

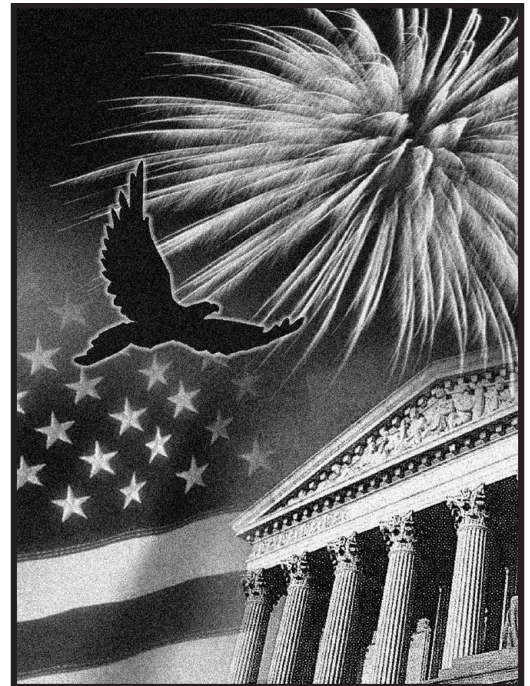
# Publication 946

## How To Depreciate Property

- Section 179 Deduction
- Special Depreciation Allowance
- MACRS
- Listed Property

For use in preparing **2023** Returns

Volume 2 of 6



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# **What Property Does Not Qualify?**

## **Terms you may need to know (see Glossary):**

Basis

Class life

Certain property does not qualify for the section 179 deduction. This includes the following.

### **Land and Improvements**

Land and land improvements do not qualify as section 179 property. Land improvements include swimming pools, paved parking areas, wharves, docks, bridges, and fences.

### **Excepted Property**

Even if the requirements explained earlier under [What Property Qualifies?](#) are met, you

cannot elect the section 179 deduction for the following property.

- Certain property you lease to others (if you are a noncorporate lessor).
- Property used predominantly outside the United States, except property described in section 168(g)(4) of the Internal Revenue Code.
- Property used by certain tax-exempt organizations, except property used in connection with the production of income subject to the tax on unrelated trade or business income.
- Property used by governmental units or foreign persons or entities, except property used under a lease with a term of less than 6 months.

**Leased property.** Generally, you cannot claim a section 179 deduction based on the cost of property you lease to someone else. This rule does not apply to corporations.

However, you can claim a section 179 deduction for the cost of the following property.

1. Property you manufacture or produce and lease to others.
2. Property you purchase and lease to others if both the following tests are met.
  - a. The term of the lease (including options to renew) is less than 50% of the property's class life.
  - b. For the first 12 months after the property is transferred to the lessee, the total business deductions you are allowed on the property (other than rents and reimbursed amounts) are more than 15% of the rental income from the property.

# How Much Can You Deduct?

## Terms you may need to know (see **Glossary**):

Adjusted basis

Basis

Placed in service

Your section 179 deduction is generally the cost of the qualifying property. However, the total amount you can elect to deduct under section 179 is subject to a dollar limit and a business income limit. These limits apply to each taxpayer, not to each business.

However, see [Married Individuals](#) under [Dollar Limits](#), later. For a passenger automobile, the total section 179 deduction and depreciation deduction are limited. See [Do the Passenger Automobile Limits Apply?](#) in chapter 5.

If you deduct only part of the cost of qualifying property as a section 179

deduction, you can generally depreciate the cost you do not deduct.

**Trade-in of other property.** If you buy qualifying property with cash and a trade-in, its cost, for purposes of the section 179 deduction, includes only the cash you paid.

**Example.** Silver Leaf, a retail bakery, traded in two ovens having a total adjusted basis of \$680, for a new oven costing \$1,320. They received an \$800 trade-in allowance for the old ovens and paid \$520 in cash for the new oven. On the date that Silver Leaf traded in the two old ovens for the new oven, the old ovens and the new oven are classified as real property under the law of the state in which the old and new ovens are located and, as a result, the old and new ovens are real property for purposes of section 1031. The new oven is section 179 property.

Only the portion of the new oven's basis paid by cash qualifies for the section 179

deduction. Therefore, Silver Leaf's qualifying cost for the section 179 deduction is \$520.

## **Dollar Limits**

The total amount you can elect to deduct under section 179 for most property placed in service in tax years beginning in 2023 generally cannot be more than \$1,160,000. If you acquire and place in service more than one item of qualifying property during the year, you can allocate the section 179 deduction among the items in any way, as long as the total deduction is not more than \$1,160,000. You do not have to claim the full \$1,160,000.



*The amount you can elect to deduct is not affected if you place qualifying property in service in a short tax year or if you place qualifying property in service for only a part of a 12-month tax year.*





*After you apply the dollar limit to determine a tentative deduction, you must apply the business income limit (described later) to determine your actual section 179 deduction.*

**Example.** In 2023, you bought and placed in service \$1,160,000 in machinery and a \$25,000 circular saw for your business. You elect to deduct \$1,135,000 for the machinery and the entire \$25,000 for the saw, a total of \$1,160,000. This is the maximum amount you can deduct. Your \$25,000 deduction for the saw completely recovered its cost. Your basis for depreciation is zero. The basis for depreciation of your machinery is \$25,000. You figure this by subtracting your \$1,135,000 section 179 deduction for the machinery from the \$1,160,000 cost of the machinery.

**Situations affecting dollar limit.** Under certain circumstances, the general dollar limits on the section 179 deduction may be reduced

or increased or there may be additional dollar limits. The general dollar limit is affected by any of the following situations.

- The cost of your section 179 property placed in service exceeds \$2,890,000.
- You placed in service a sport utility or certain other vehicles.
- You are married filing a joint or separate return.

### **Costs Exceeding \$2,890,000**

If the cost of your qualifying section 179 property placed in service in a year is more than \$2,890,000, you must generally reduce the dollar limit (but not below zero) by the amount of cost over \$2,890,000. If the cost of your section 179 property placed in service during 2023 is \$4,050,000 or more, you cannot take a section 179 deduction.

**Example.** In 2023, Jane Ash placed in service machinery costing \$2,940,000. This

cost is \$50,000 more than \$2,890,000, so Jane must reduce the dollar limit to \$1,110,000 (\$1,160,000 – \$50,000).

## **Sport Utility and Certain Other Vehicles**

You cannot elect to expense more than \$28,900 of the cost of any heavy sport utility vehicle (SUV) and certain other vehicles placed in service in tax years beginning in 2023. This rule applies to any 4-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, or highways that is rated at more than 6,000 pounds gross vehicle weight and not more than 14,000 pounds gross vehicle weight. However, the \$28,900 limit does not apply to any vehicle:

- Designed to seat more than nine passengers behind the driver's seat;
- Equipped with a cargo area (either open or enclosed by a cap) of at least 6 feet in interior length that is not readily

accessible from the passenger compartment; or

- That has an integral enclosure fully enclosing the driver compartment and load carrying device, does not have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

## **Married Individuals**

If you are married, how you figure your section 179 deduction depends on whether you file jointly or separately. If you file a joint return, you and your spouse are treated as one taxpayer in determining any reduction to the dollar limit, regardless of which of you purchased the property or placed it in service. If you and your spouse file separate returns, you are treated as one taxpayer for the dollar limit, including the reduction for costs over \$2,890,000. You must allocate the dollar limit (after any reduction) between you equally,

unless you both elect a different allocation. If the percentages elected by each of you do not total 100%, 50% will be allocated to each of you.

**Example.** You are married. You and your spouse file separate returns. You bought and placed in service \$2,890,000 of qualified farm machinery in 2023. Your spouse has a separate business, and bought and placed in service \$300,000 of qualified business equipment. Your combined dollar limit is \$860,000. This is because you and your spouse must figure the limit as if you were one taxpayer. You reduce the \$1,160,000 dollar limit by the \$300,000 excess of your costs over \$2,890,000.

You elect to allocate the \$860,000 dollar limit as follows.

- \$817,000 ( $\$860,000 \times 95\% (0.95)$ ) to your machinery.

- \$43,000 ( $\$860,000 \times 5\% (0.05)$ ) to your spouse's equipment.

If you did not make an election to allocate your costs in this way, you and your spouse would have to allocate \$430,000 ( $\$860,000 \times 50\% (0.50)$ ) to each of you.

### **Joint return after filing separate returns.**

If you and your spouse elect to amend your separate returns by filing a joint return after the due date for filing your return, the dollar limit on the joint return is the lesser of the following amounts.

- The dollar limit (after reduction for any cost of section 179 property over \$2,890,000).
- The total cost of section 179 property you and your spouse elected to expense on your separate returns.

**Example.** The facts are the same as in the previous example, except that you elected to deduct \$300,000 of the cost of section 179

property on your separate return and your spouse elected to deduct \$20,000. After the due date of your returns, you and your spouse file a joint return. The dollar limit for the section 179 deduction is \$320,000. This is the lesser of the following amounts.

- \$860,000—The dollar limit less the cost of section 179 property over \$2,890,000.
- \$320,000—The total you and your spouse elected to expense on your separate returns.

## **Business Income Limit**

The total cost you can deduct each year after you apply the dollar limit is limited to the taxable income from the active conduct of any trade or business during the year. Generally, you are considered to actively conduct a trade or business if you meaningfully participate in the management or operations of the trade or business.

Any cost not deductible in 1 year under section 179 because of this limit can be carried to the next year. Special rules apply to a deduction of qualified section 179 real property that is placed in service by you in tax years beginning before 2016 and disallowed because of the business income limit. See [\*Special rules for qualified section 179 real property\*](#) under [\*Carryover of disallowed deduction\*](#), later.

**Taxable income.** In general, figure taxable income for this purpose by totaling the net income and losses from all trades and businesses you actively conducted during the year. Net income or loss from a trade or business includes the following items.

- Section 1231 gains (or losses).
- Interest from working capital of your trade or business.
- Wages, salaries, tips, or other pay earned as an employee.



For information about section 1231 gains and losses, see chapter 3 of Pub. 544.

In addition, figure taxable income without regard to any of the following.

- The section 179 deduction.
- The self-employment tax deduction.
- Any net operating loss carryback or carryforward.
- Any unreimbursed employee business expenses.

**Two different taxable income limits.** In addition to the business income limit for your section 179 deduction, you may have a taxable income limit for some other deduction. You may have to figure the limit for this other deduction taking into account the section 179 deduction. If so, complete the following steps.

<b>Step</b>	<b>Action</b>
1	Figure taxable income without the section 179 deduction or the other deduction.
2	Figure a hypothetical section 179 deduction using the taxable income figured in Step 1.
3	Subtract the hypothetical section 179 deduction figured in Step 2 from the taxable income figured in Step 1.
4	Figure a hypothetical amount for the other deduction using the amount figured in Step 3 as taxable income.
5	Subtract the hypothetical other deduction figured in Step 4 from the taxable income figured in Step 1.

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6 Figure your actual section 179 deduction using the taxable income figured in Step 5.

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7 Subtract your actual section 179 deduction figured in Step 6 from the taxable income figured in Step 1.

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8 Figure your actual other deduction using the taxable income figured in Step 7.

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**Example.** On February 1, 2023, the XYZ Corporation purchased and placed in service qualifying section 179 property that cost \$1,160,000. It elects to expense the entire \$1,160,000 cost under section 179. In June, the corporation gave a charitable contribution of \$10,000. A corporation's limit on charitable contributions is figured after subtracting any section 179 deduction. The business income limit for the section 179 deduction is figured after subtracting any allowable charitable

contributions. XYZ's taxable income figured without the section 179 deduction or the deduction for charitable contributions is \$1,180,000. XYZ figures its section 179 deduction and its deduction for charitable contributions as follows.

**Step 1**—Taxable income figured without either deduction is \$1,180,000.

**Step 2**—Using \$1,180,000 as taxable income, XYZ's hypothetical section 179 deduction is \$1,160,000.

**Step 3**—\$20,000 (\$1,180,000 – \$1,160,000).

**Step 4**—Using \$20,000 (from Step 3) as taxable income, XYZ's hypothetical charitable contribution (limited to 10% of taxable income) is \$2,000.

**Step 5**—\$1,178,000 (\$1,180,000 – \$2,000).

**Step 6**—Using \$1,178,000 (from Step 5) as taxable income, XYZ figures the actual section 179 deduction. Because the taxable income is at least \$1,160,000, XYZ can take a \$1,160,000 section 179 deduction.

**Step 7**—\$20,000 (\$1,180,000 – \$1,160,000).

**Step 8**—Using \$20,000 (from Step 7) as taxable income, XYZ's actual charitable contribution (limited to 10% of taxable income) is \$2,000.

**Carryover of disallowed deduction.** You can carry over for an unlimited number of years the cost of any qualified section 179 real property that you placed in service in tax years beginning after 2015, and that you elected to expense, but were unable to deduct because of the business income limitation. This disallowed deduction amount is shown on line 13 of Form 4562. You use the

amount you carry over to determine your section 179 deduction in the next year. Enter that amount on line 10 of your Form 4562 for the next year.

If you place more than one property in service in a year, you can select the properties for which all or a part of the costs will be carried forward. Your selections must be shown in your books and records. For this purpose, treat section 179 costs allocated from a partnership or an S corporation as one item of section 179 property. If you do not make a selection, the total carryover will be allocated equally among the properties you elected to expense for the year.

If costs from more than 1 year are carried forward to a subsequent year in which only part of the total carryover can be deducted, you must deduct the costs being carried forward from the earliest year first.

## ***Special rules for qualified section 179***

***real property.*** You can carry over to 2024 a 2023 deduction attributable to qualified section 179 real property that you placed in service during the tax year and that you elected to expense but were unable to take because of the business income limitation. See [Carryover of disallowed deduction](#), earlier. Thus, the amount of any 2023 disallowed section 179 expense deduction attributable to qualified section 179 real property will be reported on line 13 of Form 4562.



*If there is a sale or other disposition of your property (including a transfer at death) before you can use the full amount of any outstanding carryover of your disallowed section 179 deduction, neither you nor the new owner can deduct any of the unused amount. Instead, you must add it back to the property's basis.*

## **Partnerships and Partners**

The section 179 deduction limits apply both to the partnership and to each partner. The partnership determines its section 179 deduction subject to the limits. It then allocates the deduction among its partners.

Each partner adds the amount allocated from partnerships (shown on Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.) to their non-partnership section 179 costs and then applies the dollar limit to this total. To determine any reduction in the dollar limit for costs over \$2,890,000, the partner does not include any of the cost of section 179 property placed in service by the partnership. After the dollar limit (reduced for any non-partnership section 179 costs over \$2,890,000) is applied, any remaining cost of the partnership and nonpartnership section 179 property is subject to the business income limit.



**Partnership's taxable income.** For purposes of the business income limit, figure the partnership's taxable income by adding together the net income and losses from all trades or businesses actively conducted by the partnership during the year. See the Instructions for Form 1065 for information on how to figure partnership net income (or loss). However, figure taxable income without regard to credits, tax-exempt income, the section 179 deduction, and guaranteed payments under section 707(c) of the Internal Revenue Code.

**Partner's share of partnership's taxable income.** For purposes of the business income limit, the taxable income of a partner engaged in the active conduct of one or more of a partnership's trades or businesses includes their allocable share of taxable income derived from the partnership's active conduct of any trade or business.

**Example.** In 2023, Beech Partnership placed in service section 179 property with a total cost of \$2,940,000. The partnership must reduce its dollar limit by \$50,000 (\$2,940,000 – \$2,890,000). Its maximum section 179 deduction is \$1,110,000 (\$1,160,000 – \$50,000), and it elects to expense that amount. The partnership's taxable income from the active conduct of all its trades or businesses for the year was \$1,110,000, so it can deduct the full \$1,110,000. It allocates \$40,000 of its section 179 deduction and \$50,000 of its taxable income to Dean, one of its partners.

In addition to being a partner in Beech Partnership, Dean is also a partner in Cedar Partnership, which allocated to Dean a \$30,000 section 179 deduction and \$35,000 of its taxable income from the active conduct of its business. Dean also conducts a business as a sole proprietor and, in 2023, placed in service in that business qualifying section 179

property costing \$55,000. Dean had a net loss of \$5,000 from that business for the year.

Dean does not have to include section 179 partnership costs to figure any reduction in the dollar limit, so the total section 179 costs for the year are not more than \$2,890,000 and the dollar limit is not reduced. Dean's maximum section 179 deduction is \$1,160,000. Dean elects to expense all of the \$70,000 in section 179 deductions allocated from the partnerships (\$40,000 from Beech Partnership plus \$30,000 from Cedar Partnership), plus \$55,000 of the sole proprietorship's section 179 costs, and notes that information in the books and records. However, Dean's deduction is limited to the business taxable income of \$80,000 (\$50,000 from Beech Partnership, plus \$35,000 from Cedar Partnership, minus \$5,000 loss from Dean's sole proprietorship). Dean carries over

\$45,000 (\$125,000 – \$80,000) of the elected section 179 costs to 2024. Dean allocates the carryover amount to the cost of section 179 property placed in service in Dean's sole proprietorship, and notes that allocation in the books and records.

***Different tax years.*** For purposes of the business income limit, if the partner's tax year and that of the partnership differ, the partner's share of the partnership's taxable income for a tax year is generally the partner's distributive share for the partnership tax year that ends with or within the partner's tax year.

***Example.*** John and James Oak are equal partners in Oak Partnership. Oak Partnership uses a tax year ending January 31. John and James both use a tax year ending December 31. For its tax year ending January 31, 2023, Oak Partnership's taxable income from the active conduct of its business is \$80,000, of which \$70,000 was earned during 2022. John

and James each include \$40,000 (each partner's entire share) of partnership taxable income in computing their business income limit for the 2023 tax year.

**Adjustment of partner's basis in partnership.** A partner must reduce the basis of their partnership interest by the total amount of section 179 expenses allocated from the partnership even if the partner cannot currently deduct the total amount. If the partner disposes of their partnership interest, the partner's basis for determining gain or loss is increased by any outstanding carryover of disallowed section 179 expenses allocated from the partnership.

**Adjustment of partnership's basis in section 179 property.** The basis of a partnership's section 179 property must be reduced by the section 179 deduction elected by the partnership. This reduction of basis must be made even if a partner cannot deduct all or part of the section 179 deduction

allocated to that partner by the partnership because of the limits.

## **S Corporations**

Generally, the rules that apply to a partnership and its partners also apply to an S corporation and its shareholders. The deduction limits apply to an S corporation and to each shareholder. The S corporation allocates its deduction to the shareholders who then take their section 179 deduction subject to the limits.

**Figuring taxable income for an S corporation.** To figure taxable income (or loss) from the active conduct by an S corporation of any trade or business, you total the net income and losses from all trades or businesses actively conducted by the S corporation during the year.

To figure the net income (or loss) from a trade or business actively conducted by an S corporation, you take into account the items

from that trade or business that are passed through to the shareholders and used in determining each shareholder's tax liability. However, you do not take into account any credits, tax-exempt income, the section 179 deduction, and deductions for compensation paid to shareholder-employees. For purposes of determining the total amount of S corporation items, treat deductions and losses as negative income. In figuring the taxable income of an S corporation, disregard any limits on the amount of an S corporation item that must be taken into account when figuring a shareholder's taxable income.

## **Other Corporations**

A corporation's taxable income from its active conduct of any trade or business is its taxable income figured with the following changes.

1. It is figured before deducting the section 179 deduction, any net operating loss deduction, and special

deductions (as reported on the corporation's income tax return).

2. It is adjusted for items of income or deduction included in the amount figured in (1) not derived from a trade or business actively conducted by the corporation during the tax year.

## **How Do You Elect the Deduction?**

### **Terms you may need to know (see Glossary):**

Listed property

Placed in service

**Election.** You elect to take the section 179 deduction by completing Part I of Form 4562.



*If you elect the deduction for listed property (described in chapter 5), complete Part V of Form 4562 before completing Part I.*



For property placed in service in 2023, file Form 4562 with either of the following.

- Your original 2023 tax return, whether or not you file it timely.
- An amended return for 2023 filed within the time prescribed by law. An 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.

You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how you acquired the property, the person you acquired it from, and when you placed it in service.

**Election for qualified section 179 real property.** You can elect to expense certain qualified real property that you placed in service as section 179 property for tax years beginning in 2023. For more information, see [\*Election\*](#) above. Also, see Revenue Procedure 20198 on page 347 of Internal Revenue Bulletin 20193, available at [\*IRS.gov/irb/201903 IRB#RP201908\*](https://www.irs.gov/irb/201903_IRB#RP201908).

**Revoking an election.** An election (or any specification made in the election) to take a section 179 deduction for 2023 can be revoked without IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law. The amended return must also include any resulting adjustments to taxable income. Once made, the revocation is irrevocable.

# **When Must You Recapture the Deduction?**

## **Terms you may need to know (see Glossary):**

Disposition

Exchange

Recapture

Recovery period

Section 1245 property

You may have to recapture the section 179 deduction if, in any year during the property's recovery period, the percentage of business use drops to 50% or less. In the year the business use drops to 50% or less, you include the recapture amount as ordinary income in Part IV of Form 4797. You also increase the basis of the property by the recapture amount. Recovery periods for

property are discussed under [Which Recovery Period Applies?](#) in chapter 4.



*If you sell, exchange, or otherwise dispose of the property, do not figure the recapture amount under the rules explained in this discussion. Instead, use the rules for recapturing depreciation explained in chapter 3 of Pub. 544 under Section 1245 Property. For qualified real property, see Notice 201359 for determining the portion of the gain that is attributable to section 1245 property upon the sale or other disposition of qualified real property. You can find Notice 201359 at [IRS.gov/irb/201340\\_IRB/ar14.html](https://www.irs.gov/irb/201340_IRB/ar14.html).*



*If the property is listed property (described in [chapter 5](#)), do not figure the recapture amount under the rules explained in this discussion when the percentage of business use drops to 50% or less. Instead, use the rules for recapturing*

*excess depreciation in chapter 5 under [What Is the Business Use Requirement.](#)*

**Figuring the recapture amount.** To figure the amount to recapture, take the following steps.

1. Figure the depreciation that would have been allowable on the section 179 deduction you claimed. Begin with the year you placed the property in service and include the year of recapture.
2. Subtract the depreciation figured in (1) from the section 179 deduction you claimed. The result is the amount you must recapture.

**Example.** In January 2021, Paul Lamb, a calendar year taxpayer, bought and placed in service section 179 property costing \$10,000. The property is not listed property. The property is 3year property. Paul elected a \$5,000 section 179 deduction for the property

and also elected not to claim a special depreciation allowance. Paul used the property only for business in 2021 and 2022. In 2023, Paul used the property 40% for business and 60% for personal use. Paul figures the recapture amount as follows.

Section 179 deduction claimed (2019) . . . . . \$5,000.00

***Minus:*** Allowable depreciation using Table A-1

(instead of section 179 deduction):

2021 . . . . . \$1,666.50

2022 . . . . . 2,222.50

2023 ( $\$740.50 \times 40\%$  (0.40)

(business)) . . . . . 296.20

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4,185.20

**2023 — Recapture amount** . . . . . **\$814.80**

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Paul must include \$814.80 in income for 2023.



*If any qualified zone property placed in service during a particular year ceases to be used in an empowerment zone by an enterprise zone business in a later year, the benefit of the increased section 179 deduction must be reported as other income on your return.*



# **3.**

## **Claiming the Special Depreciation Allowance**

### **Introduction**

You can take a special depreciation allowance to recover part of the cost of qualified property (defined next) placed in service during the tax year. The allowance applies only for the first year you place the property in service. The allowance is an additional deduction you can take after any section 179 deduction and before you figure regular depreciation under MACRS for the year you place the property in service.

This chapter explains what is qualified property. It also includes rules regarding how to figure an allowance, how to elect not to claim an allowance, and when you must recapture an allowance.

See [How To Get Tax Help](#) for information about getting publications and forms.

## **What Is Qualified Property?**

### **Terms you may need to know (see Glossary):**

Business/investment use

Improvement

Nonresidential real property

Placed in service

Residential rental property

Structural components

Your property is qualified property if it is one of the following.

- Qualified reuse and recycling property.
- Certain qualified property acquired after September 27, 2017.
- Certain plants bearing fruits and nuts.

The following discussions provide information about the types of qualified property listed above for which you can take the special depreciation allowance.

## **Qualified Reuse and Recycling Property**

You can take a 50% special depreciation allowance for qualified reuse and recycling property. Qualified reuse and recycling property is any machinery or equipment (not including buildings or real estate), along with any appurtenance, that is used exclusively to collect, distribute, or recycle qualified reuse and recyclable materials (as defined in section 168(m)(3)(B) of the Internal Revenue Code). Qualified reuse and recycling property also includes software necessary to operate such equipment. The property must meet the following requirements.

- The property must be depreciated under MACRS.

- The property must have a useful life of at least 5 years.
- The original use of the property must begin with you after August 31, 2008.
- You must have acquired the property by purchase (as discussed under [Property Acquired by Purchase](#) in chapter 2) after August 31, 2008, with no binding written contract for the acquisition in effect before September 1, 2008.
- The property must be placed in service for use in your trade or business after August 31, 2008.

## **Excepted Property**

Qualified reuse and recycling property does not include any of the following.

- Any rolling stock or other equipment used to transport reuse or recyclable materials.
- Property required to be depreciated using the Alternative Depreciation System

(ADS). For other property required to be depreciated using ADS, see *Required use of ADS* under *Which Depreciation System (GDS or ADS) Applies?* in chapter 4.

- Other bonus depreciation property to which section 168(k) of the Internal Revenue Code applies.
- Property for which you elected not to claim any special depreciation allowance (discussed later).
- Property placed in service and disposed of in the same tax year.
- Property converted from business use to personal use in the same tax year acquired. Property converted from personal use to business use in the same or later tax year may be qualified reuse and recycling property.

## **Certain Qualified Property Acquired After September 27, 2017**

You can elect to take an 80% special depreciation allowance for property acquired after September 27, 2017, and placed in service after December 31, 2022, and before January 1, 2024 (other than certain property with a long production period and certain aircraft). You can elect to take a 100% special depreciation allowance for certain property with a long production period and certain aircraft placed in service before January 1, 2024. Your property is qualified property if it meets the following.

- Tangible property depreciated under MACRS with a recovery period of 20 years or less.
- Computer software defined in and depreciated under section 167(f)(1) of the Internal Revenue Code.
- Water utility property.

- Qualified film, television, and live theatrical productions, as defined in sections 181(d) and (e) of the Internal Revenue Code.
- A specified plant for which you made the election to apply section 168(k)(5) for the tax year in which the plant is planted or grafted (explained later under [\*Certain Plants Bearing Fruits and Nuts\*](#)).
- It is not excepted property (explained later under [\*Excepted Property\*](#)).

Qualified property must also be placed in service before January 1, 2027 (or before January 1, 2028, for certain property with a long production period and for certain aircraft), and can be either new property or certain used property.

**Note.** For certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property

with a long production period and certain aircraft), you can elect to take a 60% special depreciation allowance. For certain property with a long production period and certain aircraft placed in service after December 31, 2023, and before January 1, 2025, you can elect to take an 80% special depreciation allowance.

### **Long Production Period Property**

To be qualified property, long production period property must meet the following requirements.

- The property has a recovery period of at least 10 years or is transportation property. Transportation property is tangible personal property used in the trade or business of transporting persons or property.
- The property is subject to section 263A of the Internal Revenue Code.



- The property has an estimated production period exceeding 1 year and an estimated production cost exceeding \$1 million.
- You must have acquired the property, or acquired the property pursuant to a written contract entered into, before January 1, 2027.

See section 168(k)(2)(B) of the Internal Revenue Code.

## **Noncommercial Aircraft**

To be qualified property, noncommercial aircraft must meet the following requirements.

- The aircraft must not be tangible personal property used in the trade or business of transporting persons or property (except for agricultural or firefighting purposes).
- The aircraft must be purchased (as discussed under [\*Property Acquired by Purchase\*](#) in chapter 2) by a purchaser who

at the time of the contract for purchase makes a nonrefundable deposit of the lesser of 10% of the cost or \$100,000.

- The aircraft must have an estimated production period exceeding 4 months and a cost exceeding \$200,000.
- You must have acquired the aircraft, or acquired the aircraft pursuant to a written contract entered into, before January 1, 2027.

See section 168(k)(2)(C) of the Internal Revenue Code.

## **Special Rules**

**Syndicated leasing transactions.** If qualified property is originally placed in service by a lessor, the property is sold within 3 months of the date it was placed in service, and the user of the property does not change, then the property is treated as originally

placed in service by the taxpayer no earlier than the date of the last sale.

Multiple units of property subject to the same lease will be treated as originally placed in service no earlier than the date of the last sale if the property is sold within 3 months after the final unit is placed in service and the period between the time the first and last units are placed in service does not exceed 12 months.

## **Excepted Property**

Qualified property acquired after September 27, 2017, does not include any of the following.

- Property placed in service, or planted or grafted, and disposed of in the same tax year.
- Property converted from business use to personal use in the same tax year acquired. Property converted from personal use to business use in the same

or later tax year may be qualified property.

- Property required to be depreciated under the Alternative Depreciation System (ADS). This includes listed property used 50% or less in a qualified business use. For other property required to be depreciated using ADS, see [\*Required use of ADS\*](#) under [\*Which Depreciation System \(GDS or ADS\) Applies?\*](#) in chapter 4.
- Property for which you elected not to claim any special depreciation allowance (discussed later).
- Property described in section 168(k)(9)(A) and placed in service in any tax year beginning after December 31, 2017.
- Property described in section 168(k)(9)(B) and placed in service in any tax year beginning after December 31, 2017.

# **Certain Plants Bearing Fruits and Nuts**

You can elect to claim an 80% special depreciation allowance for the adjusted basis of certain specified plants (defined later) bearing fruits and nuts planted or grafted after December 31, 2022, and before January 1, 2024.

A specified plant is:

- Any tree or vine that bears fruits or nuts, and
- Any other plant that will have more than one yield of fruits or nuts and generally has a pre-productive period of more than 2 years from planting or grafting to the time it begins bearing fruits or nuts.

Any property planted or grafted outside the United States does not qualify as a specified plant.

If you elect to claim the special depreciation allowance for any specified plant, the special depreciation allowance applies only for the tax year in which the plant is planted or grafted. The plant will not be treated as qualified property eligible for the special depreciation allowance in the subsequent tax year in which it is placed in service.

To make the election, attach a statement to your timely filed return (including extensions) for the tax year in which you plant or graft the specified plant(s), indicating you are electing to apply section 168(k)(5) and identifying the specified plant(s) for which you are making the election. The election once made cannot be revoked without IRS consent.

**Note.** For certain specified plants bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025, you can elect to claim a 60% special depreciation allowance.

See section 168(k)(5) of the Internal Revenue Code.

## **How Much Can You Deduct?**

### **Terms you may need to know (see Glossary):**

Adjusted basis

Basis

Placed in service

Figure the special depreciation allowance by multiplying the depreciable basis of qualified reuse and recycling property, certain qualified property acquired after September 27, 2017, and certain plants bearing fruits and nuts by the applicable percentage.

For qualified property other than listed property, enter the special depreciation allowance on Form 4562, Part II, line 14. For qualified property that is listed property,

enter the special depreciation allowance on Form 4562, Part V, line 25.



*If you place qualified property in service in a short tax year, you can take the full amount of a special depreciation allowance.*

**Depreciable basis.** This is the property's cost or other basis multiplied by the percentage of business/investment use, reduced by the total amount of any credits and deductions allocable to the property.

The following are examples of some credits and deductions that reduce depreciable basis.

- Any section 179 deduction.
- Any deduction for removal of barriers to the disabled and the elderly.
- Any disabled access credit, enhanced oil recovery credit, and credit for employer-provided childcare facilities and services.



- Basis adjustment to investment credit property under section 50(c) of the Internal Revenue Code.
- Section 181 expense deduction.

For additional credits and deductions that affect basis, see section 1016 of the Internal Revenue Code.

For information about how to determine the cost or other basis of property, see [\*What Is the Basis of Your Depreciable Property?\*](#) in chapter 1. For a discussion of business/investment use, see [\*Partial business or investment use\*](#) under [\*Property Used in Your Business or Income-Producing Activity\*](#) in chapter 1.

**Depreciating the remaining cost.** After you figure your special depreciation allowance for your qualified property, you can use the remaining cost to figure your regular MACRS depreciation deduction (discussed in [\*chapter 4\*](#)). Therefore, you must reduce the

depreciable basis of the property by the special depreciation allowance before figuring your regular MACRS depreciation deduction.

**Example.** On July 1, 2023, you placed in service in your business qualified property (that is not long production period property or certain aircraft) that cost \$450,000 and that you acquired after September 27, 2017. You did not elect to claim a section 179 deduction. You deduct 80% of the cost (\$360,000) as a special depreciation allowance for 2023. You use the remaining cost of the property to figure a regular MACRS depreciation deduction for your property for 2023 and later years.

**Like-kind exchanges and involuntary conversions.** If you acquired qualified property in a like-kind exchange or involuntary conversion after September 27, 2017, and the qualified property is new property, the carryover basis and any excess

basis of the acquired property is eligible for the special depreciation allowance.

If you acquired qualified property in a like-kind exchange or involuntary conversion after September 27, 2017, and the qualified property is used property, only the excess basis of the acquired property is eligible for the special depreciation allowance. After you figure your special depreciation allowance, you can use the remaining carryover basis to figure your regular MACRS depreciation deduction. See [\*Figuring the Deduction for Property Acquired in a Nontaxable Exchange\*](#) in chapter 4 under [\*How Is the Depreciation Deduction Figured\*](#).

## **How Can You Elect Not To Claim an Allowance?**

You can elect, for any class of property, not to deduct any special depreciation allowances for all property in such class placed in service during the tax year.

To make an election, attach a statement to your return indicating what election you are making and the class of property for which you are making the election.

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

**When to make election.** Generally, you must make the election on a timely filed tax return (including extensions) for the year in which you place the property in service.

However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within 6 months of the due date of the original return (not including extensions).

Attach the election statement to the amended

return. On the amended return, write "Filed pursuant to section 301.9100-2."

**Revoking an election.** Once you elect not to deduct a special depreciation allowance for a class of property, you cannot revoke the election without IRS consent. A request to revoke the election is a request for a letter ruling.



*If you elect not to have any special depreciation allowance apply, the property placed in service after 2015 will not be subject to an alternative minimum tax adjustment for depreciation.*

## When Must You Recapture an Allowance?

When you dispose of property for which you claimed a special depreciation allowance, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the special depreciation allowance previously allowed or allowable.

See [When Do You Recapture MACRS Depreciation?](#) in chapter 4 for more information.

**Recapture of allowance deducted for qualified GO Zone property.** If, in any year after the year you claim the special depreciation allowance for qualified GO Zone property (including specified GO Zone extension property), the property ceases to be used in the GO Zone, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance. For additional

guidance, see Notice 2008-25 on page 484 of Internal Revenue Bulletin 2008-9, available at [IRS.gov/irb/2008-09\\_IRB/index.html](http://IRS.gov/irb/2008-09_IRB/index.html).

**Qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, and qualified second generation biofuel plant property.** If, in any year after the year you claim the special depreciation allowance for any qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, or qualified second generation biofuel plant property, the property ceases to be qualified cellulosic biomass ethanol plant property, qualified cellulosic biofuel plant property, or qualified second generation biofuel plant property, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance.

**Recapture of allowance for qualified Recovery Assistance property.** If, in any

year after the year you claim the special depreciation allowance for qualified Recovery Assistance property, the property ceases to be used in the Kansas disaster area, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance. For additional guidance, see Notice 2008-67 on page 307 of Internal Revenue Bulletin 2008-32, available at [IRS.gov/irb/2008-32\\_IRB/index.html](https://www.irs.gov/irb/2008-32_IRB/index.html).

**Recapture of allowance for qualified disaster assistance property.** If, in any year after the year you claim the special depreciation allowance for qualified disaster assistance property, the property ceases to be used in the applicable disaster area, you may have to recapture as ordinary income the excess benefit you received from claiming the special depreciation allowance.



## 4.

# Figuring Depreciation Under MACRS

## Introduction

The Modified Accelerated Cost Recovery System (MACRS) is used to recover the basis of most business and investment property placed in service after 1986. MACRS consists of two depreciation systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). Generally, these systems provide different methods and recovery periods to use in figuring depreciation deductions.



*To be sure you can use MACRS to figure depreciation for your property, see [What Method Can You Use To Depreciate Your Property?](#) in chapter 1.*

This chapter explains how to determine which MACRS depreciation system applies to your property. It also discusses other information you need to know before you can figure depreciation under MACRS. This information includes the property's recovery class, placed in service date, and basis, as well as the applicable recovery period, convention, and depreciation method. It explains how to use this information to figure your depreciation deduction and how to use a general asset account to depreciate a group of properties. Finally, it explains when and how to recapture MACRS depreciation.

## **Useful Items**

You may want to see:

### **Publication**

- ☐ **225** Farmer's Tax Guide
- ☐ **463** Travel, Gift, and Car Expenses

- **544** Sales and Other Dispositions of Assets
- **551** Basis of Assets
- **587** Business Use of Your Home

### **Form (and Instructions)**

- **2106** Employee Business Expenses
- **4562** Depreciation and Amortization

See [How To Get Tax Help](#) for information about getting publications and forms.

## **Which Depreciation System (GDS or ADS) Applies?**

### **Terms you may need to know (see Glossary):**

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Tangible property

Tax exempt

Your use of either the General Depreciation System (GDS) or the Alternative Depreciation System (ADS) to depreciate property under MACRS determines what depreciation method and recovery period you use. You must generally use GDS unless you are specifically required by law to use ADS or you elect to use ADS.

If you placed your property in service in 2023, complete Part III of Form 4562 to report depreciation using MACRS. Complete Section B of Part III to report depreciation using GDS, and complete Section C of Part III to report depreciation using ADS. If you placed your property in service before 2023 and are required to file Form 4562, report

depreciation using either GDS or ADS on line 17 in Part III.

**Required use of ADS.** You must use ADS for the following property.

- Nonresidential real property, residential real property, and qualified improvement property held by an electing real property trade or business (as defined in section 163(j)(7)(B) of the Internal Revenue Code). For more information, see Revenue Procedure 20198 on page 347 of Internal Revenue Bulletin 20193, available at [IRS.gov/irb/201903\\_IRB#RP201908](https://www.irs.gov/irb/201903_IRB#RP201908), as modified by Revenue Procedure 202128 on page 5 of Internal Revenue Bulletin 202127, available at [IRS.gov/irb/202127\\_IRB#RP202128](https://www.irs.gov/irb/202127_IRB#RP202128).
- Any property with a recovery period of 10 years or more under GDS held by an electing farming business (as defined in section 163(j)(7)(C) of the Internal Revenue Code). For more information, see

Revenue Procedure 20198 on page 347 of Internal Revenue Bulletin 20193, available at [IRS.gov/irb/201903 IRB#RP201908](https://www.irs.gov/irb/201903_IRB#RP201908).

- Any tax-exempt use property.
- Any tax-exempt bond-financed property.
- All property used predominantly in a farming business and placed in service in any tax year during which an election not to apply the uniform capitalization rules to certain farming costs is in effect.
- Any property imported from a foreign country for which an Executive order is in effect because the country maintains trade restrictions or engages in other discriminatory acts.
- Any tangible property used predominantly outside the United States during the tax year.

- Any listed property used 50% or less in a qualified business use during the tax year (discussed later in chapter 5).



*If you are required to use ADS to depreciate your property, you cannot claim any special depreciation allowance (discussed in [chapter 3](#)) for the property.*

**Electing ADS.** Although your property may qualify for GDS, you can elect to use ADS. The election must generally cover all property in the same property class that you placed in service during the year. However, the election for residential rental property and nonresidential real property can be made on a property-by-property basis. Once you make this election, you can never revoke it.

You make the election by completing Form 4562, Part III, line 20.

# **Which Property Class Applies Under GDS?**

## **Terms you may need to know (see Glossary):**

Class life

Nonresidential real property Placed in service

Property class Recovery period

Residential rental property Section 1245 property

Section 1250 property

The following is a list of the nine property classifications under GDS and examples of the types of property included in each class.

These property classes are also listed under column (a) in Section B of Part III of Form 4562. For detailed information on property classes, see [Appendix B](#), Table of Class Lives and Recovery Periods, in this publication.



**1. 3-year property.**

- a. Tractor units for over-the-road use.
- b. Any race horse over 2 years old when placed in service.
- c. Any other horse (other than a race horse) over 12 years old when placed in service.
- d. Qualified rent-to-own property (defined later).

**2. 5-year property.**

- a. Automobiles, taxis, buses, and trucks.
- b. Any qualified technological equipment.
- c. Office machinery (such as typewriters, calculators, and copiers).

- d. Any property used in research and experimentation.
- e. Breeding cattle and dairy cattle.
- f. Appliances, carpets, furniture, etc., used in a residential rental real estate activity.
- g. Certain geothermal, solar, and wind energy property.
- h. Any machinery equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business and placed in service after 2017, in tax years ending after 2017. The original use of the property must begin with you after 2017.

**3. *7-year property.***

- a. Office furniture and fixtures (such as desks, files, and safes).

- b. Used agricultural machinery and equipment placed in service after 2017, grain bins, cotton ginning assets, or fences used in a farming business (but no other land improvements).
- c. Railroad track.
- d. Any property that does not have a class life and has not been designated by law as being in any other class.
- e. Certain motorsports entertainment complex property (defined later).
- f. Any natural gas gathering line placed in service after April 11, 2005. See Natural gas gathering line and electric transmission property, later.

**4. 10-year property.**

- a. Vessels, barges, tugs, and similar water transportation equipment.
- b. Any single-purpose agricultural or horticultural structure.
- c. Any tree or vine bearing fruits or nuts.
- d. Qualified small electric meter and qualified smart electric grid system (defined later) placed in service on or after October 3, 2008.

**5. *15-year property.***

- a. Certain improvements made directly to land or added to it (such as shrubbery, fences, roads, sidewalks, and bridges).
- b. Any retail motor fuels outlet (defined later), such as a convenience store.

- c. Any municipal wastewater treatment plant.
- d. Initial clearing and grading land improvements for gas utility property.
- e. Electric transmission property (that is section 1245 property) used in the transmission at 69 or more kilovolts of electricity placed in service after April 11, 2005. See Natural gas gathering line and electric transmission property, later.
- f. Any natural gas distribution line placed in service after April 11, 2005, and before January 1, 2011.
- g. Any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.

- h. Qualified improvement property (defined later) placed in service after 2017.

**6. 20-year property.**

- a. Farm buildings (other than single-purpose agricultural or horticultural structures).
- b. Municipal sewers not classified as 25-year property.
- c. Initial clearing and grading land improvements for electric utility transmission and distribution plants.

**7. 25-year property.** This class is water utility property, which is either of the following.

- a. Property that is an integral part of the gathering, treatment, or commercial distribution of water, and that, without regard to this

provision, would be 20-year property.

- b. Municipal sewers other than property placed in service under a binding contract in effect at all times since June 9, 1996.

8. ***Residential rental property.*** This is any building or structure, such as a rental home (including a mobile home), if 80% or more of its gross rental income for the tax year is from dwelling units. A dwelling unit is a house or apartment used to provide living accommodations in a building or structure. It does not include a unit in a hotel, motel, or other establishment where more than half the units are used on a transient basis. If you occupy any part of the building or structure for personal use, its gross rental income includes the fair rental value of the part you occupy.

9. ***Nonresidential real property.*** This is section 1250 property, such as an office building, store, or warehouse, that is neither residential rental property nor property with a class life of less than 27.5 years.

**Qualified rent-to-own property.** Qualified rent-to-own property is property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract. It is tangible personal property generally used in the home for personal use. It includes computers and peripheral equipment, televisions, videocassette recorders, stereos, camcorders, appliances, furniture, washing machines and dryers, refrigerators, and other similar consumer durable property. Consumer durable property does not include real property, aircraft, boats, motor vehicles, or trailers.

If some of the property you rent to others under a rent-to-own agreement is of a type



that may be used by the renters for either personal or business purposes, you can still treat this property as qualified property as long as it does not represent a significant portion of your leasing property. However, if this dual-use property does represent a significant portion of your leasing property, you must prove that this property is qualified rent-to-own property.

***Rent-to-own dealer.*** You are a rent-to-own dealer if you meet all the following requirements.

- You regularly enter into rent-to-own contracts (defined below) in the ordinary course of your business for the use of consumer property.
- A substantial portion of these contracts end with the customer returning the property before making all the payments required to transfer ownership.

- The property is tangible personal property of a type generally used within the home for personal use.

***Rent-to-own contract.*** This is any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual, which meets all of the following requirements.

- Is titled "Rent-to-Own Agreement," "Lease Agreement with Ownership Option," or other similar language.
- Provides a beginning date and a maximum period of time, not to exceed 156 weeks or 36 months from the beginning date, for which the contract can be in effect (including renewals or options to extend).
- Provides for regular periodic (weekly or monthly) payments that can be either level or decreasing. If the payments are decreasing, no payment can be less than 40% of the largest payment.

- Provides for total payments that generally exceed the normal retail price of the property plus interest.
- Provides for total payments that do not exceed \$10,000 for each item of property.
- Provides that the customer has no legal obligation to make all payments outlined in the contract and that, at the end of each weekly or monthly payment period, the customer can either continue to use the property by making the next payment or return the property in good working order with no further obligations and no entitlement to a return of any prior payments.
- Provides that legal title to the property remains with the rent-to-own dealer until the customer makes either all the required payments or the early purchase payments required under the contract to acquire legal title.

- Provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, or otherwise dispose of the property until all contract payments have been made.

**Motorsports entertainment complex.** This is a racing track facility permanently situated on land that hosts one or more racing events for automobiles, trucks, or motorcycles during the 36-month period after the first day of the month in which the facility is placed in service. The events must be open to the public for the price of admission.

**Qualified smart electric grid system.** A qualified smart electric grid system means any smart grid property used as part of a system for electric distribution grid communications, monitoring, and management placed in service after October 3, 2008, by a taxpayer who is a supplier of electrical energy or a provider of electrical energy services. Smart grid property includes electronics and related equipment that is capable of:

- Sensing, collecting, and monitoring data of or from all portions of a utility's electric distribution grid;
- Providing real-time, two-way communications to monitor or to manage the grid; and
- Providing real-time analysis of an event prediction based on collected data that can be used to provide electric distribution system reliability, quality, and performance.

**Retail motor fuels outlet.** Real property is a retail motor fuels outlet if it is used to a substantial extent in the retail marketing of petroleum or petroleum products (whether or not it is also used to sell food or other convenience items) and meets any one of the following three tests.

- It is not larger than 1,400 square feet.

- 50% or more of the gross revenues generated from the property are derived from petroleum sales.
- 50% or more of the floor space in the property is devoted to petroleum marketing sales.

A retail motor fuels outlet does not include any facility related to petroleum and natural gas trunk pipelines.

### **Qualified improvement property.**

Generally, this is any improvement to an interior part of a building that is nonresidential real property, and the improvement is section 1250 property, is made by you, and is placed in service by you after 2017 and after the date the building was first placed in service by any person.

However, a qualified improvement does not include any improvement for which the expenditure is attributable to any of the following.

- The enlargement of the building.
- Any elevator or escalator.
- The internal structural framework of the building.

**Qualified smart electric meter.** A qualified smart electric meter is any time-based meter and related communication equipment, which is placed in service by a supplier of electric energy or a provider of electric energy services and which is capable of being used by you as part of a system that meets all of the following requirements.

- Measures and records electricity usage data on a time-differentiated basis in at least 24 separate time segments per day.
- Provides for the exchange of information between the supplier or provider and the customer's smart electric meter in support of time-based rates or other forms of demand response.

- Provides data to the supplier or provider so that the supplier or provider can provide energy usage information to customers electronically.
- Provides all commercial and residential customers of such supplier or provider with net metering. Net metering means allowing a customer a credit, if any, as complies with applicable federal and state laws and regulations for providing electricity to the supplier or provider.

**Natural gas gathering line and electric transmission property.** Any natural gas gathering line placed in service after April 11, 2005, is treated as 7-year property, and electric transmission property (that is section 1245 property) used in the transmission at 69 or more kilovolts of electricity and any natural gas distribution line placed in service after April 11, 2005, are treated as 15-year property, if the following requirements are met.



- The original use of the property must have begun with you after April 11, 2005. Original use means the first use to which the property is put, whether or not by you. Therefore, property used by any person before April 12, 2005, is not original use. Original use includes additional capital expenditures you incurred to recondition or rebuild your property. However, original use does not include the cost of reconditioned or rebuilt property you acquired. Property containing used parts will not be treated as reconditioned or rebuilt if the cost of the used parts is not more than 20% of the total cost of the property.
- The property must not be placed in service under a binding contract in effect before April 12, 2005.
- The property must not be self-constructed property (property you manufacture, construct, or produce for your own use), if

you began the manufacture, construction, or production of the property before April 12, 2005. Property that is manufactured, constructed, or produced for your use by another person under a written binding contract entered into by you or a related party before the manufacture, construction, or production of the property is considered to be manufactured, constructed, or produced by you.

## **What Is the Placed in Service Date?**

### **Terms you may need to know (see Glossary):**

Placed in service

You begin to claim depreciation when your property is placed in service for either use in a trade or business or the production of income. The placed in service date for your property is the date the property is ready and

available for a specific use. It is therefore not necessarily the date it is first used. If you converted property held for personal use to use in a trade or business or for the production of income, treat the property as being placed in service on the conversion date. See [\*Placed in Service\*](#) under [\*When Does Depreciation Begin and End?\*](#) in chapter 1 for examples illustrating when property is placed in service.

## **What Is the Basis for Depreciation?**

### **Terms you may need to know (see Glossary):**

#### **Basis**

The basis for depreciation of MACRS property is the property's cost or other basis multiplied by the percentage of business/investment use. For a discussion of business/ investment use, see [\*Partial business or investment use\*](#)

under [Property Used in Your Business or Income-Producing Activity](#) in chapter 1. Reduce that amount by any credits and deductions allocable to the property. The following are examples of some credits and deductions that reduce basis.

- Any deduction for section 179 property.
- Any deduction under section 179B of the Internal Revenue Code for capital costs to comply with Environmental Protection Agency sulfur regulations.
- Any deduction under section 179D of the Internal Revenue Code for certain energy efficient commercial building property.
- Any deduction for removal of barriers to the disabled and the elderly.
- Any disabled access credit, enhanced oil recovery credit, and credit for employer-provided childcare facilities and services.
- Any special depreciation allowance.

- Basis adjustment for investment credit property under section 50(c) of the Internal Revenue Code.
- Basis adjustment for advanced manufacturing investment credit property. See section 48D(d)(5) of the Internal Revenue Code.

For additional credits and deductions that affect basis, see section 1016 of the Internal Revenue Code.

Enter the basis for depreciation under column (c) in Part III of Form 4562. For information about how to determine the cost or other basis of property, see [\*What Is the Basis of Your Depreciable Property?\*](#) in chapter 1.

## **Which Recovery Period Applies?**

### **Terms you may need to know (see Glossary):**

Active conduct of a trade or business

Basis

Improvement

Listed property

Nonresidential real property

Placed in service

Property class

Recovery period

Residential rental property

Section 1245 property

The recovery period of property is the number of years over which you recover its cost or other basis. It is determined based on the depreciation system (GDS or ADS) used.

## **Recovery Periods Under GDS**

Under GDS, property is depreciated over one of the following recovery periods.

<b>Property Class</b>	<b>Recovery Period</b>
3-year property.....	3 years 1
5-year property.....	5 years
7-year property.....	7 years
10-year property.....	10 years
15-year property.....	15 years 2
20-year property.....	20 years
25-year property.....	25 years 3
Residential rental property	27.5 years
Nonresidential real property	39 years 4

1 5 years for qualified rent-to-own property placed in service before August 6, 1997.

2 39 years for property that is a retail motor fuels outlet placed in service before August 20, 1996 (31.5 years if placed in service before May 13, 1993), unless you elected to depreciate it over 15 years.

3 20 years for property placed in service before June 13, 1996, or under a binding contract in effect before June 10, 1996.

4 31.5 years for property placed in service before May 13, 1993 (or before January 1, 1994, if the purchase or construction of the property is under a binding contract in effect before May 13, 1993, or if construction began before May 13, 1993).

The GDS recovery periods for property not listed above can be found in [Appendix B](#),



Table of Class Lives and Recovery Periods.  
Residential rental property and nonresidential real property are defined earlier under [Which Property Class Applies Under GDS](#).

Enter the appropriate recovery period on Form 4562 under column (d) in Section B of Part III, unless already shown (for 25-year property, residential rental property, and nonresidential real property).

**Office in the home.** If your home is a personal-use single family residence and you begin to use part of your home as an office, depreciate that part of your home as nonresidential real property over 39 years (31.5 years if you began using it for business before May 13, 1993). However, if your home is an apartment in an apartment building that you own and the building is residential rental property, as defined earlier under [Which Property Class Applies Under GDS](#), depreciate the part used as an office as residential rental property over 27.5 years. See Pub. 587 for a

discussion of the tests you must meet to claim expenses, including depreciation, for the business use of your home.

**Home changed to rental use.** If you begin to rent a home that was your personal home before 1987, you depreciate it as residential rental property over 27.5 years.

## **Recovery Periods Under ADS**

The recovery periods for most property are generally longer under ADS than they are under GDS. The following table shows some of the ADS recovery periods.

<b>Property</b>	<b>Recovery Period</b>
Rent-to-own property.....	4 years

Automobiles and light duty trucks	5 years
Computers and peripheral equipment....	5 years
High technology telephone station equipment installed on customer premises.....	5 years
High technology medical equipment.....	5 years
Personal property with no class life.....	12 years
Natural gas gathering lines....	14 years
Single-purpose agricultural and horticultural structures...	15 years

Any tree or vine bearing fruits or nuts....	20 years
Initial clearing and grading land improvements for gas utility property...	20 years
Initial clearing and grading land improvements for electric utility transmission and distribution plants...	25 years
Electric transmission property used in the transmission at 69 or more kilovolts of electricity.....	30 years
Natural gas distribution lines..	35 years
Nonresidential real property...	40 years

Residential rental property.....	30 years 1
Section 1245 real property not listed in Appendix B.....	40 years
Railroad grading and tunnel bore	50 years
<p>1 40 years for property placed in service before January 1, 2018. Note. The ADS recovery period for residential rental property placed in service before January 1, 2018, is 30 years if the property is held by an electing real property trade or business (as defined in section 163(j)(7)(B)) and section 168(g)(1)(A), (B), (C), (D), or (E) did not apply to the property before January 1, 2018.</p>	

The ADS recovery periods for property not listed above can be found in the tables in [Appendix B](#). Rent-to-own property, residential

rental property, and nonresidential real property are defined earlier under [Which Property Class Applies Under GDS.](#)

**Tax-exempt use property subject to a lease.** The ADS recovery period for any property leased under a lease agreement to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership) cannot be less than 125% of the lease term.

## **Additions and Improvements**

An addition or improvement you make to depreciable property is treated as separate depreciable property. See [How Do You Treat Repairs and Improvements?](#) in chapter 1 for a definition of improvements. Its property class and recovery period are the same as those that would apply to the original property if you had placed it in service at the same time you placed the addition or improvement in

service. The recovery period begins on the later of the following dates.

- The date you place the addition or improvement in service.
- The date you place in service the property to which you made the addition or improvement.

**Example.** You own a rental home that you have been renting out since 1981. If you put an addition on the home and place the addition in service this year, you would use MACRS to figure your depreciation deduction for the addition. Under GDS, the property class for the addition is residential rental property and its recovery period is 27.5 years because the home to which the addition is made would be residential rental property if you had placed it in service this year.

# **Which Convention Applies?**

## **Terms you may need to know (see Glossary):**

Basis

Convention

Disposition

Nonresidential real property

Placed in service

Recovery period

Residential rental property

Under MACRS, averaging conventions establish when the recovery period begins and ends. The convention you use determines the number of months for which you can claim depreciation in the year you place property in service and in the year you dispose of the property.