



National Association
of Tax Professionals

The Basics of Basis and Depreciation

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Brief Descriptions

- Basis
 - This is the amount of the capital investment in the property
 - Normally this is the cost of the item
 - Sales tax is added
 - Shipping is added
 - Installation is added
 - Any other directly related costs are added

Basis Other Than Cost

- Gifted items
 - You need to know what their basis is in it the minute before it was given to you
 - You need to know the fair market value at the time of the gift
 - Was any gift tax paid?



Basis Other Than Cost

- Inherited Items
 - Normally the date of death value
 - Alternate valuation used if used by the estate
- Like Kind Exchange Items
 - The basis of the old property is normally the basis for the new property
 - If cash is added, the new basis is the basis of the old property plus cash

Depreciation

- Items that normally last less than a year are not depreciated
- Land is not depreciated
- Equipment used to build capital improvements
 - Allowable depreciation during construction is added to the basis of the improvement
- You must own the item in order to depreciate it

Code Sections of Depreciation

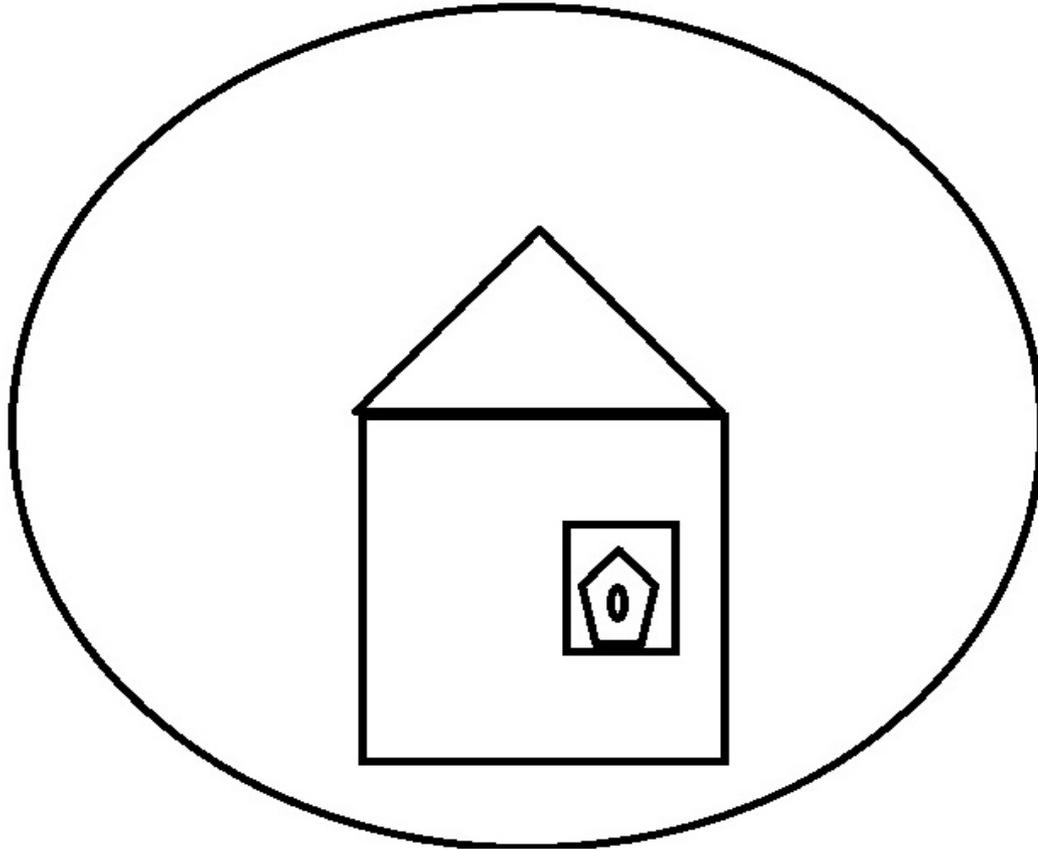
- 1231 Property – Property used in a trade or business
 - Land
 - Timber
 - Certain livestock
- 1245 Property – Personal Property
 - Tangible
 - Intangible



Code Sections of Depreciation

- 1250 Property – Depreciable Real Property
 - Has never been 1245 property
 - 1250 property may be converted to 1245 property
 - Can never be treated as 1250 property again
- 1252 Property – Farmland
- 1254 Property – Intangible Drilling Costs





Form **4562**

Depreciation and Amortization

(Including Information on Listed Property)

OMB No. 1545-0172

2014Attachment
Sequence No. **179**Department of the Treasury
Internal Revenue Service (99)▶ **Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.**▶ **Attach to your tax return.**

Name(s) shown on return

Business or activity to which this form relates

Identifying number

Part I Election To Expense Certain Property Under Section 179**Note:** *If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2013 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2015. Add lines 9 and 10, less line 12 ▶	13	

Note: *Do not use Part II or Part III below for listed property. Instead, use Part V.*

§179 Election

- Can be used for 1245 property
- “Lump sum” depreciation
- Maximum deduction is \$25,000 (for 2015) for property placed in service in that year
- Not available for rental properties
- Must have positive income on the tax return
 - Profit in business
 - W-2 wages

§179 Election

- Use it wisely
 - Reduces depreciation in future years
 - May need recaptured if asset is sold
- Listed property must be used more than 50%
 - Autos
 - Computers
 - Property used for entertainment
 - Photographic
 - Phonographic
 - Communication
 - Video recording equipment

§179 Election

- Can be carried forward to use at a later date
 - If qualified property
 - If income is limited
- Must be used the year placed in service
- Cannot be used for:
 - Real property
 - Air conditioning and heating equipment
 - Property outside the U.S.
 - Property gifted or inherited
 - Property acquired from related party

Bonus Depreciation

- As of now, not available for 2015
- For 2014 – limit was 50% of the cost of a qualifying asset
- Reduce cost by
 - §179 election
 - Any amount used for disability credits
 - Enhanced Oil Recovery Credit
 - Credit for Employer Provided Daycare

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17 MACRS deductions for assets placed in service in tax years beginning before 2014	17	
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2014 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2014 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21 Listed property. Enter amount from line 28	21	
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 12906N

Form **4562** (2014)

Form 4562

- MACRS Depreciation
 - Line 17 – Current year depreciation for assets placed in service before 2014
 - Section B
 - Used for assets placed in service in the current year
 - Stop by the NATP Booth, have a handout of the states that don't allow bonus depreciation or 179 depreciation
 - Section C
 - Assets using ADS

Form 4562

- Part IV
 - Add in the listed property from page 2
 - Total it
 - If you have capitalized some property, place that basis amount in Box 23
- Part V
 - This is for listed property used in the trade or business
 - Separate more than 50% usage from 50% or less
 - Also has auto mileage information and vehicle based questions

Amortization

- Amortization is similar to depreciation, but based on a monthly amount
 - Geological expenses
 - Pollution control facilities
 - Research and development
 - Section 197 intangibles
 - Goodwill
 - Business books and records
 - Patent or copyright
 - Covenant not to compete

Depreciation

- Depreciation for 1245 and 1250 assets is a **must**
- The term is allowed or allowable
- When the asset is sold, the taxpayer will pay tax on the depreciation allowed, whether deducted or not
- Form 3115
 - Allows all depreciation to be corrected at one time on one return
 - Must be made on a timely filed (plus extension) return

Form **4797**

Sales of Business Property
 (Also Involuntary Conversions and Recapture Amounts
 Under Sections 179 and 280F(b)(2))

OMB No. 1545-0184

2014

Department of the Treasury
 Internal Revenue Service

▶ **Attach to your tax return.**
 ▶ **Information about Form 4797 and its separate instructions is at www.irs.gov/form4797.**

Attachment
 Sequence No. **27**

Name(s) shown on return	Identifying number
1 Enter the gross proceeds from sales or exchanges reported to you for 2014 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)	1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
3	Gain, if any, from Form 4684, line 39						3
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37						4
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5
6	Gain, if any, from line 32, from other than casualty or theft.						6
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:						7
<p>Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.</p> <p>Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.</p>							
8	Nonrecaptured net section 1231 losses from prior years (see instructions)						8
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)						9



Disposition of Assets—Form 4797

- Line 1 – Report your 1099B or 1099S
 - 1099B? If the taxpayer is a “mark to market” trader, use Form 4797 instead of Schedule D
- Come visit us, we have a Where to Start guide!
- Part I
 - Section 1231 transactions
 - Sale of real or depreciable property held in business for more than one year
 - Timber that was sold
 - Livestock sales

Disposition of Assets—Form 4797

- Lines 3–8
 - Transfers from other forms including K-1s and also nonrecaptured 1231 losses from prior years
- Line 9
 - Calculates the ordinary income or the capital gain or loss

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11	Loss, if any, from line 7	11	()		
12	Gain, if any, from line 7 or amount from line 8, if applicable	12			
13	Gain, if any, from line 31	13			
14	Net gain or (loss) from Form 4684, lines 31 and 38a	14			
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15			
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824.	16			
17	Combine lines 10 through 16	17			
18	For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:				
a	If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions			18a	
b	Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14			18b	

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 13086I

Form **4797** (2014)



Disposition of Assets—Form 4797

- Part II
 - Ordinary gains and losses
 - Assets held under a year
 - Lines 11–17
 - Transfers calculations from other forms
 - Line 18
 - Reports where the gain or loss will be carried to the individual's tax return

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
(see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:		(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A			
B			
C			
D			
These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B
		Property C	Property D
20	Gross sales price (Note: See line 1 before completing.)	20	
21	Cost or other basis plus expense of sale	21	
22	Depreciation (or depletion) allowed or allowable	22	
23	Adjusted basis. Subtract line 22 from line 21.	23	
24	Total gain. Subtract line 23 from line 20	24	
25	If section 1245 property:		
a	Depreciation allowed or allowable from line 22	25a	
b	Enter the smaller of line 24 or 25a	25b	
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.		
a	Additional depreciation after 1975 (see instructions)	26a	
b	Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b	
c	Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c	
d	Additional depreciation after 1969 and before 1976.	26d	
e	Enter the smaller of line 26c or 26d	26e	
f	Section 291 amount (corporations only)	26f	
g	Add lines 26b, 26e, and 26f.	26g	



Disposition of Assets—Form 4797

- Part III
 - Sales of all other classes of property except 1231 only property
 - One column per item on depreciation schedule
 - Sales must be prorated to each asset
 - Excel spreadsheet works well
 - Costs from depreciation worksheet totaled
 - Ratio of item to the cost
 - New sales price ratio'd per item proration
 - Note Lines 22, 26a, and 26d

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less**
(see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33	Section 179 expense deduction or depreciation allowable in prior years.		
34	Recomputed depreciation (see instructions)		
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report . . .		

Form **4797** (2014)

Aggressive Use of Expensing

§179 Recapture

- §179 recapture will go to the form it came from
 - Schedule C or F may result in taxable income and also income for SE purposes
 - If the use falls under 50%, the recapture also applies

§280F Recapture

- §280F is for listed property with the same rules
- You must calculate normal depreciation and the overage is taxable to the taxpayer on the form the deduction was taken

Important!



Make sure to go over these items with your taxpayers. It is not your choice to use §179, MACRS or straight-line depreciation, it is theirs, so make sure they understand the rules regarding depreciation and amortization.