

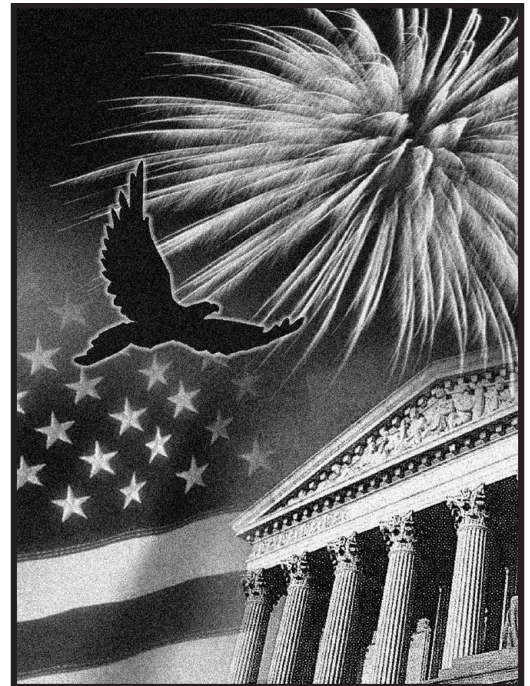
Publication 946

How To Depreciate Property

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

For use in preparing **2023** Returns

Volume 4 of 6



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Department of the Treasury
Internal Revenue Service

Publication 946 (Rev. 2023) Catalog Number 39330R
Department of the Treasury **Internal Revenue Service** www.irs.gov



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Expensed costs. Expensed costs that are subject to recapture as depreciation include the following.

1. The section 179 deduction.
2. Amortization deductions for the following.
 - a. Pollution control facilities.
 - b. Removal of barriers for the elderly and disabled.
 - c. Tertiary injectants.
 - d. Reforestation expenses.

Example 1. The facts are the same as in the example under [Figuring Depreciation for a GAA](#), earlier. In February 2024, Make & Sell sells the machine that cost \$8,200 to an unrelated person for \$9,000. The machine is treated as having an adjusted basis of zero.

On its 2024 tax return, Make & Sell recognizes the \$9,000 amount realized as

ordinary income because it is not more than the GAA's unadjusted depreciable basis (\$10,000) plus any expensed cost (for example, the section 179 deduction) for property in the GAA (\$0), minus any amounts previously recognized as ordinary income because of dispositions of other property from the GAA (\$0).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the sale of the machine. The depreciation allowance for the GAA in 2024 is \$3,200 $[(\$10,000 - \$2,000) \times 40\% (0.40)]$.

Example 2. Assume the same facts as in *Example 1*. In June 2025, Make & Sell sells seven machines to an unrelated person for a total of \$1,100. These machines are treated as having an adjusted basis of zero.

On its 2025 tax return, Make & Sell recognizes \$1,000 as ordinary income. This is the GAA's unadjusted depreciable basis

(\$10,000) plus the expensed costs (\$0), minus the amount previously recognized as ordinary income (\$9,000). The remaining amount realized of \$100 (\$1,100 – \$1,000) is section 1231 gain (discussed in chapter 3 of Pub. 544).

The unadjusted depreciable basis and depreciation reserve of the GAA are not affected by the disposition of the machines. The depreciation allowance for the GAA in 2025 is \$1,920 $[(\$10,000 - \$5,200) \times 40\% (0.40)]$.

Terminating GAA Treatment

You must remove the following property from a GAA.

- Property held by a partnership that terminates under section 708(b)(1).
- Property you dispose of in a nonrecognition transaction or an abusive transaction.

- Property you dispose of in a qualifying disposition or in a disposition of all the property in the GAA, if you choose to terminate GAA treatment.
- Property you dispose of in a like-kind exchange or an involuntary conversion.
- Property you change to personal use.
- Property for which you must recapture any allowable credit or deduction, such as the investment credit, the credit for qualified electric vehicles, the credit for alternative fuel vehicle refueling property, the section 179 deduction, or the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property placed in service before 2006.

If you remove property from a GAA, you must make the following adjustments.

1. Reduce the unadjusted depreciable basis of the GAA by the unadjusted depreciable basis of the property as of

the first day of the tax year in which the disposition, change in use, partnership technical termination, or recapture event occurs. You can use any reasonable method that is consistently applied to determine the unadjusted depreciable basis of the property you remove from a GAA.

2. Reduce the depreciation reserve account by the depreciation allowed or allowable for the property (computed in the same way as computed for the GAA) as of the end of the tax year immediately preceding the year in which the disposition, change in use, or recapture event occurs.

These adjustments have no effect on the recognition and character of prior dispositions subject to the rules discussed earlier under [*Disposing of GAA Property*](#).

Nonrecognition transactions. If you dispose of GAA property in a nonrecognition transaction, you must remove it from the GAA. The following are nonrecognition transactions.

- The receipt by one corporation of property distributed in complete liquidation of another corporation.
- The transfer of property to a corporation solely in exchange for stock in that corporation if the transferor is in control of the corporation immediately after the exchange.
- The transfer of property by a corporation that is a party to a reorganization in exchange solely for stock and securities in another corporation that is also a party to the reorganization.
- The contribution of property to a partnership in exchange for an interest in the partnership.

- The distribution of property (including money) from a partnership to a partner.
- Any transaction between members of the same affiliated group during any year for which the group makes a consolidated return.

Rules for recipient (transferee). The recipient of the property (the person to whom it is transferred) must include your (the transferor's) adjusted basis in the property in a GAA. If you transferred either all of the property, the last item of property, or the remaining portion of the last item of property, in a GAA, the recipient's basis in the property is the result of the following.

- The adjusted depreciable basis of the GAA as of the beginning of your tax year in which the transaction takes place, **minus**
- The depreciation allowable to you for the year of the transfer.

For this purpose, the adjusted depreciable basis of a GAA is the unadjusted depreciable basis of the GAA minus any depreciation allowed or allowable for the GAA.

Abusive transactions. If you dispose of GAA property in an abusive transaction, you must remove it from the GAA. A disposition is an abusive transaction if it is not a nonrecognition transaction (described earlier) or a like-kind exchange or involuntary conversion and a main purpose for the disposition is to get a tax benefit or a result that would not be available without the use of a GAA. Examples of abusive transactions include the following.

1. A transaction with a main purpose of shifting income or deductions among taxpayers in a way that would not be possible without choosing to use a GAA to take advantage of differing effective tax rates.

2. A choice to use a GAA with a main purpose of disposing of property from the GAA so that you can use an expiring net operating loss or credit. For example, if you have a net operating loss carryover or a credit carryover, the following transactions will be considered abusive transactions unless there is strong evidence to the contrary.
 - a. A transfer of GAA property to a related person.
 - b. A transfer of GAA property under an agreement where the property continues to be used, or is available for use, by you.

Figuring gain or loss. You must determine the gain, loss, or other deduction due to an abusive transaction by taking into account the property's adjusted basis. The adjusted basis of the property at the time of the disposition is the result of the following.

- The unadjusted depreciable basis of the property, **minus**
- The depreciation allowed or allowable for the property figured by using the depreciation method, recovery period, and convention that applied to the GAA in which the property was included.

If there is a gain, the amount subject to recapture as ordinary income is the smaller of the following.

1. The depreciation allowed or allowable for the property, including any expensed cost (such as section 179 deductions) or the special depreciation allowance for the property.
2. The result of the following.
 - a.** The original unadjusted depreciable basis of the GAA (plus, for section 1245 property

originally included in the GAA,
any expensed cost), **minus**

- b. The total gain previously
recognized as ordinary income on
the disposition of property from
the GAA.

Qualifying dispositions. If you dispose of GAA property in a qualifying disposition, you can choose to remove the property from the GAA. A qualifying disposition is one that does not involve all the property, or the last item of property, remaining in a GAA and that is described by any of the following.

1. A disposition that is a direct result of fire, storm, shipwreck, other casualty, or theft.
2. A charitable contribution for which a deduction is allowed.
3. A disposition that is a direct result of a cessation, termination, or disposition

of a business, manufacturing or other income-producing process, operation, facility, plant, or other unit (other than by transfer to a supplies, scrap, or similar account).

4. A nontaxable transaction other than a nonrecognition transaction (described earlier), a like-kind exchange or involuntary conversion, a technical termination of a partnership, or a transaction that is nontaxable only because it is a disposition from a GAA.

If you choose to remove the property from the GAA, figure your gain, loss, or other deduction resulting from the disposition in the manner described earlier under [Abusive transactions](#).

b. If you dispose of GAA property as a result of a like-kind exchange or involuntary conversion, you must remove from the GAA the property that you transferred. See

chapter 1 of Pub. 544 for information on these transactions. Figure your gain, loss, or other deduction resulting from the disposition in the manner described earlier under [Abusive transactions](#).

Example. Sankofa, a calendar year corporation, maintains one GAA for 12 machines. Each machine costs \$15,000 and was placed in service in 2021. Of the 12 machines, nine cost a total of \$135,000 and are used in Sankofa's New York plant and three machines cost \$45,000 and are used in Sankofa's New Jersey plant. Assume this GAA uses the 200% declining balance depreciation method, a 5-year recovery period, and a half-year convention. Sankofa does not claim the section 179 deduction and the machines do not qualify for a special depreciation allowance. As of January 1, 2023, the depreciation reserve account for the GAA is \$93,600.

In May 2023, Sankofa sells its entire manufacturing plant in New Jersey to an unrelated person. The sales proceeds allocated to each of the three machines at the New Jersey plant is \$5,000. This transaction is a qualifying disposition, so Sankofa chooses to remove the three machines from the GAA and figure the gain, loss, or other deduction by taking into account their adjusted bases.

For Sankofa's 2023 return, the depreciation allowance for the GAA is figured as follows. As of December 31, 2022, the depreciation allowed or allowable for the three machines at the New Jersey plant is \$23,400. As of January 1, 2023, the unadjusted depreciable basis of the GAA is reduced from \$180,000 to \$135,000 (\$180,000 minus the \$45,000 unadjusted depreciable bases of the three machines), and the depreciation reserve account is decreased from \$93,600 to \$70,200 (\$93,600 minus \$23,400 depreciation allowed or allowable for the

three machines as of December 31, 2022). The depreciation allowance for the GAA in 2023 is \$25,920 $[(\$135,000 - \$70,200) \times 40\% (0.40)]$.

For Sankofa's 2023 return, gain or loss for each of the three machines at the New Jersey plant is determined as follows. The depreciation allowed or allowable in 2023 for each machine is \$1,440 $[((\$15,000 - \$7,800) \times 40\% (0.40)) \div 2]$. The adjusted basis of each machine is \$5,760 (the adjusted depreciable basis of \$7,200 removed from the account less the \$1,440 depreciation allowed or allowable in 2023). As a result, the loss recognized in 2023 for each machine is \$760 $(\$5,760 - \$5,000)$. This loss is subject to section 1231 treatment. See chapter 3 of Pub. 544 for information on section 1231 losses.

Disposition of all property in a GAA. If you dispose of all the property, or the last item of property, in a GAA, you can choose to end the

GAA. If you make this choice, you figure the gain or loss by comparing the adjusted depreciable basis of the GAA with the amount realized.

If there is a gain, the amount subject to recapture as ordinary income is limited to the result of the following.

- The depreciation allowed or allowable for the GAA, including any expensed cost (such as section 179 deductions or the additional depreciation allowed or allowable for the GAA), **minus**
- The total gain previously recognized as ordinary income on the disposition of property from the GAA.

Like-kind exchanges and involuntary conversions. If you dispose of all the property or the last item of property in a GAA as a result of a like-kind exchange or involuntary conversion, the GAA terminates. You must figure the gain or loss in the

manner described above under [Disposition of all property in a GAA.](#)

Example. Duforcelf, a calendar year corporation, maintains a GAA for 1,000 calculators that cost a total of \$60,000 and were placed in service in 2020. Assume this GAA is depreciated under the 200% declining balance method, has a recovery period of 5 years, and uses a half-year convention. Duforcelf does not claim the section 179 deduction and the calculators do not qualify for a special depreciation allowance. In 2022, Duforcelf sells 200 of the calculators to an unrelated person for \$10,000. The \$10,000 is recognized as ordinary income.

In March 2023, Duforcelf sells the remaining calculators in the GAA to an unrelated person for \$35,000. Duforcelf decides to end the GAA.

On the date of the disposition, the adjusted depreciable basis of the account is \$23,040 (unadjusted depreciable basis of \$60,000 minus the depreciation allowed or allowable of \$36,960). In 2023, Duforcelf recognizes a gain of \$11,960. This is the amount realized of \$35,000 minus the adjusted depreciable basis of \$23,040. The gain subject to recapture as ordinary income is limited to the depreciation allowed or allowable minus the amounts previously recognized as ordinary income ($\$36,960 - \$10,000 = \$26,960$). Therefore, the entire gain of \$11,960 is recaptured as ordinary income.

Electing To Use a GAA

An election to include property in a GAA is made separately by each owner of the property. This means that an election to include property in a GAA must be made by each member of a consolidated group and at the partnership or S corporation level (and

not by each partner or shareholder separately).

How to make the election. Make the election by completing line 18 of Form 4562.

When to make the election. You must make the election on a timely filed tax return (including extensions) for the year in which you place in service the property included in the GAA. 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 return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement.



You must maintain records that identify the property included in each GAA, that establish the unadjusted depreciable basis and depreciation reserve of

the GAA, and that reflect the amount realized during the year upon dispositions from each GAA. However, see [chapter 2](#) for the recordkeeping requirements for section 179 property.

Revoking an election. You can revoke an election to use a GAA only in the following situations.

- You include in the GAA property that generates foreign source income both U.S. and foreign source income, or combined gross income of a foreign sales corporation, a domestic international sales corporation, or a possessions corporation and its related supplier, and that inclusion results in a substantial distortion of income.
- You remove property from the GAA, as described under [Terminating GAA Treatment](#), earlier.

When Do You Recapture MACRS Depreciation?

Terms you may need to know (see Glossary):

Disposition

Nonresidential real property

Recapture

Residential rental property

When you dispose of property that you depreciated using MACRS, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the depreciation previously allowed or allowable for the property. Depreciation, for this purpose, includes the following.

- Any section 179 deduction claimed on the 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 179C of the Internal Revenue Code for certain qualified refinery property placed in service after August 8, 2005, and before January 1, 2014.
- Any deduction under section 179D of the Internal Revenue Code for certain energy efficient commercial building property placed in service after December 31, 2005.
- Any deduction under section 179E of the Internal Revenue Code for qualified advanced mine safety equipment property placed in service after December 20, 2006, and before January 1, 2018.
- Any deduction under section 190 of the Internal Revenue Code for removal of barriers to the disabled and the elderly.

- Any deduction under section 193 of the Internal Revenue Code for tertiary injectants.
- Any special depreciation allowance previously allowed or allowable for the property (unless you elected not to claim it).

There is no recapture for residential rental and nonresidential real property unless that property is qualified property for which you claimed a special depreciation allowance. For more information on depreciation recapture, see Pub. 544.

5.

Additional Rules for Listed Property

Introduction

This chapter discusses the deduction limits and other special rules that apply to certain listed property. Listed property includes cars and other property used for transportation, property used for entertainment, and certain computers.

Deductions for listed property (other than certain leased property) are subject to the following special rules and limits.

- ***Deduction for employees.*** If your use of the property is not for your employer's convenience or is not required as a condition of your employment, you cannot deduct depreciation or rent expenses for your use of the property as an employee.

- ***Business-use requirement.*** If the property is not used predominantly (more than 50%) for qualified business use, you cannot claim the section 179 deduction or a special depreciation allowance. In addition, you must figure any depreciation deduction under MACRS using the straight line method over the ADS recovery period. You may also have to recapture (include in income) any excess depreciation claimed in previous years. A similar inclusion amount applies to certain leased property.
- ***Passenger automobile limits and rules.*** Annual limits apply to depreciation deductions (including section 179 deductions and any special depreciation allowance) for certain passenger automobiles. You can continue to deduct depreciation for the unrecovered basis resulting from these limits after the end of the recovery period.

This chapter defines listed property and explains the special rules and depreciation deduction limits that apply, including the special inclusion amount rule for leased property. It also discusses the recordkeeping rules for listed property and explains how to report information about the property on your tax return.

Useful Items

You may want to see:

Publication

- ☐ **463** Travel, Gift, and Car Expenses
- ☐ **587** Business Use of Your Home

Form (and Instructions)

- ☐ **2106** Employee Business Expenses
- ☐ **4562** Depreciation and Amortization
- ☐ **4797** Sales of Business Property

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

What Is Listed Property?

Terms you may need to know (see Glossary):

Capitalized

Commuting

Improvement

Recovery period

Straight line method

Listed property is any of the following.

- Passenger automobiles (as defined later).
- Any other property used for transportation, unless it is an excepted vehicle.
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic,

communication, and video recording equipment).

Improvements to listed property. An improvement made to listed property that must be capitalized is treated as a new item of depreciable property. The recovery period and method of depreciation that apply to the listed property as a whole also apply to the improvement. For example, if you must depreciate the listed property using the straight line method, you must also depreciate the improvement using the straight line method.

Passenger Automobiles

A passenger automobile is any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (6,000 pounds or less of gross vehicle weight for trucks and vans). It includes any part, component, or other item

physically attached to the automobile at the time of purchase or usually included in the purchase price of an automobile.

The following vehicles are not considered passenger automobiles for these purposes.

- An ambulance, hearse, or combination ambulance-hearse used directly in a trade or business.
- A vehicle used directly in the trade or business of transporting persons or property for pay or hire.
- A truck or van that is a qualified nonpersonal use vehicle.

Qualified nonpersonal use vehicles.

Qualified nonpersonal use vehicles are vehicles that by their nature are not likely to be used more than a minimal amount for personal purposes. They include the trucks and vans listed as excepted vehicles under [*Other Property Used for Transportation*](#) next. They also include trucks and vans that have

been specially modified so that they are not likely to be used more than a minimal amount for personal purposes, such as by installation of permanent shelving and painting the vehicle to display advertising or the company's name.

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

Other Property Used for Transportation



Although vehicles used to transport persons or property for pay or hire and vehicles rated at more than the 6,000pound threshold are not passenger automobiles, they are still "other property used for transportation" and are subject to the special rules for listed property.

Other property used for transportation includes trucks, buses, boats, airplanes, motorcycles, and any other vehicles used to transport persons or goods.

Excepted vehicles. Other property used for transportation does not include the following qualified nonpersonal use vehicles (defined earlier under [*Passenger Automobiles*](#)).

- Clearly marked police and fire vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Ambulances used as such and hearses used as such.
- Any vehicle with a loaded gross vehicle weight of over 14,000 pounds that is designed to carry cargo.
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks), flatbed trucks, and refrigerated trucks.
- Combines, cranes and derricks, and forklifts.

- Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat.
- Qualified moving vans.
- Qualified specialized utility repair trucks.
- School buses used in transporting students and employees of schools.
- Other buses with a capacity of at least 20 passengers that are used as passenger buses.
- Tractors and other special purpose farm vehicles.

Clearly marked police or fire vehicle. A clearly marked police or fire vehicle is a vehicle that meets all the following requirements.

- It is owned or leased by a governmental unit or an agency or instrumentality of a governmental unit.

- It is required to be used for commuting by a police officer or firefighter who, when not on a regular shift, is on call at all times.
- It is prohibited from being used for personal use (other than commuting) outside the limit of the police officer's arrest powers or the firefighter's obligation to respond to an emergency.
- It is clearly marked with painted insignia or words that make it readily apparent that it is a police or fire vehicle. A marking on a license plate is not a clear marking for these purposes.

Qualified moving van. A qualified moving van is any truck or van used by a professional moving company for moving household or business goods if the following requirements are met.

- No personal use of the van is allowed other than for travel to and from a move

site or for minor personal use, such as a stop for lunch on the way from one move site to another.

- Personal use for travel to and from a move site happens no more than five times a month on average.
- Personal use is limited to situations in which it is more convenient to the employer, because of the location of the employee's residence in relation to the location of the move site, for the van not to be returned to the employer's business location.

Qualified specialized utility repair truck.

A truck is a qualified specialized utility repair truck if it is not a van or pickup truck and all the following apply.

- The truck was specifically designed for and is used to carry heavy tools, testing equipment, or parts.

- Shelves, racks, or other permanent interior construction has been installed to carry and store the tools, equipment, or parts and would make it unlikely that the truck would be used, other than minimally, for personal purposes.
- The employer requires the employee to drive the truck home in order to be able to respond in emergency situations for purposes of restoring or maintaining electricity, gas, telephone, water, sewer, or steam utility services.

Can Employees Claim a Deduction?

If you are an employee, you can claim a depreciation deduction for the use of your listed property (whether owned or rented) in performing services as an employee only if your use is a business use. The use of your property in performing services as an

employee is a business use only if both the following requirements are met.

- The use is for your employer's convenience.
- The use is required as a condition of your employment.

If these requirements are not met, you cannot deduct depreciation (including the section 179 deduction) or rent expenses for your use of the property as an employee.

Note. Employee expenses for transportation and for the depreciation of certain listed property (such as computers placed in service before 2018) paid or incurred in a tax year beginning after December 31, 2017, and before January 1, 2026, may not be claimed as a miscellaneous itemized deduction subject to the 2% floor. If you are not entitled to claim these expenses as an above-the-line deduction, you may not claim a deduction for the expense on your 2023 return.

Employer's convenience. Whether the use of listed property is for your employer's convenience must be determined from all the facts. The use is for your employer's convenience if it is for a substantial business reason of the employer. The use of listed property during your regular working hours to carry on your employer's business is generally for the employer's convenience.

Condition of employment. Whether the use of listed property is a condition of your employment depends on all the facts and circumstances. The use of property must be required for you to perform your duties properly. Your employer does not have to require explicitly that you use the property. However, a mere statement by the employer that the use of the property is a condition of your employment is not sufficient.

Example 1. Virginia Sycamore is employed as a courier with We Deliver, which provides local courier services. Virginia owns and uses

a motorcycle to deliver packages to downtown offices. We Deliver explicitly requires all delivery persons to own a car or motorcycle for use in their employment. Virginia's use of the motorcycle is for the convenience of We Deliver and is required as a condition of employment.

Example 2. You are an inspector for Uplift, a construction company with many sites in the local area. You must travel to these sites on a regular basis. Uplift does not furnish an automobile or explicitly require you to use your own automobile. However, it pays you for any costs you incur in traveling to the various sites. The use of your own automobile or a rental automobile is for the convenience of Uplift and is required as a condition of employment.

Example 3. Assume the same facts as in *Example 2*, except that Uplift furnishes a car to you, and you choose to use your own car and receive payment for using it. The use of

your own car is neither for the convenience of Uplift nor required as a condition of employment.

Example 4. Marilyn Lee is a pilot for Y Company, a small charter airline. Y requires pilots to obtain 80 hours of flight time annually in addition to flight time spent with the airline. Pilots can usually obtain these hours by flying with the Air Force Reserve or by flying parttime with another airline. Marilyn owns an airplane. The use of that airplane to obtain the required flight hours is neither for the convenience of the employer nor required as a condition of employment.

Example 5. David Rule is employed as an engineer with Zip, an engineering contracting firm. David occasionally takes work home at night rather than work late in the office. David owns and uses a home computer, which is virtually identical to the office model. David's use of the computer is neither for the

convenience of David's employer nor required as a condition of employment.

What Is the Business-Use Requirement?

Terms you may need to know (see Glossary):

Adjusted basis

Business/investment use

Capitalized

Commuting

Declining balance method

Fair market value (FMV)

Nonresidential real property

Placed in service

Recapture

Recovery period

Straight line method

You can claim the section 179 deduction and a special depreciation allowance for listed property and depreciate listed property using GDS and a declining balance method if the property meets the business-use requirement. To meet this requirement, listed property must be used predominantly (more than 50% of its total use) for qualified business use. If this requirement is not met, the following rules apply.

- Property not used predominantly for qualified business use during the year it is placed in service does not qualify for the section 179 deduction.
- Property not used predominantly for qualified business use during the year it is placed in service does not qualify for a special depreciation allowance.
- Any depreciation deduction under MACRS for property not used predominantly for qualified business use during any year must be figured using the straight line

method over the ADS recovery period.
This rule applies each year of the recovery period.

- Excess depreciation on property previously used predominantly for qualified business use must be recaptured (included in income) in the first year in which it is no longer used predominantly for qualified business use.
- A lessee must add an inclusion amount to income in the first year in which the leased property is not used predominantly for qualified business use.



Being required to use the straight line method for an item of listed property not used predominantly for qualified business use is not the same as electing the straight line method. It does not mean that you have to use the straight line method for other property in the same class as the item of listed property.

Exception for leased property. The business-use requirement generally does not apply to any listed property leased or held for leasing by anyone regularly engaged in the business of leasing listed property.

You are considered regularly engaged in the business of leasing listed property only if you enter into contracts for the leasing of listed property with some frequency over a continuous period of time. This determination is made on the basis of the facts and circumstances in each case and takes into account the nature of your business in its entirety. Occasional or incidental leasing activity is insufficient. For example, if you lease only one passenger automobile during a tax year, you are not regularly engaged in the business of leasing automobiles. An employer who allows an employee to use the employer's property for personal purposes and charges the employee for the use is not

regularly engaged in the business of leasing the property used by the employee.

How To Allocate Use

To determine whether the business-use requirement is met, you must allocate the use of any item of listed property used for more than one purpose during the year among its various uses.

For passenger automobiles and other means of transportation, allocate the property's use on the basis of mileage. You determine the percentage of qualified business use by dividing the number of miles you drove the vehicle for business purposes during the year by the total number of miles you drove the vehicle for all purposes (including business miles) during the year.

For other listed property, allocate the property's use on the basis of the most appropriate unit of time the property is actually used (rather than merely being

available for use). For example, you can determine the percentage of business use of an item of listed property by dividing the number of hours you used the item of listed property for business purposes during the year by the total number of hours you used the item of listed property for all purposes (including business use) during the year.

Entertainment use. Treat the use of listed property for entertainment, recreation, or amusement purposes as a business use only to the extent you can deduct expenses (other than interest and property tax expenses) due to its use as an ordinary and necessary business expense.

Commuting use. The use of an automobile for commuting is not business use, regardless of whether work is performed during the trip. For example, a business telephone call made on a car telephone while commuting to work does not change the character of the trip from commuting to business. This is also true for a

business meeting held in a car while commuting to work. Similarly, a business call made on an otherwise personal trip does not change the character of a trip from personal to business. The fact that an automobile is used to display material that advertises the owner's or user's trade or business does not convert an otherwise personal use into business use.

Use of your automobile by another person. If someone else uses your automobile, do not treat that use as business use unless one of the following conditions applies.

1. That use is directly connected with your business.
2. You properly report the value of the use as income to the other person and withhold tax on the income where required.
3. You are paid a fair market rent.

Treat any payment to you for the use of the automobile as a rent payment for purposes of item (3).

Employee deductions. If you are an employee, do not treat your use of listed property as business use unless it is for your employer's convenience and is required as a condition of your employment. See [Can Employees Claim a Deduction](#), earlier.

Qualified Business Use

Qualified business use of listed property is any use of the property in your trade or business. However, it does not include the following uses.

- The leasing of property to any 5% owner or related person (to the extent the property is used by a 5% owner or person related to the owner or lessee of the property).
- The use of property as pay for the services of a 5% owner or related person.

- The use of property as pay for services of any person (other than a 5% owner or related person), unless the value of the use is included in that person's gross income and income tax is withheld on that amount where required.



Property does not stop being used predominantly for qualified business use because of a transfer at death.

Exception for leasing or compensatory use of aircraft. Treat the leasing of any aircraft by a 5% owner or related person, or the compensatory use of any aircraft, as a qualified business use if at least 25% of the total use of the aircraft during the year is for a qualified business use.

5% owner. For a business entity that is not a corporation, a 5% owner is any person who owns more than 5% of the capital or profits interest in the business.

For a corporation, a 5% owner is any person who owns, or is considered to own, either of the following.

- More than 5% of the outstanding stock of the corporation.
- Stock possessing more than 5% of the total combined voting power of all stock in the corporation.

Related persons. For a description of related persons, see [*Related persons*](#) in the discussion on property owned or used in 1986 under [*What Method Can You Use To Depreciate Your Property?*](#) in chapter 1. For this purpose, however, treat as related persons only the relationships listed in items (1) through (10) of that discussion and substitute “50%” for “10%” each place it appears.

Examples. The following examples illustrate whether the use of business property is qualified business use.

Example 1. John Maple is the sole proprietor of a plumbing contracting business. Richard, John's sibling, is employed by John in the business. As part of Richard's pay, Richard is allowed to use one of the company automobiles for personal use. The company includes the value of the personal use of the automobile in Richard's gross income and properly withholds tax on it. The use of the automobile is pay for the performance of services by a related person, so it is not a qualified business use.

Example 2. John, in *Example 1*, allows unrelated employees to use company automobiles for personal purposes. John does not include the value of the personal use of the company automobiles as part of their compensation and does not withhold tax on the value of the use of the automobiles. This use of company automobiles by employees is not a qualified business use.

Example 3. James Company Inc. owns several automobiles that its employees use for business purposes. The employees are also allowed to take the automobiles home at night. The FMV of each employee's use of an automobile for any personal purpose, such as commuting to and from work, is reported as income to the employee and James Company withholds tax on it. This use of company automobiles by employees, even for personal purposes, is a qualified business use for the company.

Investment Use

The use of property to produce income in a nonbusiness activity (investment use) is not a qualified business use. However, you can treat the investment use as business use to figure the depreciation deduction for the property in a given year.

Example 1. You use an item of listed property 50% of the time to manage your

investments. You also use the item of listed property 40% of the time in your part-time consumer research business. Your item of listed property is listed property because it is not used at a regular business establishment. You do not use the item of listed property predominantly for qualified business use. Therefore, you cannot elect a section 179 deduction or claim a special depreciation allowance for the item of listed property. You must depreciate it using the straight line method over the ADS recovery period. Your combined business/ investment use for determining your depreciation deduction is 90%.

Example 2. If you use your item of listed property 30% of the time to manage your investments and 60% of the time in your consumer research business, it is used predominantly for qualified business use. You can elect a section 179 deduction and, if you do not deduct all the item of listed property's

cost, you can claim a special depreciation allowance and depreciate the item of listed property using the 200% declining balance method over the GDS recovery period. Your combined business/investment use for determining your depreciation deduction is 90%.

Recapture of Excess Depreciation

If you used listed property more than 50% in a qualified business use in the year you placed it in service, you must recapture (include in income) excess depreciation in the first year you use it 50% or less. You also increase the adjusted basis of your property by the same amount.

Excess depreciation is:

- 1.** The depreciation allowable for the property (including any section 179 deduction and special depreciation allowance claimed) for years before the first year you do not use the

property predominantly for qualified business use, **minus**

2. The depreciation that would have been allowable for those years if you had not used the property predominantly for qualified business use in the year you placed it in service.

To determine the amount in (2) above, you must refigure the depreciation using the straight line method and the ADS recovery period.

Example. In June 2019, Ellen Rye purchased and placed in service a pickup truck that cost \$18,000. Ellen used it only for qualified business use for 2019 through 2022. Ellen claimed a section 179 deduction of \$10,000 based on the purchase of the truck. Ellen began depreciating it using the 200% DB method over a 5-year GDS recovery period. The pickup truck's gross vehicle weight was over 6,000 pounds, so it was not subject to

the passenger automobile limits discussed later under [*Do the Passenger Automobile Limits Apply*](#). During 2023, Ellen used the truck 50% for business and 50% for personal purposes. Ellen includes \$4,018 excess depreciation in her gross income for 2023. The excess depreciation is determined as follows.

Total section 179 deduction (\$10,000) and depreciation claimed (\$6,618) for 2019 through 2022. (Depreciation is from Table A-1.) \$16,618

Minus: Depreciation allowable (Table

A-8):

2019 — 10% of \$18,000	\$1,800
2020 — 20% of \$18,000	3,600
2021 — 20% of \$18,000	3,600
2022 — 20% of \$18,000	<u>3,600</u>
	12,600

Excess depreciation **\$4,018**

If Ellen's use of the truck does not change to 50% for business and 50% for personal purposes until 2025, there will be no excess depreciation. The total depreciation allowable using Table A-8 through 2025 will be \$18,000, which equals the total of the section 179 deduction and depreciation Ellen will have claimed.

Where to figure and report recapture. Use Form 4797, Part IV, to figure the recapture amount. Report the recapture amount as other income on the same form or schedule on which you took the depreciation deduction. For example, report the recapture amount as other income on Schedule C (Form 1040) if you took the depreciation deduction on Schedule C. If you took the depreciation deduction on Form 2106, report the recapture amount as other income on Schedule 1 (Form 1040), line 8z.

Lessee's Inclusion Amount

If you use leased listed property other than a passenger automobile for business/investment use, you must include an amount in your income in the first year your qualified business-use percentage is 50% or less. Your qualified business-use percentage is the part of the property's total use that is qualified business use (defined earlier). For the inclusion amount rules for a leased passenger automobile, see *Leasing a Car* in chapter 4 of Pub. 463.

The inclusion amount is the sum of Amount A and Amount B, described next. However, see the special rules for the inclusion amount, later, if your lease begins in the last 9 months of your tax year or is for less than 1 year.

Amount A. Amount A is:

1. The FMV of the property, multiplied by

2. The business/investment use for the first tax year the qualified business-use percentage is 50% or less, multiplied by
3. The applicable percentage from [Table A-19](#) in [Appendix A](#).

The FMV of the property is the value on the first day of the lease term. If the capitalized cost of an item of listed property is specified in the lease agreement, you must treat that amount as the FMV.

Amount B. Amount B is:

1. The FMV of the property, multiplied by
2. The average of the business/investment use for all tax years the property was leased that precede the first tax year the qualified business-use percentage is 50% or less, multiplied by

3. The applicable percentage from [Table A-20](#) in [Appendix A](#).

Maximum inclusion amount. The inclusion amount cannot be more than the sum of the deductible amounts of rent for the tax year in which the lessee must include the amount in gross income.

Inclusion amount worksheet. The following worksheet is provided to help you figure the inclusion amount for leased listed property.

Inclusion Amount Worksheet for Leased Listed Property

Keep for Your Records



-
1. Fair market value _____
 2. Business/investment use for first year
business use is 50% or less _____
 3. Multiply line 1 by line 2 _____
 4. Rate (%) from Table A-19 _____
 5. Multiply line 3 by line 4. This is Amount
A _____

6. Fair market value
7. Average business/investment use for years property leased before the first year business use is 50% or less
8. Multiply line 6 by line 7
9. Rate (%) from Table A-20
10. Multiply line 8 by line 9. This is Amount B
11. Add line 5 and line 10. This is your inclusion amount. Enter here and as other income on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Schedule 1 (Form 1040), Form 1120, etc.)

Example. On February 1, 2021, Larry House, a calendar year taxpayer, leased and placed in service an item of listed property with an FMV of \$3,000. The lease is for a period of 5 years. Larry does not use the item of listed property at a regular business establishment, so it is listed property. Larry's business use of the property (all of which is qualified business use) is 80% in 2021, 60% in 2022, and 40% in 2023. Larry must add an inclusion amount to gross income for 2023, the first tax year Larry's qualified business-use percentage is 50% or less. The item of listed property has a 5-year recovery period under both GDS and ADS. 2023 is the third tax year of the lease, so the applicable percentage from [Table A-19](#) is –19.8%. The applicable percentage from [Table A-20](#) is 22%. Larry's deductible rent for the item of listed property for 2023 is \$800.

Larry uses the inclusion amount worksheet to figure the amount that must be included in income for 2023. Larry's inclusion amount is \$224, which is the sum of $-\$238$ (Amount A) and \$462 (Amount B).

Inclusion Amount Worksheet for Leased Listed Property *Keep for Your Records*



1. Fair market value	\$3,000
2. Business/investment use for first year business use is 50% or less	40%
3. Multiply line 1 by line 2	1,200
4. Rate (%) from Table A-19	-19.8%
5. Multiply line 3 by line 4. This is Amount A	-238
6. Fair market value	3,000
7. Average business/investment use for years property leased before the first year business use is 50% or less	70%
8. Multiply line 6 by line 7	2,100
9. Rate (%) from Table A-20	22.0%
10. Multiply line 8 by line 9. This is Amount B	462

11. Add line 5 and line 10. This is your inclusion amount. Enter here and as ***other income*** on the form or schedule on which you originally took the deduction (for example, Schedule C or F (Form 1040), Schedule 1 (Form 1040), Form 1120, etc.) \$224

Lease beginning in the last 9 months of your tax year. The inclusion amount is subject to a special rule if all the following apply.

- The lease term begins within 9 months before the close of your tax year.
- You do not use the property predominantly (more than 50%) for qualified business use during that part of the tax year.
- The lease term continues into your next tax year.

Under this special rule, add the inclusion amount to income in the next tax year. Figure the inclusion amount by taking into account the average of the business/investment use for both tax years (line 2 of the Inclusion Amount Worksheet for Leased Listed Property) and the applicable percentage for the tax year the lease term begins. Skip lines 6 through 9 of the worksheet and enter zero on line 10.

Example 1. On August 1, 2022, Julie Rule, a calendar year taxpayer, leased and placed in service an item of listed property. The property is 5-year property with an FMV of \$10,000. Julie's property has a recovery period of 5 years under ADS. The lease is for 5 years. Julie's business use of the property was 50% in 2022 and 90% in 2023. Julie paid rent of \$3,600 for 2022, of which \$3,240 is deductible. Julie must include \$147 in income in 2023. The \$147 is the sum of Amount A and Amount B. Amount A is \$147 ($\$10,000 \times 70\% (0.70) \times 2.1\% (0.021)$), the product of the FMV, the average business use for 2022 and 2023, and the applicable percentage for year 1 from [Table A-19](#). Amount B is zero.

Lease for less than 1 year. A special rule for the inclusion amount applies if the lease term is less than 1 year and you do not use the property predominantly (more than 50%) for qualified business use. The amount included in income is the inclusion amount (figured as

described in the preceding discussions) multiplied by a fraction. The numerator of the fraction is the number of days in the lease term, and the denominator is 365 (or 366 for leap years).

The lease term for listed property includes options to renew. If you have two or more successive leases that are part of the same transaction (or a series of related transactions) for the same or substantially similar property, treat them as one lease.

Example 2. On October 1, 2022, John Joyce, a calendar year taxpayer, leased and placed in service an item of listed property that is 3-year property. This property had zero.

Where to report the inclusion amount.

Report the inclusion amount figured (as described in the preceding discussions) as other income on the same form or schedule on which you took the deduction for your rental costs. For example, report the inclusion amount as other income on Schedule C (Form

1040) if you took the deduction on Schedule C. If you took the deduction for rental costs on Form 2106, report the inclusion amount as other income on Schedule 1 (Form 1040), line 8z.

Do the Passenger Automobile Limits Apply?

Terms you may need to know (see Glossary):

Basis

Convention

Placed in service

Recovery period

The depreciation deduction, including the section 179 deduction and special depreciation allowance, you can claim for a passenger automobile (defined earlier) each year is limited.

This section describes the maximum depreciation deduction amounts for 2023 and explains how to deduct, after the recovery period, the unrecovered basis of your property that results from applying the passenger automobile limits.

Exception for leased cars. The passenger automobile limits generally do not apply to passenger automobiles leased or held for leasing by anyone regularly engaged in the business of leasing passenger automobiles. For information on when you are considered regularly engaged in the business of leasing listed property, including passenger automobiles, see [*Exception for leased property*](#), earlier, under [*What Is the Business-Use Requirement*](#).

Maximum Depreciation Deduction

The passenger automobile limits are the maximum depreciation amounts you can deduct for a passenger automobile. They are

based on the date you placed the automobile in service.

Passenger Automobiles

The maximum deduction amounts for most passenger automobiles are shown in the following table.

Maximum Depreciation Deduction for Passenger Automobiles (Including Trucks and Vans) Acquired After September 27, 2017, and Placed in Service Before 2024

Date Placed in <u>Service</u>	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	4th & Later <u>Year</u>
2023	\$20,200 ¹	\$19,500	\$11,700	\$6,960
2022	\$19,200 ²	\$18,000	\$10,800	\$6,460

2021	\$18,200 ³	\$16,400	\$9,800	\$5,860
2020	\$18,100 ⁴	\$16,100	\$9,700	\$5,760
2019	\$18,100 ⁴	\$16,100	\$9,700	\$5,760
2018	\$18,000 ⁵	\$16,000	\$9,600	\$5,760

¹If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$12,200.

²If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$11,200.

³ If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$10,200.

4 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$10,100.

5 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$10,000.

**Maximum Depreciation Deduction for
Passenger Automobiles (Including
Trucks and Vans) Acquired Before
September 28, 2017, and Placed in
Service Before 2020**

Date Placed in <u>Service</u>	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	4th & Later <u>Year</u>
2019	\$14,900 ¹	\$16,100	\$9,700	\$5,760
2018	\$16,400 ²	\$16,000	\$9,600	\$5,760

1 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$10,100.

2 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum depreciation deduction is \$10,000.

Maximum Depreciation Deduction for Passenger Automobiles Placed in Service Before 2018

Date Placed in Service	1st Year	2nd Year	3rd Year	4th & Later Years
2017	\$11,160 ¹	\$5,100	\$3,050	\$1,875
2016	11,160 ¹	5,100	3,050	1,875
2015	11,160 ²	5,100	3,050	1,875
2014	11,160 ³	5,100	3,050	1,875
2013	11,160 ³	5,100	3,050	1,875
2012	11,160 ³	5,100	3,050	1,875
2011	11,060 ⁴	4,900	2,950	1,775
2010	11,060 ⁴	4,900	2,950	1,775
2009	10,960 ⁵	4,800	2,850	1,775
2008	10,960 ⁵	4,800	2,850	1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775

1 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

2 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160. Also, if you placed the vehicle in service in a tax year beginning in 2015 and ending in 2016, and you elected to accelerate certain credits in lieu of the special depreciation for that tax year, the maximum deduction is \$3,160.

3 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

4 If you elected **not** to claim any special depreciation allowance or the vehicle is **not**

qualified property, the maximum deduction is \$3,060.

5 If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is \$2,960.



If your business/investment use of the automobile is less than 100%, you must reduce the maximum deduction amount by multiplying the maximum amount by the percentage of business/investment use determined on an annual basis during the tax year.



If you have a short tax year, you must reduce the maximum deduction amount by multiplying the maximum amount by a fraction. The numerator of the fraction is the number of months and partial months in the short tax year, and the denominator is 12.

Example. On April 15, 2023, you bought and placed in service a new car for \$14,500. You used the car only in your business. You file your tax return based on the calendar year. You do not elect a section 179 deduction and elected not to claim any special depreciation allowance for the 5-year property. Under MACRS, a car is 5-year property. Because you placed your car in service on April 15 and used it only for business, you use the percentages in [Table A-1](#) to figure your MACRS depreciation on the car. You multiply the \$14,500 unadjusted basis of your car by 0.20 to get your MACRS depreciation of \$2,900 for 2023. This \$2,900 is below the maximum depreciation deduction of \$12,200 for passenger automobiles placed in service in 2023. You can deduct the full \$2,900.

Electric Vehicles

The maximum depreciation deductions for passenger automobiles that are produced to run primarily on electricity are higher than

those for other automobiles. The maximum deduction amounts for electric vehicles placed in service after August 5, 1997, and before January 1, 2007, are shown in the following table. Owners of electric vehicles placed in service after December 31, 2006, should use the table of maximum deduction amounts in the previous section titled [*Passenger Automobiles*](#) for electric vehicles classified as passenger automobiles or use the table of maximum deduction amounts for trucks and vans, later, for electric vehicles classified as trucks and vans.

Maximum Depreciation Deduction for Electric Vehicles

Date Placed in Service	1st Year	2nd Year	3rd Year	4th & Later Years
2006	\$8,980	\$14,400	\$8,650	\$5,225
2005	8,880	14,200	8,450	5,125
2004	31,830 ¹	14,300	8,550	5,125
5/06/2003– 12/31/2003	32,030 ²	14,600	8,750	5,225
1/01/2003– 5/05/2003	22,880 ³	14,600	8,750	5,225

1 If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is \$8,880.

2 If you acquired the vehicle before 5/06/03, the maximum deduction is \$22,880. If you elected **not** to claim any special depreciation

allowance for the vehicle, the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is \$9,080.

3 If you elected **not** to claim any special depreciation allowance for the vehicle, the vehicle is **not** qualified property, or the vehicle is qualified Liberty Zone property, the maximum deduction is \$9,080.

Trucks and Vans

The maximum depreciation deductions for trucks and vans placed in service after 2002 are higher than those for other passenger automobiles. The maximum deduction amounts for trucks and vans are shown in the following table.

Maximum Depreciation Deduction for Trucks and Vans Placed in Service Before 2018

Date Placed in Service	1st Year	2nd Year	3rd Year	4th & Later Years
2017	\$11,560 ¹	\$5,700	\$3,450	\$2,075
2016	11,560 ¹	5,700	3,350	2,075
2015	11,460 ²	5,600	3,350	1,975
2014	11,460 ³	5,500	3,350	1,975
2013	11,360 ⁴	5,400	3,250	1,975
2012	11,360 ⁴	5,300	3,150	1,875
2011	11,260 ⁵	5,200	3,150	1,875
2010	11,160 ⁶	5,100	3,050	1,875
2009	11,060 ⁷	4,900	2,950	1,775
2008	11,160 ⁸	5,100	3,050	1,875
2007	3,260	5,200	3,050	1,875
2006	3,260	5,200	3,150	1,875

1 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,560.

2 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,460. Also, if you placed the vehicle in service in a tax year beginning in 2015 and ending in 2016, and you elected to accelerate certain credits in lieu of the special depreciation for that tax year, the maximum deduction is \$3,460.

3 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,460.

4 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is

\$3,360.

5 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,260.

6 If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

7 If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is \$3,060.

8 If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

Depreciation Worksheet for Passenger Automobiles

You can use the following worksheet to figure your depreciation deduction using the percentage tables. Then, use the information from this worksheet to prepare Form 4562.

Depreciation Worksheet for
Passenger Automobiles
Keep for Your Records



Part I

1. MACRS system (GDS or ADS)	_____
2. Property class	_____
3. Date placed in service	_____
4. Recovery period	_____
5. Method and convention	_____
6. Depreciation rate (from tables)	_____
7. Maximum depreciation deduction for this year from the appropriate table	_____
8. Business/investment-use percentage	_____
9. Multiply line 7 by line 8. This is your adjusted maximum depreciation deduction	_____
10. Section 179 deduction claimed this year (not more than line 9). Enter -0- if this is not the year you placed the car in service	_____

Note.
1) If line 10 is equal to line 9, stop here. Your combined section 179 and depreciation deduction (including your special depreciation allowance) is limited to the amount on line 9.
2) If line 10 is less than line 9, complete Part II.

Part II

11. Subtract line 10 from line 9. This is the limit on the amount you can deduct for depreciation (including any special depreciation allowance)	_____
12. Cost or other basis (reduced by any alternative motor vehicle credit ¹ or credit for electric vehicles ²)	_____
13. Multiply line 12 by line 8. This is your business/investment cost	_____

14.	Section 179 deduction claimed in the year you placed the car in service	_____
15.	Subtract line 14 from line 13. This is your tentative basis for depreciation	_____
16.	Multiply line 15 by the applicable percentage if the special depreciation allowance applies. This is your special depreciation allowance. Enter -0- if this is not the year you placed the car in service, the car is not qualified property, or you elected not to claim a special depreciation allowance	_____

Note.
1) If line 16 is equal to line 11, stop here. Your depreciation deduction (including your special depreciation allowance) is limited to the amount on line 11.
2) If line 16 is less than line 11, complete Part III.

Part III

17.	Subtract line 16 from line 11. This is the limit on the amount you can deduct for MACRS depreciation	_____
18.	Subtract line 16 from line 15. This is your basis for depreciation	_____
19.	Multiply line 18 by line 6. This is your tentative MACRS depreciation deduction	_____
20.	Enter the lesser of line 17 or line 19. This is your MACRS depreciation deduction	=====

¹ When figuring the amount to enter on line 12, do not reduce your cost or other basis by any section 179 deduction you claimed for your car.
² Reduce the basis by the lesser of \$4,000 or 10% of the cost of the vehicle even if the credit is less than that amount.

Deductions After the Recovery Period

If the depreciation deductions for your automobile are reduced under the passenger automobile limits, you will have unrecovered basis in your automobile at the end of the recovery period. If you continue to use the automobile for business, you can deduct that unrecovered basis after the recovery period ends. You can claim a depreciation deduction in each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct each year is determined by the date you placed the car in service and your business/investment-use percentage. See [Maximum Depreciation Deduction](#), earlier.

Unrecovered basis is the cost or other basis of the passenger automobile reduced by any clean-fuel vehicle deduction, electric vehicle credit, depreciation, and section 179 deductions that would have been allowable if you had used the car 100% for business and

investment use and the passenger automobile limits had not applied.



You cannot claim a depreciation deduction for listed property other than passenger automobiles after the recovery period ends. There is no unrecovered basis at the end of the recovery period because you are considered to have used this property 100% for business and investment purposes during all of the recovery period.

Example. In May 2017, you bought and placed in service a car costing \$31,500. The car was 5-year property under GDS (MACRS). You did not elect a section 179 deduction and elected not to claim any special depreciation allowance for the 5-year property. You used the car exclusively for business during the recovery period (2017 through 2022). You figured your depreciation as shown below.

Year	Percentage	Amount	Limit	Allowed
2017	20.0%	\$6,300	\$3,160	\$3,160
2018	32.0	10,080	5,100	5,100
2019	19.2	6,048	3,050	3,050
2020	11.52	3,629	1,875	1,875
2021	11.52	3,629	1,875	1,875
2022	5.76	1,814	1,875	1,875
Total.				\$16,935

At the end of 2022 you had an unrecovered basis of \$14,565 (\$31,500 – \$16,935). If in 2023 and later years you continue to use the car 100% for business, you can deduct each year the lesser of \$1,875 or your remaining unrecovered basis.

If your business use of the car had been less than 100% during any year, your depreciation deduction would have been less than the maximum amount allowable for that year. However, in figuring your unrecovered basis in the car, you would still reduce your basis by the maximum amount allowable as if the business use had been 100%. For example, if you had used your car 60% for business instead of 100%, your allowable depreciation deductions would have been \$8,739 ($\$14,565 \times 60\% (0.60)$), but you would still have to reduce your basis by \$14,565 to determine your unrecovered basis.

Deductions for Passenger Automobiles Acquired in a Trade-In

If you acquire a passenger automobile in a trade-in, depreciate the carryover basis separately as if the trade-in did not occur. Depreciate the part of the new automobile's basis that exceeds its carryover basis (excess basis) as if it were newly placed in service

property. This excess basis is the additional cash paid for the new automobile in the trade-in.

The depreciation figured for the two components of the basis (carryover basis and excess basis) is subject to a single passenger automobile limit. Special rules apply in determining the passenger automobile limits. These rules and examples are discussed in section 1.168(i)6(d)(3) of the regulations.

Instead of figuring depreciation for the carryover basis and the excess basis separately, you can elect to treat the old automobile as disposed of and both of the basis components for the new automobile as if placed in service at the time of the tradein. For more information, including how to make this election, see [Election out](#) under [Property Acquired in a Like-Kind Exchange or Involuntary Conversion](#) in chapter 4, and sections 1.168(i)6(i) and 1.168(i)6(j) of the regulations.

Like-kind exchanges completed after December 31, 2017, are generally limited to exchanges of real property not held primarily for sale. Section 1.168(i)6 of the regulations does not reflect this change in law.

What Records Must Be Kept?

Terms you may need to know (see Glossary):

- Business/investment use

- Circumstantial evidence

- Documentary evidence

You cannot take any depreciation or section 179 deduction for the use of listed property unless you can prove your business/investment use with adequate records or with sufficient evidence to support your own statements. For listed property, you must keep records for as long as any recapture can still occur. Recapture can occur in any tax year of the recovery period.