

# Depreciation

Presented by,

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- Objectives of This Seminar
- Overview of Depreciation
- Allowed or Allowable
- When Does Depreciation Begin?
- What if You Sell the Asset?
- What if You Sell Your Business?
- Repair or Improvement?
- Amortization

- Income Tax Deduction
- Recover Cost
- Wear and Tear
- Buildings
- Machinery
- Vehicles
- Equipment
- Non Tangibles



- Must Own Property
- Capital Improvements
- Own or Lease
- Income-Producing Activity
- Useful Life over 1 Year
- Placed in Service
- Sold in Same Year
- Methods of Depreciation

# Determine Basis

Cost

Sales Tax

Freight

Installation

Permanent Improvements

Acquisition Costs

Deduct Casualty and Theft

## Determine Basis

Example:

Purchase Price	\$160,000
Land	<15,000>
Basis	\$145,000
New Roof	7,500
Escrow Costs	3,400
Adjusted Basis	\$155,900

# Determine Basis

Example:

Adjusted Basis	\$155,900
Remove Pool	<10,000>
Removal Expense	2,000
New Adj. Basis	\$147,900



# Conventions

## **The mid-month MM**

- Nonresidential Real Property
- Residential Real Property
- Railroad Grading
- Tunnel Bore
- Mid Point of Month
- Placed in Service or Disposed of

# Conventions

## The Mid-Quarter MQ

- >40% Total in Last Quarter
- All Property Treated the Same
- Mid Point of Quarter
- Excludes MM Property
- End of Year Tax Planning
- Placed in Service or Disposed of

# Conventions

## **The Half-Year HY**

Neither MM or MQ

Code Section 179

Personal Use

Special Allowances

Placed in Service or Disposed of

# Depreciation Method

## MACRS Recovery Methods

GDS	200% Declining Balance
	150% Declining Balance
	Straight Line
ADS	Straight Line

**Table 4-1. Depreciation Methods**

<b>Note. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.</b>		
<b>Method</b>	<b>Type of Property</b>	<b>Benefit</b>
GDS using 200% DB	<ul style="list-style-type: none"> <li>• Nonfarm 3-, 5-, 7-, and 10-year property</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a greater deduction during the earlier recovery years</li> <li>• Changes to SL when that method provides an equal or greater deduction</li> </ul>
GDS using 150% DB	<ul style="list-style-type: none"> <li>• All farm property (except real property)</li> <li>• All 15- and 20-year property (except qualified leasehold improvement property and qualified restaurant property placed in service before January 1, 2014)</li> <li>• Nonfarm 3-, 5-, 7-, and 10-year property</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a greater deduction during the earlier recovery years</li> <li>• Changes to SL when that method provides an equal or greater deduction<sup>1</sup></li> </ul>
GDS using SL	<ul style="list-style-type: none"> <li>• Nonresidential real property</li> <li>• Qualified leasehold improvement property placed in service before January 1, 2014</li> <li>• Qualified restaurant property placed in service before January 1, 2014</li> <li>• Residential rental property</li> <li>• Trees or vines bearing fruit or nuts</li> <li>• Water utility property</li> <li>• All 3-, 5-, 7-, 10-, 15-, and 20-year property<sup>2</sup></li> <li>• Property for which you elected section 168(k) (4)</li> </ul>	<ul style="list-style-type: none"> <li>• Provides for equal yearly deductions (except for the first and last years)</li> </ul>
ADS using SL	<ul style="list-style-type: none"> <li>• Listed property used 50% or less for business</li> <li>• Property used predominantly outside the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides for equal yearly deductions</li> </ul>

# Examples of Class Life

- **3 years** Heavy Trucks
- **5 years** Computers
- **7 years** Office Furniture
- **7 years** Machinery
- **15 years** Agricultural Structures
- **27.5 years** Residential Rentals
- **39 years** Commercial Rentals

Table B-1. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			GDS (MACRS)	ADS
<i>SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:</i>				
00.11	<b>Office Furniture, Fixtures, and Equipment:</b> Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes.	10	7	10
00.12	<b>Information Systems:</b> Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Information systems are defined as: 1) Computers: A computer is a programmable electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention. It usually consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. Excluded from this category are adding machines, electronic desk calculators, etc., and other equipment described in class 00.13. 2) Peripheral equipment consists of the auxiliary machines which are designed to be placed under control of the central processing unit. Nonlimiting examples are: Card readers, card punches, magnetic tape feeds, high speed printers, optical character readers, tape cassettes, mass storage units, paper tape equipment, keypunches, data entry devices, teleprinters, terminals, tape drives, disc drives, disc files, disc packs, visual image projector tubes, card sorters, plotters, and collators. Peripheral equipment may be used on-line or off-line. Does not include equipment that is an integral part of other capital equipment that is included in other classes of economic activity, i.e., computers used primarily for process or production control, switching, channeling, and automating distributive trades and services such as point of sale (POS) computer systems. Also, does not include equipment of a kind used primarily for amusement or entertainment of the user.	6	5	5
00.13	<b>Data Handling Equipment; except Computers:</b> Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.	6	5	6
00.21	<b>Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines)</b>	6	5	6
00.22	<b>Automobiles, Taxis</b>	3	5	5
00.23	<b>Buses</b>	9	5	9

**Table A-8. Straight Line Method  
Half-Year Convention**

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	20.0%	16.67%	14.29%	12.5%	10.0%	8.33%	7.69%	7.14%	6.67%	6.25%	5.88%	5.56%	5.26%
2	40.0	33.33	28.57	25.0	20.0	16.67	15.39	14.29	13.33	12.50	11.77	11.11	10.53
3	40.0	33.33	28.57	25.0	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
4		16.67	28.57	25.0	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
5				12.5	20.0	16.66	15.38	14.29	13.34	12.50	11.76	11.11	10.52
6					10.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
7						8.33	15.38	14.29	13.34	12.50	11.76	11.11	10.52
8								7.14	13.33	12.50	11.77	11.11	10.53
9										6.25	11.76	11.11	10.52
10												5.56	10.53

*Table A-8. (Continued)*

Year	Recovery periods in years												
	10	10.5	11	11.5	12	12.5	13	13.5	14	15	16	16.5	17
1	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%
2	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
10	10.0	9.53	9.09	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88

# Example

Office Furniture

\$10,000

Placed in Service 08/11/2013

Business Use Only

No IRC 179

No Special Depreciation Allowance

## Example

MACRS	ADS SL
Property class	7 Year
Date placed in service	8/11/13
Recovery period	7 Year
Method and convention	SL/HY
Depreciation rate	7.14%
Deduction 1st year	\$714
2nd – 7th year	\$1,429
8th year	\$714

- “Listed Property”
  - Automobiles
  - Computers
- Section 179 Expense
  - Must Be Eligible Property
  - 2012 Limited to \$500,000
  - 2012 Total \$2,000,000 purchased
- First Year “Bonus”

# Recapture Section 179

## Example

\$10,000 equipment 07/01/2010

Expensed \$10,000

Sold in 7/01/2012 for \$2,000

$10,000/7=1,429 \times 2 = 2,858$

$10,000 - 2,858 = \$7,142$  recapture

# Sale of Assets

Basis of Assets

Recapture Depreciation

Capital Gains

Exchanges

Involuntary Conversion

Retired

Personal Use

# Sale of Business

- Form 8594
- Purchaser and Seller
- Group of Assets
- Trade or Business
- Fair Market Value
- Basis
- File With Original Return

# Partial Form 8594

Form **8594**  
(Rev. December 2012)  
Department of the Treasury  
Internal Revenue Service

## Asset Acquisition Statement Under Section 1060

OMB No. 1545-1021

Attachment  
Sequence No. **169**

▶ Attach to your income tax return.

▶ Information about Form 8594 and its separate instructions is at [www.irs.gov/form8594](http://www.irs.gov/form8594)

Name as shown on return	Identifying number as shown on return

Check the box that identifies you:

Purchaser       Seller

### Part I General Information

<b>1</b> Name of other party to the transaction	Other party's identifying number

Address (number, street, and room or suite no.)

City or town, state, and ZIP code

<b>2</b> Date of sale	<b>3</b> Total sales price (consideration)

# Repair v Capital Improvement

Increase Value?

Make It More Useful?

Lengthens Its Life?

Example:

Roof – partial or complete?

Tractor Engine – Lengthens Its Life?

Rental Appliances – More Useful?

## Allowed or Allowable

- Allowed – Actual Deduction
- Allowable – Entitled to Deduct
- Reduce Basis by Allowable
- Recapture as Ordinary Income
- IRC 1245 and 1250
- Form 3115

# Reporting Depreciation

Form 4562

Overview

Publication 946

A Car

Publication 463

Residential

Rental Property

Publication 527

Home Office

Publication 587

Farm Property

225, Farmer's

Questions?

Thank You

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