



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

OFFICE OF THE CHIEF COUNSEL

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Dear _____ :

This letter is in response to your request for information dated September 5, 2025, which was sent to Audrey Morris, Deputy Chief Counsel, Office of Chief Counsel, Internal Revenue Service. You asked questions regarding the classification of _____ for purposes of depreciation under §§ 167 and 168 of the Internal Revenue Code. Specifically, you asked whether _____ are tangible property under §§ 167 and 168 of the Code, whether

_____ are eligible for depreciation under the Modified Accelerated Cost Recovery System (MACRS), and whether _____ are classified within an asset class under Rev. Proc. 87-56, 1987-2 C.B. 674. We hope the following general information addresses your concerns.

Generally, a taxpayer can claim a depreciation deduction under § 167(a) for the exhaustion and wear and tear of property used in a trade or business or of property held for the production of income. Taxpayers can depreciate most types of tangible property (except raw land), such as buildings, machinery, vehicles, furniture, and equipment. See § 1.167(a)-2 of the Income Tax Regulations. In general, a taxpayer must have an economic interest (i.e., an ownership interest) in depreciable property in order to take the depreciation deduction under § 167(a). Leased property can only be depreciated if the incidents of ownership in the property are retained by the taxpayer, meaning the taxpayer bears the burden of exhaustion of the capital investment in the property.

The depreciation deduction provided by § 167(a) for tangible property placed in service after 1986 is generally determined under § 168, more commonly known as MACRS. Section 168 prescribes two methods for determining depreciation allowances. One method is the general depreciation system in § 168(a) and the other method is the alternative depreciation system in § 168(g). Under either depreciation system, the depreciation deduction is computed using an applicable depreciation method, recovery period, and convention. Rev. Proc. 87-57, 1987-2 C.B. 687, provides further guidance in computing depreciation allowances for tangible property under § 168, including

descriptions of the applicable depreciation methods, applicable recovery periods, and applicable conventions that must be used in computing depreciation allowances under § 168.

In general, property is classified based upon the property's class life. Subject to certain exceptions, the class lives and recovery periods of property subject to depreciation under § 168 are set forth in Rev. Proc. 87-56. This revenue procedure divides assets into two broad categories: (1) asset classes 00.11 through 00.4 that consist of specific depreciable assets used in all business activities; and (2) asset classes 01.1 through 80.0 that consist of depreciable assets used in specific business activities. An asset that falls within both an asset group (that is, asset classes 00.11 through 00.4) and an activity group (that is, asset classes 01.1 through 80.0) would be classified in the asset group. See Norwest Corp. & Subs. v. Commissioner, 111 T.C. 105, 156-64 (1998).

Please note that, under § 280F(b), your depreciation deduction may be determined under the alternative depreciation system under § 168(g) instead of the general depreciation system of § 168(a) if: (1) the property is considered listed property, and (2) the property is not predominantly used in a qualified business use (in other words, business use does not exceed 50 percent each taxable year). Listed property generally includes passenger automobiles, any other property used for transportation, and property used for entertainment, recreation, or amusement. Section 280F(d)(4).

Publication 946, *How To Depreciate Property*, lists tangible assets that can be depreciated and those that cannot be depreciated, and also describes the depreciation method, recovery period, and convention of depreciable property under MACRS, as well as rules for listed property. You may access Publication 946 on the Internal Revenue Service's website at <https://www.irs.gov/forms-pubs/about-publication-946>. If you are unable to access this publication or the IRS revenue procedures for any reason, please contact us and we will arrange to mail you copies.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2026-1, sections 2.01 and 2.04, 2026-1 I.R.B. 1 at 8-9. If you have any additional questions, please contact our office at (202) 317-7005.

Sincerely,

Amy S. Wei

Amy S. Wei
Senior Technical Reviewer
(Income Tax & Accounting)