section 179 property placed in service during the year is more than $420,000. Your total section 179 expense deduction cannot exceed your business income (line 11).
For purposes of the increased section 179 expense deduction, qualified section 179 GO Zone property is treated as qualified empowerment zone property (or qualified renewal property) only if you elect not to treat the property as section 179 GO Zone property.

Recapture rule. If any qualified empowerment zone property (or qualified renewal property) placed in service during the current year ceases to be used in an empowerment zone (or a renewal community) by an enterprise zone business (or a renewal community business) in a later year, the base of the increased section 179 expense deduction must be reported as “other income” on your return. Similar rules apply to qualified NYL Zone property that ceases to be used in the NYL Zone and to qualified GO Zone property that ceases to be used in the GO Zone.

Line 2
Enter the cost of all section 179 property placed in service during the tax year. Also include the cost of the following:
- Any listed property from Part V.
- Any property placed in service in your 2004 Form 4562.

For qualified New York Liberty Zone (NYL Zone) property, the maximum section 179 expense deduction is increased by the smaller of:
- $35,000 or
- 50% of the cost of section 179 property that is also qualified empowerment zone property, qualified renewal property, or qualified NYL Zone property.

Line 3
Generally, the amount of the section 179 expense deduction you can elect to expense is reduced if the cost of all section 179 property placed in service during the year is more than $420,000.

The amount on line 3 will be higher for qualified section 179 GO Zone property (see Limitations beginning on page 2), cross out the prepaid property on line 3 and enter in the right margin the higher amount.

Line 5
If line 5 is zero, you cannot elect to expense any section 179 property. In this case, skip lines 6 through 11, enter zero on line 12, and enter the carryover of any disallowed deduction from 2004 on line 13.

If you are married filing separately, you and your spouse must allocate the dollar limitation for the tax year. To do so, multiply the total limitation that you would otherwise enter on line 5 by 50%, unless you both elect a different allocation. If you both elect a different allocation, multiply the total limitation by the percentage 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
Do not include any listed property on line 6. Enter the elected section 179 cost of listed property in column (i) of line 26.

Column (a) — Description of property.
Enter a brief description of the property you elect to expense (e.g., truck, office furniture, etc.).

Column (b) — Cost (business use only).
Enter the cost of the property. If you acquired the property through a trade-in, do not include any carryover basis of the property traded in. Include only the excess of the cost of the property over the value of the property traded in.

Column (c) — Elected cost.
Enter the amount you elect to expense. You do not have to expense the entire cost of the property. You can depreciate the amount you do not expense. See the line 19 and line 20 instructions.

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

Line 10
The carryover of disallowed deduction from 2004 is the amount of section 179 property, if any, you elected to expense in previous years that was not allowed as a deduction because of the business income limitation. If you filed Form 4562 for 2004, enter the amount from line 13 of your 2004 Form 4562.

Line 11
The total cost you can deduct is limited to your taxable income from the active conduct of a trade or business during the year. You are considered to actively conduct a trade or business only if you meaningfully participate in its management or operations. A mere passive investor is not considered to actively conduct a trade or business.

Note. If you have to apply another Code section that has a limitation based on taxable income, see Pub. 946 for rules on how to apply the business income limitation for the section 179 expense deduction.

Individuals. Enter the smaller of line 5 or the total taxable income from any trade or business you actively conducted (not 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. Also include all wages, salaries, tips, and other compensation you earned as an employee (from Form 1040, line 7). Do not reduce this amount by unreimbursed employee business expenses. If you are married filing a joint return, combine the total taxable incomes for you and your spouse.

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

S corporations. Enter the smaller of line 5 or the corporation’s total items of income and expense described in section 1396(a) from any trade or business the corporation actively conducted (other than credits, tax-exempt income, the section 179 expense deduction, and guaranteed compensation paid to the corporation’s shareholder-employees).

Corporations other than S corporations. Enter the smaller of line 5 or the corporation’s taxable income before the section 179 expense deduction, non-operating loss deduction, and special deductions (excluding items not derived from a trade or business actively conducted by the corporation).

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 prepare for each income-producing use to personal use in 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. Special Depreciation Allowance and Other Depreciation

Line 14

For qualified property (defined below) placed in service during the year, you may be able to take an additional 50% (or 30%, if applicable) special depreciation allowance. The special allowance applies only for the first year the property is placed in service. The allowance is an additional deduction you can take after any section 179 expense deduction and before you figure regular depreciation under MACRS.

Qualified property. Qualified property is:

- Property with a long production period that meets the requirements of section 168(k)(2)(B) (but only to the extent of the property’s pre-January 1, 2005 basis);
- Noncommercial aircraft that meets the requirements of section 168(k)(2)(C);
- Qualified New York Liberty Zone (NYL Zone) property that meets the requirements of section 1400L(b)(2) (other than qualified NYL Zone leasehold improvement property), not otherwise treated as qualified property under section 168(k); or
- Qualified Gulf Opportunity Zone (GO Zone) property that meets the requirements of section 1400N(d)(2).

Qualified property also must meet the following rules:

- The property must be placed in service before January 1, 2006, unless it is qualified NYL Zone or qualified GO Zone property.
- The original use of the property (except for qualified NYL Zone and qualified GO Zone property) must begin with you. For qualified NYL Zone and qualified GO Zone property, only the original use of the property within the NYL Zone or GO Zone must begin with you.
- Property you sold and leased back or for self-constructed property, special rules apply. See section 168(k)(2)(E), section 1400N(d)(3), and Temporary Regulations section 1.168(k)-1T(b).

Qualified property does not include:

- Listed property used 50% or less in a qualified business use (as defined in the instructions for lines 26 and 27).
- Any property required to be depreciated under the alternative depreciation system (ADS) (that is, not for property for which you elected to use ADS).
- Qualified NYL Zone leasehold improvement property.
- Property placed in service and disposed of in the same tax year.
- Property converted from business or income-producing use to personal use in the same tax year it is acquired, or
- Property for which you elected not to claim any special allowance.

In addition, qualified GO Zone property does not include:

- Any exempt bond financed property under section 103.
- Any qualified revitalization building for which you have elected to deduct expenditures under section 1400L, or
- Any property described in section 1400N(p)(3).

To qualify for the 50% special allowance, you must have acquired the property after May 5, 2003 and before January 1, 2005 (after August 27, 2005 for qualified GO Zone property). If a binding contract to acquire the property existed before May 5, 2003 (before August 28, 2005 for qualified GO Zone property), the property does not qualify.

The 30% special allowance applies to qualified property for which the 50% allowance does not apply (or for property for which you have elected to claim the 30% allowance for property that would otherwise qualify for the 50% allowance). Generally, you must have acquired the property after September 10, 2001, and before January 1, 2005. If a binding contract to acquire the property existed before September 11, 2001, the property does not qualify.

How to figure the allowance. Figure the special allowance by multiplying the depreciable basis of the property by 50% (or 30%, if applicable). To figure the depreciable basis, subtract from the business/investment portion of the cost or other basis allocable to the property any credits, tax-exempt income, the section 179 expense deduction, or any deductions that reduce the depreciable basis:

- Section 179 expense deduction.
- Deduction for removal of barriers to the disabled and the elderly.
- Disabled access credit.
- Enhanced oil recovery credit.
- Credit for employer-provided childcare facilities and services.
- Basis adjustment to investment credit property under section 50(c).

For additional credits and deductions that affect the depreciable basis, see section 1016. Also, see Pub. 946.

Note. If you acquired qualified property through a trade-in, the carryover basis and any excess basis of the acquired property is eligible for the 50% special allowance. See Temporary Regulations section 1.168(k)-1T(f)(5).

If you take the 30% or 50% special allowance, you must reduce the amount on which you figure your regular depreciation or amortization deduction by the amount deducted. Also, you will not have any AMT adjustment for the property if the depreciable basis of the property for the AMT is the same as for the regular tax.

Election out. You can elect, for any class of property, to either (a) deduct the 30% special allowance, instead of the 50% special allowance, for all such property (unless it is qualified GO Zone property) in such class placed in service during the tax year, or (b) not claim any special allowance for all such property (including qualified GO Zone property) in such class placed in service during the tax year. If you elect not to claim any special allowance, the property may be subject to an AMT adjustment for depreciation.

To make an election, attach a statement to your timely filed return (including extensions) indicating the class of property for which you are making the election and that, for such class you are either electing to claim the 30% special allowance instead of the 50% special allowance or you are electing not to claim any special allowance.

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

If you timely filed your return without making an election, you can still make the election by filing a corrected return within 6 months of the due date of the return (excluding extensions). Write “Filed pursuant to section 301.9100-2 on the amended return.” Once made, the election cannot be revoked without IRS consent.
Line 15
Report on this line depreciation for property that you elect 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 description of the property and the depreciation method you elect that excludes the property from MACRS or the Accelerated Cost Recovery System (ACRS) and:
  • 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, enhanced oil recovery credit, credit for property placed in service by federal facilities and services, any special depreciation allowance, and any other applicable deduction or credit).

Then list your deductions and credits that may affect the depreciable basis, see section 1016. Also, see section 50(c) to determine the basis adjustment for investment credit property.

Line 16
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). See Pub. 534.
  • 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.
  • Property depreciated under the income forecast method. The use of the income forecast method is limited to motion picture films, videotapes, sound recordings, copyrights, books, and patents. For property placed in service in the current tax year, you can either include certain participations and residuals in the adjusted basis of the property or deduct these amounts when paid. See section 167(g)(7). You cannot use this method to depreciate any amortizable section 197 intangible.
  • Intangible property, other than section 197 intangibles, including:
    • Computer software. Use the straight line method over 36 months. A longer period may apply to 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). See section 167(h)(1)(C).
    • If you elect the section 179 expense deduction or take the special depreciation allowance for computer software, you must reduce the amount on which you figure your regular depreciation deduction by the amount deducted.
    • Any right to receive tangible property or services under a contract or granted by a governmental unit (not acquired as part of a business).
    • Any interest in a patent or copyright not acquired as part of a business.
  • Residential mortgage servicing rights. Use the straight line method over 108 months.
  • Other intangible assets with a limited useful life that cannot be estimated with reasonable accuracy. Generally, use the straight line method over 15 years. See Regulations section 1.167(a)-3(b) for details and exceptions.

For additional credits and deductions, see Pub. 946. See section 167(f) for more details.

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

Part III. MACRS Depreciation
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. For more details and exceptions, see Pub. 946.

Section A
Line 17
For tangible property placed in service in tax years beginning before 2005 and depreciated under MACRS, enter the deductions for the current year. To figure the deductions, see the instructions for line 19, column (g).

Line 18
To simplify the computation of MACRS depreciation, you can elect to group assets into one or more general asset accounts. The assets in each general asset account are depreciated as a single asset.

Each general asset account must include only assets that were placed in service during the same tax year with the same class asset (if any), depreciation method, recovery period, and convention.

However, an asset cannot be included in a general asset account if the asset is used both for personal purposes and business/investment purposes.

When an asset in an account is disposed of, the amount realized generally must be recognized as ordinary income. The unadjusted depreciable basis and depreciation reserve of the general asset account are not affected as a result of a disposition.

Special rules apply to passenger automobiles, assets generating foreign source income, assets converted to personal use, certain asset dispositions, and like-kind exchanges or involuntary conversions of property in a general asset account. For more details, see Regulations section 1.168(j)-1 and Temporary Regulations section 1.168(j)-1T.

To make the election, check the box on line 18. You must make the election on your return filed no later than the due date (including extensions) for the tax year in which the assets included in the general asset account were placed in service.

For more information on depreciating property in a general asset account, see Pub. 946.

Section B
Property acquired in a like-kind exchange or involuntary conversion.

You generally must depreciate the carryover basis of property you acquire in a like-kind exchange or involuntary conversion during the current tax year over the remaining recovery period of the property exchanged or involuntary converted. Use the same depreciation method and convention that was used for the property exchanged or involuntarily converted. Treat any excess basis as newly placed in service property. Figure depreciation separately for the carryover basis and the excess basis, if any.

These rules apply only to acquired property with the same or a shorter recovery period or the same or a more accelerated depreciation method than the property exchanged or involuntarily converted. See Temporary Regulations section 1.168(j)-6T(c) and Pub. 946.

Election out. Instead of using the above rules, you can elect, for depreciation purposes, to treat the adjusted basis of the exchanged property as if it was 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 on the date you acquired it. The depreciable basis of the new property is the adjusted basis of the exchanged or involuntarily converted property plus any additional amount paid.

To make the election, figure the depreciation deduction for the new property in Part III. For listed property,
Any qualified NYL Zone leasehold placed in service after April 11, 2005, the 25 or more 20-year property placed in service on the conversion date. The election must be made separately by each person acquiring replacement property (for example, by the partnership, by the S corporation, or by the common parent of a consolidated group). If you make this election for self-construction or subject to a binding contract in existence before April 12, 2005. The election must be made separately by each person owning qualified property (for example, by the partnership, by the S corporation, or by the common parent of a consolidated group).

Certain energy property specified in section 168(e)(4). 3-year property includes:

- Any single purpose agricultural or forestry property, etc.) as shown in column (a) of Table of Class Lives and Recovery

Initial clearing and grading land improvements for electric utility transmission and distribution plants. 25-year property is water utility property, which is:

- Property that is the integral part of the gathering, treatment, or commercial distribution of water that, without regard to this classification, would be 20-year property.
- Municipal sewers. This classification does not apply to property placed in service under a binding contract in effect at all times since June 9, 1996.

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 not 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 roadway 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 (q) of the Table of Class Lives and Recovery. The property, which is:

- The Table of Class Lives and Recovery Periods in Pub. 946.
- Use the following table to find the classification in column (b) that corresponds to the class life of the property in column (a).

<table>
<thead>
<tr>
<th>Class life (in years)</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 or less</td>
<td>1-year property</td>
</tr>
<tr>
<td>More than 4 but less than 10</td>
<td>2-year property</td>
</tr>
<tr>
<td>10 or more but less than 16</td>
<td>3-year property</td>
</tr>
<tr>
<td>16 or more but less than 20</td>
<td>5-year property</td>
</tr>
<tr>
<td>20 or more but less than 25</td>
<td>7-year property</td>
</tr>
<tr>
<td>25 or more</td>
<td>10-year property</td>
</tr>
</tbody>
</table>
Column (c) — Basis for depreciation (business/investment use only). 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 credits and deductions allocable to the property. The following are examples of some credits and deductions that reduce the basis for depreciation:

- Section 179 expense deduction.
- Deduction under section 179C for certain qualified refineries.
- Deduction under section 179D for certain energy efficient commercial building property placed in service after December 31, 2005.
- Deduction for removal of barriers to the disabled and the elderly.
- Disabled access credit.
- Enhanced oil recovery credit.
- Credit for alternative fuel vehicle property placed in service after December 31, 2005.
- Credit for qualified clean-fuel vehicle refueling property placed in service before January 1, 2006.
- Credit for employer-provided childcare facilities and services.
- Any special depreciation allowance included on line 14.
- Any basis adjustment for investment credit property. See section 50(c).

For additional credits and deductions that affect the depreciable basis, see section 1016 and Pub. 946.

Column (d) — Recovery period. Determine the recovery period from the table below, unless you acquired qualified Indian reservation property placed in service before January 1, 2006. Qualified Indian reservation property does not include property placed in service to conduct class I, II, or III gaming activities. See Pub. 946 for more information, including the table for qualified Indian reservation property.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Recovery Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-year property</td>
<td>3 yrs.</td>
</tr>
<tr>
<td>5-year property</td>
<td>5 yrs.</td>
</tr>
<tr>
<td>7-year property</td>
<td>7 yrs.</td>
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<tr>
<td>10-year property</td>
<td>10 yrs.</td>
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<tr>
<td>15-year property</td>
<td>15 yrs.</td>
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<tr>
<td>20-year property</td>
<td>20 yrs.</td>
</tr>
<tr>
<td>25-year property</td>
<td>25 yrs.</td>
</tr>
<tr>
<td>Residential rental property</td>
<td>27.5 yrs.</td>
</tr>
<tr>
<td>Nonresidential real property</td>
<td>39 yrs.</td>
</tr>
<tr>
<td>Railroad grade and tunnel bores</td>
<td>50 yrs.</td>
</tr>
</tbody>
</table>

Column (e) — Convention. 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. To select the correct convention, you must know the type of property and when you placed the property in service.

- **Half-year convention.** This convention applies to all property reported on lines 19a through 19g, 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. Enter “HY” in column (e).

- **Mid-quarter convention.** If the total depreciable bases (before any special depreciation allowance) of MACRS property placed in service during the last 3 months of your tax year exceed 40% of the total depreciable bases of MACRS property placed in service during the entire tax year, the mid-quarter, instead of the half-year, convention generally applies.

- **Mid-month convention.** This convention applies only to residential real property (line 19h), 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 “MM” in column (e).

Determine the recovery column (f) — Method. Applicable depreciation methods are prescribed for each classification of property as follows. However, you can 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 method, “150 DB” for 150% declining balance method, “6 1/2 years remaining in the recovery period” for the mid-quarter convention applies only to residential declining balance method, “MM” for mid-month convention.

If you are using the 200% or 150% declining balance method, determined in Step 1 by the applicable decimal amount from the tables in Step 3 below. 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%. You must switch to the straight line rate in the first tax year that the straight line rate exceeds the declining balance rate.

- 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 6 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%.

**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 years’ 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 on page 8 (based on the convention shown in column (e)).
Short tax years. See Pub. 946 for rules on how to compute the depreciation deduction for property placed in service in a short tax year.

Section C

Lines 20a Through 20c
Complete lines 20a through 20c for assets, other than automobiles and other listed property, placed in service only during the tax year beginning in 2005 and depreciated under the Alternative Depreciation System (ADS). Report on line 17 MACRS 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.

- Tangible property used predominantly outside the United States.
- Tax-exempt bond financed property.
- Imported property covered by an executive order of the President of the United States.
- Property used predominantly in a farming business and placed in service during any tax year in which you made an irrevocable election under section 263A(d)(3) not to have the uniform capitalization rules of section 263A apply.

Instead of depreciating property under GDS (line 19), you can 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 can make this election separately for each property.

- Any deduction under section 179C for certain qualified refinery property placed in service after August 8, 2005.
- Any deduction under section 179F for certain energy efficient commercial building placed property placed in service after December 31, 2005.

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 (discussed earlier). For more information on depreciation recapture, see Pub. 946.

Part IV. Summary

Line 22
A partnership (other than an electing large partnership) or S corporation does not include any section 179 expense deduction (line 12) on this line. Instead, any section 179 expense deduction is passed through separately to the partners and shareholders on the appropriate line of their Schedules K-1.

Line 23
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.

Section A

The section 179 expense deduction should be computed before calculating any special depreciation allowance and/or regular depreciation deduction. See the instructions for line 26, column (i) on page 10.

Listed property used 50% or less in a qualified business use (as defined in the instructions for lines 26 and 27 below) does not qualify for the section 179 expense deduction or special depreciation allowance.
Line 25
If you placed certain aircraft, certain property with a long production period, qualified New York Liberty Zone (NYL Zone) property, or qualified Gulf Opportunity Zone (GO Zone) property in service during the tax year, you may be able to deduct an additional special depreciation allowance. See the instructions for line 14 for the definition of qualified property and how to figure the deduction. This special depreciation allowance is included in the overall limit on depreciation and section 179 expense deduction for passenger automobiles. Enter on line 25 your total special depreciation allowance for all qualified listed property.

Lines 26 and 27
Use line 26 to figure depreciation for property used more than 50% in a qualified business use. Use line 27 to figure the depreciation for property used 50% or less in a qualified business use. Also see Limits for passenger automobiles on page 10.

If you acquired the property through a trade-in, special rules apply for determining the basis, recovery period, depreciation method, and convention. For more details, see Property acquired in a like-kind exchange or involuntary conversion on page 5. Also, see Temporary Regulations section 1.168(i)-6T(d)(3).

Qualified business use. To determine whether to use line 26 or line 27 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 of the following.

- 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.
- 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.

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, including the definition of 5% owner and related person and exceptions, see Pub. 946.

Recapture. If you used listed property more than 50% in a qualified business use in the year you placed the property in service, and used it 50% or less in a later year, you may have to include part of the depreciation deducted as income. Use Form 4797, Sales of Business Property, to figure the recapture amount.

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

1. Automobiles and other vehicles.
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) — Date placed in service. 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) — Business/investment use percentage. Enter the percentage of other listed property placed in service and convention. For property placed in service before 1985, write “PRE” if you used the special depreciation allowance. For property placed in service after 1985, write “MM,” or “MQ,” for half-year, mid-month, or mid-quarter conventions, respectively.

Column (d) — Cost or other basis. Enter the cost or other basis of the property. For property used more than 50% in a qualified business use (line 26) and placed in service after 1986, figure column (d) by following the instructions for line 19, column (g). If placed in service before 1987, write “200 DB,” “150 DB,” or “5%” 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 (e) — Basis for depreciation (business/investment use only). Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense deduction, any special depreciation allowance, any credit for employer-provided childcare facilities and services, 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) — Recovery period. Enter the recovery period. For property placed in service after 1985 and used more than 50% in a qualified business use, use the table in the instructions for line 19, column (d). 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) — Method/convention. Enter the method and convention used to figure your depreciation deduction. See the instructions for line 19, 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.

If during the tax year you convert property used solely for personal purposes to business/investment use (or vice versa), 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.
before 1987, multiply column (e) by the applicable percentage given in Pub. 534 for ACRS property. If the recovery period for an automobile ended before your tax year beginning in 2005, enter zero for your unrecovered basis, if any, in column (h). For passenger automobiles, the depreciation deduction, including section 179 expense deduction, for passenger automobiles is limited. For any passenger automobile (including an electric passenger automobile) placed in service during the tax year, enter zero. For property placed in service before 1987, multiply 50% by that percentage. For property placed in service after 1986, figure column (h) by dividing the amount in column (e) by the amount in column (f). Use the same conventions as discussed in the instructions for line 19, column (e).

Limits for passenger automobiles. The depreciation deduction, including section 179 expense deduction, for passenger automobiles is limited. For any passenger automobile (including an electric passenger automobile) you list on line 26 or line 27, the total of columns (h) and (i) on line 26 or 27 and column (h) on line 25 for that automobile cannot exceed the applicable limits shown in Table 1, 2, 3, or 4. If the business/investment use percentage in column (c) for the automobile is less than 100%, you must reduce the applicable limit to an amount equal to the limit multiplied by that percentage. For example, for an automobile (other than a truck or van or an electric automobile) placed in service in 2005 that is used 60% for business/investment, the limit is $1,776 ($2,960 x 60%).

Definitions. For purposes of the limits for passenger automobiles, the following apply.

• Passenger automobiles are 4-wheeled vehicles manufactured primarily for use on public roads that are rated at 6,000 pounds gross vehicle weight or less (for a truck or van, gross vehicle weight is substituted for unloaded gross vehicle weight).
• Electric automobiles are vehicles produced by an original equipment manufacturer and designed to run primarily on electricity.

Exception. The following vehicles are not considered passenger automobiles.

• An ambulance, hearse, or combination ambulance/hearse used in your trade or business.
• A vehicle used in your trade or business of transporting persons or property for compensation or hire.
• Any truck or van placed in service after July 6, 2003, that is a qualified nonpersonal use vehicle. A truck or van is a qualified nonpersonal use vehicle only if it has been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes. For example, a van that has only a front bench for seating, in which permanent shelving has been installed, that constantly carries merchandise or equipment, and that has been specially painted with advertising or the company’s name, is a vehicle not likely to be used more than a de minimis amount for personal purposes.

Exception for clean-fuel modifications. The limits for passenger automobiles placed in service after August 5, 1997, and before January 1, 2006, do not apply to the cost of any qualified clean fuel property (such as retrofit parts and components) installed on a vehicle to permit that vehicle to run on a clean-burning fuel.

Exception for leasehold property. The business use requirement and the limits for passenger automobiles generally do not apply to passenger automobiles leased or held by anyone regularly engaged in the business of leasing passenger automobiles.

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

Table 1 — Limits for Passenger Automobiles Placed in Service Before 2003 (excluding electric passenger automobiles placed in service after August 5, 1997)

<table>
<thead>
<tr>
<th>Placed in Service Before</th>
<th>IF you placed your automobile in service:</th>
<th>AND the number of tax years in which this automobile has been in service is</th>
<th>THEN the limit on your depreciation and section 179 expense deduction is</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 3 $2,950</td>
<td>3</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2002 4 $2,950</td>
<td>4</td>
<td>$1,775</td>
<td></td>
</tr>
<tr>
<td>2003 1 $2,950</td>
<td>1</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2003 2 $2,950</td>
<td>2</td>
<td>$4,800</td>
<td></td>
</tr>
<tr>
<td>2004 1 $2,950</td>
<td>1</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2004 2 $2,950</td>
<td>2</td>
<td>$4,800</td>
<td></td>
</tr>
<tr>
<td>2004 3 $2,950</td>
<td>3</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2005 1 $2,950</td>
<td>1</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2005 2 $2,950</td>
<td>2</td>
<td>$4,800</td>
<td></td>
</tr>
</tbody>
</table>

Note. The limit for automobiles (including trucks and vans and electric passenger automobiles) placed in service after December 31, 2005, will be published in the Internal Revenue Bulletin. If the limits were not available at the time these instructions were printed.

Table 2 — Limits for Passenger Automobiles Placed in Service After 2002 (excluding trucks and vans placed in service after 2002 and electric passenger automobiles)

<table>
<thead>
<tr>
<th>Placed in Service After 2002</th>
<th>IF you placed your automobile in service:</th>
<th>AND the number of tax years in which this automobile has been in service is</th>
<th>THEN the limit on your depreciation and section 179 expense deduction is</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 3 $2,950</td>
<td>3</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2003 4 $2,950</td>
<td>4</td>
<td>$1,775</td>
<td></td>
</tr>
<tr>
<td>2004 1 $2,950</td>
<td>1</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2004 2 $2,950</td>
<td>2</td>
<td>$4,800</td>
<td></td>
</tr>
<tr>
<td>2004 3 $2,950</td>
<td>3</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2005 1 $2,950</td>
<td>1</td>
<td>$2,950</td>
<td></td>
</tr>
<tr>
<td>2005 2 $2,950</td>
<td>2</td>
<td>$4,800</td>
<td></td>
</tr>
</tbody>
</table>

For any passenger automobile automobiles is limited.

• A vehicle used in your trade or business of transporting persons or property for compensation or hire. A truck or van is a qualified nonpersonal use vehicle only if it has been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes. For example, a van that has only a front bench for seating, in which permanent shelving has been installed, that constantly carries merchandise or equipment, and that has been specially painted with advertising or the company’s name, is a vehicle not likely to be used more than a de minimis amount for personal purposes.

Exception for clean-fuel modifications. The limits for passenger automobiles placed in service after August 5, 1997, and before January 1, 2006, do not apply to the cost of any qualified clean fuel property (such as retrofit parts and components) installed on a vehicle to permit that vehicle to run on a clean-burning fuel.

Exception for leasehold property. The business use requirement and the limits for passenger automobiles generally do not apply to passenger automobiles leased or held by anyone regularly engaged in the business of leasing passenger automobiles.

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

Table 3 — Limits for Trucks and Vans Placed in Service After 2002 (including minivans and sport utility vehicles built on a truck chassis)

<table>
<thead>
<tr>
<th>Placed in Service After 2002</th>
<th>IF you placed your truck or van in service:</th>
<th>AND the number of tax years in which this truck or van has been in service is</th>
<th>THEN the limit on your depreciation and section 179 expense deduction is</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 4 $5,225</td>
<td>4</td>
<td>$1,975</td>
<td></td>
</tr>
<tr>
<td>2004 1 $5,300</td>
<td>1</td>
<td>$3,150</td>
<td></td>
</tr>
<tr>
<td>2004 2 $5,300</td>
<td>2</td>
<td>$3,150</td>
<td></td>
</tr>
<tr>
<td>2005 1 $3,265</td>
<td>1</td>
<td>$3,265</td>
<td></td>
</tr>
<tr>
<td>2005 2 $5,200</td>
<td>2</td>
<td>$5,200</td>
<td></td>
</tr>
</tbody>
</table>

Note. The limit for trucks and vans (including minivans and sport utility vehicles built on a truck chassis) placed in service after December 31, 2005, will be published in the Internal Revenue Bulletin. These limits were not available at the time these instructions were printed.

Table 4 — Limits for Electric Passenger Automobiles Placed in Service After August 5, 1997

<table>
<thead>
<tr>
<th>Placed in Service After 1997</th>
<th>IF you placed your electric automobile in service:</th>
<th>AND the number of tax years in which this automobile has been in service is</th>
<th>THEN the limit on your depreciation and section 179 expense deduction is</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 Aug. 6 — Dec. 31, 2003</td>
<td>4 or more</td>
<td>$5,425</td>
<td></td>
</tr>
<tr>
<td>1998 Jan. 1 — Dec. 31, 1999</td>
<td>3 or more</td>
<td>$8,750</td>
<td></td>
</tr>
<tr>
<td>1999 Jan. 1 — Dec. 31, 2000</td>
<td>3 or more</td>
<td>$8,750</td>
<td></td>
</tr>
<tr>
<td>2000 Jan. 1 — Dec. 31, 2001</td>
<td>3 or more</td>
<td>$8,750</td>
<td></td>
</tr>
<tr>
<td>2001 Jan. 1 — Dec. 31, 2002</td>
<td>3 or more</td>
<td>$8,750</td>
<td></td>
</tr>
<tr>
<td>2002 Jan. 1 — Dec. 31, 2003</td>
<td>3 or more</td>
<td>$8,750</td>
<td></td>
</tr>
</tbody>
</table>
Section B

Except as noted below, you must complete lines 30 through 36 for each vehicle identified in Section A. Employees must provide their employers with the information requested on lines 30 through 36 for each automobile or vehicle provided for their use.

Exception. Employers are not required to complete lines 30 through 36 for vehicles used by employees who are not more than 5% owners or related persons and for which the question on line 37, 38, 39, 40, or 41 is answered "Yes.

Section C

Employers providing vehicles to their employees satisfy the employer’s substantiation requirements under section 274(d) by maintaining a written policy statement that:

• Prohibits personal use including commuting.
• Prohibits personal use except for commuting.

An employer does not need to keep a separate set of records for any vehicle that satisfies these written policy statement rules.

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 below.

Line 37
A policy statement that prohibits personal use (including commuting) must meet all of 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 38
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 of 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.

Line 40
An employer that provides more than five vehicles to its employees who are not 5% owners or related persons need not complete Section B for such vehicles. Instead, the employer must obtain the information from its employees and retain the information received.

Line 41
An automobile meets the requirements for qualified demonstration use if the employer maintains a written policy statement that:

• Prohibits its use for personal vacation trips,
• Prohibits its use for personal commuting use, and
• Limits the total mileage outside the employee’s normal working hours.

Part VI. Amortization

Each year you can elect to deduct part of certain capital costs over a fixed period.

If you amortize property, the part you amortize does not qualify for section 179 expense deduction or for depreciation.

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

Line 42
Complete line 42 only for those costs you elect to amortize for which the amortization period begins during your tax year beginning in 2006.

Column (a) — Description of costs.

Describe the costs you are amortizing. You can elect to amortize the following.

Geological and geophysical expenditures (section 167(h)). For tax years beginning after August 8, 2005, any geological and geophysical expenses paid or incurred in connection with the exploration or development of oil and gas within the U.S. can be amortized ratably over a 24-month period beginning on the mid-point of the tax year in which the expenses were paid or incurred. See section 167(h).

Pollution control facilities (section 169). You can elect to amortize the cost of a certified pollution control facility over a 50-month period (48 months for certain atmospheric pollution control facilities placed in service after April 11, 2005). See section 169 and the related regulations for details and information required in making the election. See Pub. 535 for more information.

You can deduct a special depreciation allowance on a certified pollution control facility that is qualified property. However, you must reduce the amount on which you figure your amortization deduction by any special allowance that you claim.

Also, a corporation must reduce its amortizable basis of a pollution control facility by 20% before figuring the amortization deduction.

Certain bond premiums (section 171). For individuals reporting the 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 27.

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, you can elect to amortize the bond premium over the life of the bond. See section 171 and Regulations sections 1.171-4 for more information. Individuals, also see Pub. 550, Investment Income and Expenses.

Research and experimental expenditures (section 174). You can elect to either amortize your research and experimental costs, deduct them as current business expenses, or write them.
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping, 38 hr., 29 min.; Learning about the law or the form, 4 hr., 16 min.; Preparing and sending the form to the IRS, 5 hr., 5 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.
Table A—General Depreciation System  
Method: 200% declining balance switching to straight line  
Convention: Half-year

<table>
<thead>
<tr>
<th>Year</th>
<th>3 years</th>
<th>5 years</th>
<th>7 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>33.33%</td>
<td>20.00%</td>
<td>14.29%</td>
<td>10.00%</td>
</tr>
<tr>
<td>2</td>
<td>44.45%</td>
<td>32.00%</td>
<td>24.49%</td>
<td>18.00%</td>
</tr>
<tr>
<td>3</td>
<td>14.81%</td>
<td>19.22%</td>
<td>17.48%</td>
<td>14.40%</td>
</tr>
<tr>
<td>4</td>
<td>7.41%</td>
<td>11.52%</td>
<td>12.49%</td>
<td>11.52%</td>
</tr>
<tr>
<td>5</td>
<td>11.52%</td>
<td>8.89%</td>
<td>9.22%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>5.76%</td>
<td>8.92%</td>
<td>7.37%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>8.93%</td>
<td>6.55%</td>
<td>5.55%</td>
<td></td>
</tr>
<tr>
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<td>6.55%</td>
<td>5.55%</td>
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</tr>
<tr>
<td>9</td>
<td>6.56%</td>
<td>5.55%</td>
<td>5.55%</td>
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<tr>
<td>10</td>
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</tbody>
</table>

Table B—General and Alternative Depreciation System  
Method: 150% declining balance switching to straight line  
Convention: Half-year

<table>
<thead>
<tr>
<th>Year</th>
<th>5 years</th>
<th>7 years</th>
<th>10 years</th>
<th>12 years</th>
<th>15 years</th>
<th>20 years</th>
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</thead>
<tbody>
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<td>15.00%</td>
<td>10.71%</td>
<td>7.50%</td>
<td>6.25%</td>
<td>5.00%</td>
<td>3.750%</td>
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<tr>
<td>2</td>
<td>25.50%</td>
<td>19.13%</td>
<td>13.88%</td>
<td>11.72%</td>
<td>9.50%</td>
<td>7.219%</td>
</tr>
<tr>
<td>3</td>
<td>17.85%</td>
<td>15.03%</td>
<td>11.79%</td>
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<td>8.55%</td>
<td>6.677%</td>
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<tr>
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<td>16.66%</td>
<td>12.25%</td>
<td>10.02%</td>
<td>8.97%</td>
<td>7.70%</td>
<td>6.177%</td>
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<td>16.66%</td>
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<td>6.39%</td>
<td>5.713%</td>
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<tr>
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<td>8.33%</td>
<td>12.25%</td>
<td>8.74%</td>
<td>7.33%</td>
<td>6.23%</td>
<td>5.285%</td>
</tr>
<tr>
<td>7</td>
<td>12.25%</td>
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<td>7.33%</td>
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<td>4.886%</td>
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<td>7.33%</td>
<td>5.90%</td>
<td>4.461%</td>
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<td></td>
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<td>7.33%</td>
<td>5.90%</td>
<td>4.461%</td>
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<td></td>
</tr>
<tr>
<td>11</td>
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<td>7.32%</td>
<td>5.91%</td>
<td>4.462%</td>
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<tr>
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<td>7.33%</td>
<td>5.90%</td>
<td>4.461%</td>
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</tr>
<tr>
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<td>5.90%</td>
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<tr>
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<td>5.90%</td>
<td>4.461%</td>
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</tr>
<tr>
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<td>5.90%</td>
<td>4.462%</td>
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<td></td>
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<tr>
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<td>5.90%</td>
<td>4.461%</td>
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<td></td>
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<tr>
<td>17</td>
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<td>7.33%</td>
<td>5.90%</td>
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<tr>
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<td>7.33%</td>
<td>5.90%</td>
<td>4.461%</td>
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<td></td>
</tr>
<tr>
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<td>8.74%</td>
<td>7.33%</td>
<td>5.90%</td>
<td>4.461%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table C—General Depreciation System

**Method:** Straight line  
**Convention:** Mid-month  
**Recovery period:** 27.5 years

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.485%</td>
<td>3.182%</td>
<td>2.879%</td>
<td>2.576%</td>
<td>2.273%</td>
<td>1.970%</td>
<td>1.667%</td>
<td>1.364%</td>
<td>1.061%</td>
<td>0.758%</td>
<td>0.455%</td>
<td>0.152%</td>
</tr>
<tr>
<td>10,12,14,16,18,20</td>
<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
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<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
<td>3.637%</td>
</tr>
</tbody>
</table>

### Table D—General Depreciation System

**Method:** Straight line  
**Convention:** Mid-month  
**Recovery period:** 31.5 years

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>13,15,17,19</td>
<td>3.174%</td>
<td>3.175%</td>
<td>3.175%</td>
<td>3.175%</td>
<td>3.174%</td>
<td>3.175%</td>
<td>3.174%</td>
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<td>3.174%</td>
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<tr>
<td>14,16,18,20</td>
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<td>3.174%</td>
<td>3.175%</td>
<td>3.175%</td>
<td>3.174%</td>
<td>3.175%</td>
<td>3.174%</td>
<td>3.175%</td>
<td>3.174%</td>
<td>3.175%</td>
<td>3.174%</td>
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</tr>
</tbody>
</table>

### Table E—General Depreciation System

**Method:** Straight line  
**Convention:** Mid-month  
**Recovery period:** 39 years

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>2.461%</td>
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<td>2.033%</td>
<td>1.819%</td>
<td>1.605%</td>
<td>1.391%</td>
<td>1.177%</td>
<td>0.963%</td>
<td>0.749%</td>
<td>0.536%</td>
<td>0.321%</td>
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<tr>
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<td>2.564%</td>
<td>2.564%</td>
<td>2.564%</td>
<td>2.564%</td>
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<td>2.564%</td>
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<td>2.564%</td>
<td>2.564%</td>
<td>2.564%</td>
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</tbody>
</table>
# Depreciation Worksheet (Keep for your records.)

<table>
<thead>
<tr>
<th>Description of Property</th>
<th>Date Placed in Service</th>
<th>Depreciation Deduction</th>
<th>Rate or Table %</th>
<th>Recovery Period</th>
<th>Method/Convention</th>
<th>Basis for Depreciation</th>
<th>Depreciation Prior Years</th>
<th>Basis for Depreciation Deduction and Special Allowance</th>
<th>Section 179 Deduction and Special Allowance</th>
<th>Depreciation Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>