Quickfinder®

# Depreciation Quickfinder® Handbook (2019 Tax Year)

## Updates for December 2019 Legislation and Other Recent Guidance

**Instructions:** This packet contains “marked up” changes to the pages in the *Depreciation Quickfinder® Handbook* that were affected by December 2019 legislation, which was enacted after the *Handbook* was published. Additionally, changes were made based on other guidance issued after the Handbook was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

• Food preparation utensils and tools.
• Small appliances that cost $500 or less.

**Caution:** Items purchased by a taxpayer who has never been in the restaurant or tavern business before opening such a business are start-up costs and are subject to the Section 195 rules for expensing and/or amortizing. See *Business Start-Up Costs* on Page 11-6.

Taxpayers who have capitalized these smallwares in the past can receive automatic permission to change their accounting method to expense such items (Rev. Proc. 2018-31 or 2019-43, Section 3.03). See Tab 10 for details on changing accounting methods.

## Property Converted From Personal Use

If property held for personal use is converted to business or income-producing use, its depreciable basis is the lesser of the following on the date it is changed to business or investment use [Reg. 1.167(g)-1]:
• The property's FMV.
• Its adjusted basis.

**Example:** Several years ago, Susan paid $160,000 to have her home built on a lot that cost $25,000. While she was using the home as her personal residence, she paid $20,000 to remodel and enlarge it. She also claimed a $2,000 casualty loss deduction for damage to the house due to a hailstorm.

During the current year, Susan moves to an apartment and converts her former home to rent property. Her adjusted basis in the house when she changed its use was $178,000 ($160,000 + $20,000 – $2,000). On the same date, the property's FMV was $180,000 ($15,000 for the land and $165,000 for the house). The house's depreciable basis is its FMV on the date of change ($165,000), because that is less than its adjusted basis ($178,000).

**Caution:** Property converted from personal or investment to business use does not qualify for the Section 179 deduction. See Tab 5 for further discussion of the Section 179 deduction.

## Inherited Property

Generally, inherited property's depreciable basis is its FMV at the date of death, or at the alternate valuation date, if elected (IRC Sec. 1014; Rev. Rul. 63-223). The property normally is depreciated under the MACRS depreciation rules in effect the day the decedent died, regardless of when the property was first placed in service.

**Caution:** Because its original use does not begin with the taxpayer nor is it acquired by purchase from an unrelated party, inherited property does not qualify for special (bonus) depreciation [IRC Sec. 168(k)(2)(A)(ii) and (k)(2)(E)(ii); IRC Sec. 179(d)]. Similarly, because it is not acquired by purchase from an unrelated party, inherited property does not qualify for Section 179 expensing [IRC Sec. 179(d)]. See *Special (Bonus) Depreciation* on Page 2-13 and Tab 5 for Section 179.

### Property Inherited From a Decedent who Died in 2010

**Section 1022 election.** The executor of the estate of an individual who died in 2010 could elect out of the estate tax rules and instead apply the modified carryover basis rules. If this election was made, the basis of property acquired from the decedent is the lesser of (IRC Sec. 1022):

1) The decedent's adjusted basis (with limited step-up—see *Limited basis step-up* on Page 1-13) or
2) The FMV of the property at the date of death.

**Limited basis step-up**. The estate's executor could allocate to certain appreciated property an aggregate basis increase of up to $1.3 million [IRC Sec. 1022(b)]. The $1.3 million is increased by the amount of the decedent's unused NOL and capital loss carryovers as well as certain built-in losses as of the date of the decedent's death. An additional $3 million spousal basis increase is available for property transferred outright to a surviving spouse and for qualified terminal interest property (QTIP). If it is community property, the surviving spouse's half interest in the property is also eligible for the spousal basis increase. The basis of any property cannot be increased above its FMV at the date of death.

**Depreciation rules.** A recipient who receives depreciable property for which the Section 1022 election was made steps into the shoes of the decedent for the portion of his basis up to the decedent's adjusted basis. His depreciation for this carryover basis is computed using the decedent's depreciation method, recovery period and convention. [For the year of death (2010), the depreciation deduction for this basis was allocated between the decedent and the recipient on a monthly basis]. Any allocated basis increase is depreciated as a separate asset that the recipient placed in service on the day after the date of the decedent's death [Rev. Proc. 2011-41, Sec. 4.06(3)]. Any allowable depreciation for this excess basis is determined by using the depreciation method, recovery period, and convention applicable to the property on the placed in service date.

Executors were required to file an information return [Form 8939 (Allocation of Increase in Basis for Property Acquired From a Decedent)] to report the carryover basis of the decedent's property and the allocation of any basis step-up. They were also required to furnish the basis information to each recipient of the decedent's property (other than cash) (IRC Sec. 6018).

### Property Held By Surviving Tenant

The following example explains the rule for the basis of property held by a surviving tenant in joint tenancy or tenancy by entirety.

**Example:** John and Jim owned, as joint tenants with right of survivorship, business property they purchased for $30,000. John furnished $20,000 of the purchase price and Jim furnished $10,000. Depreciation deductions allowed before John's death were $12,000. Under local law, each had a half interest in the income from the property. At the date of John's death, the property's FMV was $60,000, $40,000 ($60,000 × ⅔) of which is includable in John's estate. Jim figures his basis in the property at the date of John's death as follows:

| | |
|---|---|
| Interest Jim bought with his own funds | $ 10,000 |
| Interest Jim received on John's death | 40,000 |
| | $ 50,000 |
| Half of depreciation before John's death | ( 6,000 ) |
| Jim's basis at the date of John's death | $ 44,000 |

*Variation 1:* If Jim had not contributed any part of the purchase price, his basis at the date of John's death would be $54,000. This is figured by subtracting, from the $60,000 FMV, the $6,000 depreciation allocated to Jim's half interest before the date of death.

*Variation 2*: If under local law Jim had no interest in the income from the property and he contributed no part of the purchase price, his basis at John's death would be $60,000, the FMV of the property.

### Qualified Joint Interests

A qualified joint interest is any interest in property held by spouses as either of the following:

• Tenants by the entirety.
• Joint tenants with right of survivorship if the spouses are the only joint tenants.

Half of the value of a qualified joint interest is included in the decedent's gross estate, no matter how much each spouse contributed to the purchase price. Also, it does not matter which spouse dies first.

The surviving spouse's basis in property owned with his spouse as a qualified joint interest is the cost of his half of the property with the following adjustments:

1) Decrease for any deductions allowed to the surviving spouse for depreciation and depletion.
2) Increase by the surviving spouse's basis in the half he inherited.

| MACRS Property Classification (2018 and Later Years) | | | | |
|---|---|---|---|---|
| **Classification** | **Examples** | **GDS Depreciation Method**[1] | **GDS Recovery Period** | **Convention** |
| 3-year property | • Tractor units for over-the-road use.<br>• Any race horse, regardless of age when placed in service ~~if placed in service in 2018 or later~~.[2]<br>• Any horse (other than a race horse) over 12 years old when placed in service.<br>• Qualified rent-to-own property.[3] | 200% Declining balance | 3 years | Half-year or mid-quarter |
| 5-year property | • Automobiles, taxis, buses and trucks.<br>• Computers and peripheral equipment.<br>• Office machinery (such as typewriters, calculators and copiers).<br>• Property used in research and experimentation.<br>• Breeding cattle and dairy cattle.<br>• Machinery or equipment used in a farming business.[4]<br>• Appliances, carpets, furniture, etc., used in a residential rental real estate activity.<br>• Certain geothermal, solar and wind energy property. | 200% Declining balance | 5 years | Half-year or mid-quarter |
| 7-year property | • Office furniture and fixtures (such as desks, files and safes).<br>• Any horse not eligible for a three-year recovery period.[2]<br>• Motorsports entertainment complex placed in service after October 22, 2004 and before 2021.<br>• Property that does not have a class life and has not been designated by law as being in any other class.<br>• Any natural gas gathering line placed in service after April 11, 2005. | 200% Declining balance | 7 years | Half-year or mid-quarter |
| 10-year property | • Vessels, barges, tugs and similar water transportation equipment.<br>• Single purpose agricultural or horticultural structure (see Tab 7).<br>• Any tree or vine bearing fruits or nuts.[5]<br>• Qualified smart electric meters and qualified smart electric grid systems placed in service after October 3, 2008.[6] | 200% Declining balance | 10 years | Half-year or mid-quarter |
| 15-year property | • Certain improvements made directly to land or added to it (such as fences, roads and bridges).<br>• Retail motor fuels outlet (see Tab 7).<br>• Any municipal wastewater treatment plant.<br>• Qualified improvement property (but a 39 year GDS recovery period may apply—see Tab 7).[7]<br>• Initial clearing and grading land improvements for gas utility property placed in service after October 22, 2004.<br>• 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. | 150% Declining balance | 15 years | Half-year or mid-quarter |
| 20-year property | • Farm buildings (other than single purpose agricultural or horticultural structures).<br>• Municipal sewers not classified as 25-year property.<br>• Initial clearing and grading land improvements for electric utility transmission and distribution plants placed in service after October 22, 2004. | 150% Declining balance | 20 years | Half-year or mid-quarter |
| 25-year property[8] | • 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.<br>• Municipal sewers placed in service after June 12, 1996, other than property placed in service under a binding contract in effect at all times since June 9, 1996. | Straight-line | 25 years | Half-year or mid-quarter |
| Residential rental property | 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. **Note:** Units in a hotel, motel or other establishment where more than half the units are used on a transient basis are not dwelling units (see Tab 7). | Straight-line | 27.5 years | Mid-month |
| Nonresidential real property[9] | Section 1250 property that is neither residential rental property nor property with a class life of less than 27.5 years (see Tab 7). Examples include office buildings, stores or warehouses. | Straight-line | 39 years | Mid-month |

[1] Elective methods may be available. See *MACRS Depreciation Methods Available for Regular Tax* on Page 2-1.
[2] Race horses placed in service after December 31, 2008 and before January 1, 2021, regardless of age, are three-year property [IRC Sec. 168(e)(3)(A)]. Outside of that date range, race horses two years old or younger when placed in service are seven-year property.
[3] Five years for qualified rent-to-own property placed in service before August 6, 1997.
[4] Farm equipment (other than grain bins, cotton ginning assets, fences or other land improvements) is five-year property if the equipment's original use began with the taxpayer for property placed in service after December 31, 2017 [IRC Sec. 168(e)(3)(B)(vii)]. Such property has an ADS recovery period of 10 years [IRC Sec. 168(g)(3)(B)].
[5] Must use straight-line method [IRC Sec. 168(b)(3)(E) and (e)(3)(D)(ii)].
[6] Must use 150% declining balance method [IRC Sec. 168(b)(2)(B)].
[7] Must use straight-line method. [IRC Sec. 168(b)(3) and (e)(6)] Note: For property placed in service after December 31, 2017, the TCJA eliminates the separate definitions of qualified leasehold improvement property and qualified retail improvement property. See *Leasehold Improvements* on Page 7-9 and *TCJA qualified improvement property* on Page 7-9. **Note:** The IRS has stated that, in the absence of corrective legislation, it will treat qualified improvement property as 39-year property rather than as 15-year property, and thus ineligible for bonus depreciation. Therefore, tax professionals should watch for technical correction legislation.
[8] 20 years for property placed in service before June 13, 1996, or under a binding contract in effect before June 10, 1996.
[9] 31.5 years for property placed in service before May 13, 1993.

| MACRS Property Classification (2017 and Earlier Years) | | | | |
|---|---|---|---|---|
| **Classification** | **Examples** | **GDS Depreciation Method[1]** | **GDS Recovery Period** | **Convention** |
| 3-year property | • Tractor units for over-the-road use.<br>• Any race horse more than two years old when placed in service ~~if placed in service~~.[2]<br>• Any horse (other than a race horse) over 12 years old when placed in service.<br>• Qualified rent-to-own property.[3] | 200%[4] Declining balance | 3 years | Half-year or mid-quarter |
| 5-year property | • Automobiles, taxis, buses and trucks.<br>• Computers and peripheral equipment.<br>• Office machinery (such as typewriters, calculators and copiers).<br>• Property used in research and experimentation.<br>• Breeding cattle and dairy cattle.<br>• Appliances, carpets, furniture, etc., used in a residential rental real estate activity.<br>• Certain geothermal, solar and wind energy property. | 200%[4] Declining balance | 5 years | Half-year or mid-quarter |
| 7-year property | • Office furniture and fixtures (such as desks, files and safes).<br>• Agricultural machinery or equipment.[5]<br>• Any horse not eligible for a three-year recovery period.[2]<br>• Motorsports entertainment complex placed in service after October 22, 2004 ~~and before 2018~~.<br>• Property that does not have a class life and has not been designated by law as being in any other class.<br>• Any natural gas gathering line placed in service after April 11, 2005. | 200%[4] Declining balance | 7 years | Half-year or mid-quarter |
| 10-year property | • Vessels, barges, tugs and similar water transportation equipment.<br>• Single purpose agricultural or horticultural structure (see Tab 7).<br>• Any tree or vine bearing fruits or nuts.[6]<br>• Qualified smart electric meters and qualified smart electric grid systems placed in service after October 3, 2008.[7] | 200%[4] Declining balance | 10 years | Half-year or mid-quarter |
| 15-year property | • Certain improvements made directly to land or added to it (such as fences, roads and bridges).<br>• Retail motor fuels outlet (see Tab 7).<br>• Any municipal wastewater treatment plant.<br>• Qualified leasehold improvement property (see Tab 7).[8]<br>• Qualified restaurant property (see Tab 7).[8]<br>• Qualified retail improvement property (see Tab 7).[8]<br>• Initial clearing and grading land improvements for gas utility property placed in service after October 22, 2004.<br>• 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.<br>• Any natural gas distribution line placed in service after April 11, 2005 and before 2011. | 150% Declining balance | 15 years | Half-year or mid-quarter |
| 20-year property | • Farm buildings (other than single purpose agricultural or horticultural structures).<br>• Municipal sewers not classified as 25-year property.<br>• Initial clearing and grading land improvements for electric utility transmission and distribution plants placed in service after October 22, 2004. | 150% Declining balance | 20 years | Half-year or mid-quarter |
| 25-year property[9] | • 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.<br>• Municipal sewers placed in service after June 12, 1996, other than property placed in service under a binding contract in effect at all times since June 9, 1996. | Straight-line | 25 years | Half-year or mid-quarter |
| Residential rental property | 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. **Note:** Units in a hotel, motel or other establishment where more than half the units are used on a transient basis are not dwelling units (see Tab 7). | Straight-line | 27.5 years | Mid-month |
| Nonresidential real property[10] | Section 1250 property that is neither residential rental property nor property with a class life of less than 27.5 years (see Tab 7). Examples include office buildings, stores or warehouses. | Straight-line | 39 years | Mid-month |

[1] Elective methods may be available. See *MACRS Depreciation Methods Available for Regular Tax* on Page 2-1.
[2] Race horses placed in service after December 31, 2008 and before January 1, 2021, regardless of age, are three-year property [IRC Sec. 168(e)(3)(A)]. Outside of that date range, race horses two years old or younger when placed in service are seven-year property.
[3] Five years for qualified rent-to-own property placed in service before August 6, 1997.
[4] If used in farming, must use 150% instead of 200% declining balance.
[5] New farm equipment placed in service in 2009 was five-year property if the equipment's original use began with the taxpayer. Five-year treatment was unavailable for grain bins, cotton ginning assets, fences or other land improvements [former IRC Sec. 168(e)(3)(B)(vii)].
[6] Must use straight-line method [IRC Sec. 168(b)(3)(E) and (e)(3)(D)(ii)].
[7] Must use 150% declining balance method [former IRC Sec. 168(b)(2)(B)].
[8] Must use straight-line method [IRC Sec. 168(b)(3) and former (e)(6)–(e)(8)].
[9] 20 years for property placed in service before June 13, 1996, or under a binding contract in effect before June 10, 1996.
[10] 31.5 years for property placed in service before May 13, 1993.

column of Table B-2. If the activity is not described in Table B-2 or if the activity is described but the property either is not specifically included in or is specifically excluded from that asset class, use the property's recovery period in Table B-1.

2) *Table B-2.* If the property is not listed in Table B-1, check Table B-2 to find the activity in which the property is being used. If the activity is listed, use the recovery period shown in the appropriate column following the description.

**Property not in either table.** If the activity or the property is not included in either table, check the end of Table B-2 to find *Certain Property for Which Recovery Periods Assigned*. This property generally has a recovery period of seven years for GDS or 12 years for ADS.

**Example #1:** GreenCo is a paper manufacturer. During the year, the company made substantial improvements to the land on which its paper plant is located. To determine the proper recovery period for the improvements, first check Table B-1, *Specific Depreciable Assets Used in All Business Activities, Except as Noted*. Here, land improvements are listed under Asset Class 00.3. Then check Table B-2, *Depreciable Assets Used in the Following Activities*. Here, GreenCo's business activity, paper manufacturing, is under Asset Class 26.1, *Manufacture of Pulp and Paper*. The proper recovery period is the one under this asset class because it specifically includes land improvements. The land improvements have a seven-year GDS recovery period. If the company elects to use ADS, the recovery period is 13 years.

If only Table B-1 had been considered, Asset Class 00.3, *Land Improvements* would have been chosen and a recovery period of 15 years for GDS or 20 years for ADS incorrectly used.

**Example #2:** RubberCo produces rubber products. During the year, the company made substantial improvements to the land on which its rubber plant is located. To determine the proper recovery period for the improvements, first check Table B-1. Here, land improvements are under Asset Class 00.3. Next, check Table B-2, where the company's activity, producing rubber products, is listed under Asset Class 30.1, *Manufacture of Rubber Products*. However, the headings and descriptions under Asset Class 30.1 do not include land improvements. Therefore, the proper recovery period to use is that under Asset Class 00.3. The land improvements have a 15-year GDS recovery period. If ADS is elected, the recovery period is 20 years.

**Example #3:** Pam Martin owns a retail clothing store. During the year, she purchased a desk and a cash register for use in her business. Table B-1 shows office furniture under Asset Class 00.11. Cash registers are not listed in any of the asset classes in Table B-1. In Table B-2, the business activity, retail store, is listed under Asset Class 57.0, *Distributive Trades and Services*, which includes assets used in wholesale and retail trade. This asset class does not specifically list office furniture or a cash register. Therefore, Asset Class 00.11 from Table B-1 is used for the desk. The desk has a seven-year GDS recovery period. If the ADS method is elected, the recovery period is 10 years. For the cash register, Asset Class 57.0 is used because cash registers are not listed in Table B-1 but are assets used in a retail business. The cash register has a five-year recovery period for GDS. If the ADS method is elected, the recovery period is nine years.

## Property Used in Retail/Distributive Trades or Services

Asset Class 57.0 allows assets used in wholesale and retail trades and personal and professional services to be depreciated over a five-year GDS recovery period (nine-year for ADS).

**Examples of Retail/Distributive Trades or Services**[1]

| Business Type | Examples |
|---|---|
| Personal Services | Dry cleaners, beauty and barber shops, hotels and motels, photography studios, and mortuaries. |
| Professional Services | Doctors, dentists, attorneys, accountants, engineers, architects, and veterinarians. |
| Retail Trade | Grocery and department stores, restaurants, cafes, coin-operated dispensing machines, and retail stores. |
| Wholesale | Beverage distributors. |

[1] This is not an exhaustive list.

## Property Used in a Residential Rental Activity

The recovery periods for property used in a residential rental activity are summarized in the following table.

**MACRS Recovery Periods for Property Used in Residential Rental Activities**

*IRS Pub. 527*

| Assets | Recovery Period in Years GDS | ADS |
|---|---|---|
| Computers and their peripheral equipment | 5 | 5 |
| Office machinery, such as typewriters, calculators, copiers | 5 | 6 |
| Automobiles | 5 | 5 |
| Light trucks | 5 | 5 |
| Appliances, such as stoves, refrigerators, etc. | 5 | 9 |
| Carpets | 5 | 9 |
| Furniture used in rental property | 5 | 9 |
| Office furniture and equipment (desks, file cabinets, etc.) | 7 | 10 |
| Any property that does not have a class life and that has not been designated by law as being in any other class | 7 | 10 |
| Roads | 15 | 20 |
| Shrubbery | 15 | 20 |
| Fences | 15 | 20 |
| Residential rental property (buildings or structures, including mobile homes) and structural components such as furnaces, waterpipes, venting, etc. Additions and improvements (such as a new roof) have the same recovery period as the property to which the addition or improvement is made, determined as if the property were placed in service at the same time as the addition or improvement. | 27.5 | 30 |

## Indian Reservation Property

~~Expired Provision Alert:~~ For assets placed in service before 2021, special recovery periods apply to qualified Indian reservation property. ~~This provision is not available for property placed in service after 2017, unless legislation is enacted to extend it. This discussion is included in the event that the shorter recovery periods are extended. If they are not extended, property that formerly was classified as qualified Indian reservation property and placed in service after 2017 is depreciated under the general MACRS rules.~~

The recovery periods for qualified property placed in service on an Indian reservation after 1993 and before 2021 are shorter than normal for some property classes. To be eligible for the shorter recovery periods, the property must be used predominantly in the active conduct of a trade or business or a rental real estate activity within an Indian reservation [IRC Sec. 168(j)]. Beginning in 2016, an irrevocable election out of the shorter recovery periods is permitted for a class of property but such election applies to all property in the class placed in service during the year [IRC Sec. 168(j)(8)].

farming business with a recovery period of 10 years or more [IRC Sec. 163(j)(7)(C)]. See *Limitation on business interest expense* on Page 2-15.

**Rev. Proc. 2019-8** provides guidance on how to change from GDS to ADS for existing farm property placed in service before 2018 and newly acquired farm property placed in service after 2017. Existing property is treated as if it is property for which a change in use occurs in the election year. Therefore, depreciation is determined under Reg. 1.168(i)-4(d) beginning with the election year (see *Changes in an Asset's Use* on Page 2-19). The change to the ADS, as required by the election, is not a change in accounting method. Newly acquired property is simply depreciated under ADS for its placed in service year and later tax years.

**Caution:** If an electing farming bsusiness does not depreciate either existing or newly acquired property under the ADS, then that business is considered to have adopted an impermissible method of accounting for that item of property for which a change in accounting method is required. For more information on accounting method changes, see Tab 10 and *Section 6 of Rev. Proc. 2018-31, Depreciation or Amortization Accounting Method Changes* on Page 12-13.

**Note:** Rev. Proc. 2019-8 also applies to an electing real property trade or business change from GDS to ADS in the same way as described above for an electing farming business. It also provides an optional 30-year depreciation table for residential rental property placed in service after 2017 (the ADS recovery period for residential rental property placed in service before 2018 is 40 years).

**Observation:** Rev. Proc. 2019-8 also explains how electing real property trades or businesses change to ADS for property placed in service before 2018 and provides an optional 30-year depreciation table for residential rental property placed in service after 2017 (the ADS recovery period for residential rental property placed in service before 2018 is 40 years). See *MACRS Table 30: Straight-Line—30-Year—Mid-Month Convention* on Page 4-32.

Farming is any of the following [Reg. 1.263A-4(a)(4)]:

1) Raising and harvesting crops,
2) Raising, shearing, feeding, caring for, training and managing animals,
3) Operating a nursery or sod farm,
4) Raising or harvesting trees bearing fruits, nuts, or other crops or
5) Raising ornamental trees.

## ADS Required for Some Farmers

The alternative depreciation system (ADS) must be used if the taxpayer elects not to apply the Section 263A uniform capitalization rules (UNICAP) to any plant with a preproductive period of more than two years produced in a farming business. (See *Plants With a Preproductive Period of More Than Two Years* on Page 2-12 for a list of such plants.) ADS must be used for all property placed in service in any year the election is in effect [IRC Sec. 263A(e)(2)].

**Example #1:** Leroy has previously grown only small grain. Leroy has never been subject to the uniform capitalization (UNICAP) rules because the preproductive period of this crop is less than two years. However, Leroy plants an apple orchard in the current year and the UNICAP rules apply to the orchard because the preproductive period for apples is greater than two years. Leroy elects not to have the UNICAP rules apply by deducting all preproductive period costs associated with the apple orchard on his current-year Schedule F. As a result of the election to avoid UNICAP, Leroy must use ADS depreciation for all property placed in service in his farming business during the year of the election, including assets solely used in the grain activity.

**Farm Property Recovery Periods**

*IRS Pub. 225 and Rev. Proc. 87-56*

| Assets | Recovery Period in Years GDS | ADS |
|---|---|---|
| Agricultural structures (single purpose) | 10 | 15 |
| Airplanes (including helicopters)[1] | 5 | 6 |
| Automobiles | 5 | 5 |
| Calculators and copiers | 5 | 6 |
| Cattle (dairy or breeding) | 5 | 7 |
| Communication equipment[2] | 7 | 10 |
| Computer and peripheral equipment | 5 | 5 |
| Cotton ginning assets | 7 | 12 |
| Drainage facilities | 15 | 20 |
| Farm buildings[3] | 20 | 25 |
| Farm machinery and equipment[4] | 5 or 7[4] | 10 |
| Fences (agricultural) | 7 | 10 |
| Goats and sheep (breeding) | 5 | 5 |
| Grain bins | 7 | 10 |
| Hogs (breeding) | 3 | 3 |
| Horses (age when placed in service) | | |
| • Breeding and working (12 years or less) | 7 | 10 |
| • Breeding and working (more than 12 years) | 3 | 10 |
| • Racing horses[5] | 3 | 12 |
| Horticultural structures (single purpose) | 10 | 15 |
| House trailers for farm laborers—mobile (has wheels and a history of movement) | 7 | 10 |
| House trailers for farm laborers—not mobile (wheels have been removed and permanent utilities and pipes are attached to it) | 20 | 25 |
| Logging machinery and equipment[6] | 5 | 6 |
| Nonresidential real property | 39[7] | 40 |
| Office furniture, fixtures and equipment (not calculators, copiers or typewriters) | 7 | 10 |
| Paved lots | 15 | 20 |
| Residential rental property | 27.5 | 30 |
| Tractor units (over-the-road) | 3 | 4 |
| Trees or vines bearing fruit or nuts | 10 | 20 |
| Truck (heavy duty, unloaded weight 13,000 lbs. or more) | 5 | 6 |
| Truck (actual weight less than 13,000 lbs.) | 5 | 5 |
| Vineyard trellising | 7 | 10 |
| Water wells (for raising poultry and livestock) | 15 | 20 |

[1] Not including airplanes used in commercial or contract carrying of passengers.
[2] Not including communication equipment listed in other classes.
[3] Not including single purpose agricultural or horticultural structures.
[4] New farm equipment (other than grain bins, cotton ginning assets, fences or other land improvements) is five-year property if placed in service in 2009 or after 12/31/17.
[5] For race horses, regardless of age, placed in service after 12/31/08 and before 1/1/21. Outside of that date range, race horses more than two years old when placed in service are three-year property, and race horses two years old or younger are seven-year property.
[6] Used by logging and sawmill operators for cutting timber.
[7] For property placed in service after 5/12/93; for property placed in service before 5/13/93, the recovery period is 31.5 years.

## Quick Guide to MACRS Depreciation Tables

| Property Class | Regular Tax | | | Alternative Minimum Tax[1] |
|---|---|---|---|---|
| | General Depreciation System | | Alternative Depreciation System[1] (if elected or required, also use for AMT) | |
| | No election made | SL Election (if elected, also use for AMT) | | |
| **Property Placed in Service after 1998[2, 3]** | | | | |
| 3-year, 5-year, 7-year and 10-year (Nonfarm; Farm placed in service after 2017)[4, 5] | 200% DB<br>GDS recovery period<br>*MACRS Table 1–4* | SL<br>GDS recovery period<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | 150% DB<br>GDS recovery period<br>*MACRS Table 1–4* |
| 3-year, 5-year, 7-year and 10-year (Farm Property placed in service before 2018)[4, 5] | 150% DB<br>GDS recovery period<br>*MACRS Table 1–4* | SL<br>GDS recovery period<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | 150% DB<br>GDS recovery period<br>*MACRS Table 1–4* |
| 15-year[6] | 150% DB<br>15 years<br>*MACRS Table 5* | SL<br>15 years<br>*MACRS Table 5* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | If Section 1250 property,<br>SL 15 years<br>If Section 1245 property,<br>150% DB 15 years<br>*MACRS Table 5* |
| 20-year | 150% DB<br>20 years<br>*MACRS Table 6* | SL<br>20 years<br>*MACRS Table 6* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | If Section 1250 property,<br>SL 20 years<br>If Section 1245 property,<br>150% DB 20 years<br>*MACRS Table 6* |
| Residential Rental Real Property[7] | SL 27.5 years<br>*MACRS Table 7* | N/A | SL 40 years[8]<br>*MACRS Table 20*<br>SL 30 years[8]<br>*MACRS Table 30* | SL 27.5 years<br>*MACRS Table 7* |
| Nonresidential Real Property[6,7] | SL 39 years<br>*MACRS Table 9* | N/A | SL 40 years<br>*MACRS Table 20* | SL 39 years<br>*MACRS Table 9* |
| **Property Placed in Service 1987–1998[3]** | | | | |
| 3-year, 5-year, 7-year and 10-year (Nonfarm; Farm placed in service before 1989)[4, 5] | 200% DB<br>GDS recovery period<br>*MACRS Table 1–4* | SL<br>GDS recovery period[9]<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | 150% DB<br>ADS recovery period<br>*MACRS Table 10–14* |
| 3-year, 5-year, 7-year and 10-year (Farm Property placed in service after 1988)[4, 5] | 150% DB<br>GDS recovery period<br>*MACRS Table 1–4* | SL<br>GDS recovery period[9]<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | 150% DB<br>ADS recovery period<br>*MACRS Table 10–14* |
| 15-year | 150% DB<br>15 years<br>*MACRS Table 5* | SL<br>15 years[9]<br>*MACRS Table 5* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* |
| 20-year | 150% DB<br>20 years<br>*MACRS Table 6* | SL<br>20 years[9]<br>*MACRS Table 6* | SL<br>ADS recovery period<br>*MACRS Table 15–19* | SL<br>ADS recovery period<br>*MACRS Table 15–19* |
| Residential Rental Real Property | SL<br>27.5 years<br>*MACRS Table 7* | N/A | SL<br>40 years<br>*MACRS Table 20* | SL<br>40 years<br>*MACRS Table 20* |
| Nonresidential Real Property (placed in service after 1986 and before May 13, 1993) | SL<br>31.5 years<br>*MACRS Table 8* | N/A | SL<br>40 years<br>*MACRS Table 20* | SL<br>40 years<br>*MACRS Table 20* |
| Nonresidential Real Property (placed in service after May 12, 1993 and before 1999) | SL<br>39 years<br>*MACRS Table 9* | N/A | SL<br>40 years<br>*MACRS Table 20* | SL<br>40 years<br>*MACRS Table 20* |

1 Can be elected for any asset, if not already required [IRC Sec. 168(b)(2)(C) and (g)(1)(E)].
2 Special (bonus) depreciation is available for qualified property placed in service during 2008–2026 (2027 for certain long production period property and aircraft) [IRC Sec. 168(k)]. See *Special (Bonus) Depreciation* on Page 2-13.
3 Certain classes of qualified Indian reservation property placed in service during 1994–2020 have a shorter recovery period than the one normally assigned to that class [IRC Sec. 168(j)]. See *Indian Reservation Property* on Page 2-5 and *MACRS Table 26–29*.
4 ADS method is required for farm assets (a) when an election to not apply the uniform capitalization rules is in effect or (b) with a 10-year or greater recovery period if held by a farming business electing out of the business interest deduction limit [IRC Secs. 263A(e)(2) and 168(g)(1)(G)].
5 Trees and vines bearing fruit or nuts and placed in service after 1988 are depreciated SL over 10 years for regular tax and AMT. [IRC Sec. 168(b)(3)(E) and (e)(3)(D)(ii)]
6 Qualified leasehold improvement property and qualified restaurant property placed in service after 10/22/04 and qualified retail improvement property placed in service after 2008 are, and qualified improvement property (QIP) placed in service after 2017 perhaps may be, depreciated using SL over 15 years for regular tax and AMT and 39 (20 for QIP) years for ADS [former IRC Sec. 168(b)(3), (e)(3)(E) and (g)(3)(B); 2017 Tax Cuts and Jobs Act Conference committee report]. See *Leasehold Improvements* on Page 7-9, *TCJA qualified improvement property* on Page 7-9, and *ADS Recovery Periods* on Page 2-2.
7 ADS method is required if held by a real property business electing out of the business interest deduction limit [IRC Sec. 168(g)(1)(F) and (g)(8)].
8 40 years if placed in service before 2018; 30 years if placed in service after 2017.
9 Use the ADS recovery period for AMT [IRC Sec. 56(a)(1)].

## MACRS Table 1: Three-Year MACRS

**For property placed in service after 1986**

***200% Declining Balance***

- *Regular tax depreciation for personal property with three-year recovery period [includes all racehorses (placed in service after 2008 and before 2021), racehorses over two years old (placed in service before 2009 and after 2020), other horses more than 12 years old, qualified rent-to-own property, tractors for over-the-road use, qualified Indian reservation property placed in service in 1994–2020 that would otherwise have a 5-year recovery period and assets used in certain activities].*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 33.33% | 58.33% | 41.67% | 25.00% | 8.33% |
| 2 | 44.45 | 27.78 | 38.89 | 50.00 | 61.11 |
| 3 | 14.81 | 12.35 | 14.14 | 16.67 | 20.37 |
| 4 | 7.41 | 1.54 | 5.30 | 8.33 | 10.19 |

***150% Declining Balance***

- *Regular tax depreciation for three-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with three-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 25.00% | 43.75% | 31.25% | 18.75% | 6.25% |
| 2 | 37.50 | 28.13 | 34.38 | 40.63 | 46.88 |
| 3 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| 4 | 12.50 | 3.12 | 9.37 | 15.62 | 21.87 |

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 2: Five-Year MACRS

**For property placed in service after 1986**

***200% Declining Balance***

- *Regular tax depreciation for personal property with five-year recovery period (includes autos, computers, typewriters, copiers and assets used in certain activities).*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 20.00% | 35.00% | 25.00% | 15.00% | 5.00% |
| 2 | 32.00 | 26.00 | 30.00 | 34.00 | 38.00 |
| 3 | 19.20 | 15.60 | 18.00 | 20.40 | 22.80 |
| 4 | 11.52 | 11.01 | 11.37 | 12.24 | 13.68 |
| 5 | 11.52 | 11.01 | 11.37 | 11.30 | 10.94 |
| 6 | 5.76 | 1.38 | 4.26 | 7.06 | 9.58 |

***150% Declining Balance***

- *Regular tax depreciation for five-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with five-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 15.00% | 26.25% | 18.75% | 11.25% | 3.75% |
| 2 | 25.50 | 22.13 | 24.38 | 26.63 | 28.88 |
| 3 | 17.85 | 16.52 | 17.06 | 18.64 | 20.21 |
| 4 | 16.66 | 16.52 | 16.76 | 16.56 | 16.40 |
| 5 | 16.66 | 16.52 | 16.76 | 16.57 | 16.41 |
| 6 | 8.33 | 2.06 | 6.29 | 10.35 | 14.35 |

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 3: Seven-Year MACRS

**For property placed in service after 1986**

***200% Declining Balance***

- *Regular tax depreciation for personal property with seven-year recovery period (includes office furniture and fixtures, horses not eligible for a three-year recovery period and assets used in certain activities).*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 14.29% | 25.00% | 17.85% | 10.71% | 3.57% |
| 2 | 24.49 | 21.43 | 23.47 | 25.51 | 27.55 |
| 3 | 17.49 | 15.31 | 16.76 | 18.22 | 19.68 |
| 4 | 12.49 | 10.93 | 11.97 | 13.02 | 14.06 |
| 5 | 8.93 | 8.75 | 8.87 | 9.30 | 10.04 |
| 6 | 8.92 | 8.74 | 8.87 | 8.85 | 8.73 |
| 7 | 8.93 | 8.75 | 8.87 | 8.86 | 8.73 |
| 8 | 4.46 | 1.09 | 3.34 | 5.53 | 7.64 |

***150% Declining Balance***

- *Regular tax depreciation for seven-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with seven-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

| Year | Half-Year Convention | Mid-Quarter Convention—Quarter in Which Acquired 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | 10.71% | 18.75% | 13.39% | 8.04% | 2.68% |
| 2 | 19.13 | 17.41 | 18.56 | 19.71 | 20.85 |
| 3 | 15.03 | 13.68 | 14.58 | 15.48 | 16.39 |
| 4 | 12.25 | 12.16 | 12.22 | 12.27 | 12.87 |
| 5 | 12.25 | 12.16 | 12.22 | 12.28 | 12.18 |
| 6 | 12.25 | 12.16 | 12.22 | 12.27 | 12.18 |
| 7 | 12.25 | 12.16 | 12.23 | 12.28 | 12.19 |
| 8 | 6.13 | 1.52 | 4.58 | 7.67 | 10.66 |

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 10: 150% Declining Balance—All Lives—Half-Year Convention

**For property placed in service after 1986**

- *Regular tax depreciation for qualified Indian reservation property placed in service in 1994–2020 with a nine-year or 12-year recovery period.*
- *AMT depreciation for tangible personal property (three-year, five-year, seven-year and 10-year recovery period).*
  - *– For assets placed in service after 1998, use GDS recovery period.*
  - *– For assets placed in service before 1999, use ADS recovery period.*

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2.5** | **3** | **3.5** | **4** | **5** | **6** | **6.5** | **7** | **7.5** | **8** | **8.5** | **9** | **9.5** |
| 1 | 30.0% | 25.0% | 21.43% | 18.75% | 15.00% | 12.50% | 11.54% | 10.71% | 10.00% | 9.38% | 8.82% | 8.33% | 7.89% |
| 2 | 42.0 | 37.5 | 33.67 | 30.47 | 25.50 | 21.88 | 20.41 | 19.13 | 18.00 | 16.99 | 16.09 | 15.28 | 14.54 |
| 3 | 28.0 | 25.0 | 22.45 | 20.31 | 17.85 | 16.41 | 15.70 | 15.03 | 14.40 | 13.81 | 13.25 | 12.73 | 12.25 |
| 4 | | 12.5 | 22.45 | 20.31 | 16.66 | 14.06 | 13.09 | 12.25 | 11.52 | 11.22 | 10.91 | 10.61 | 10.31 |
| 5 | | | | 10.16 | 16.66 | 14.06 | 13.09 | 12.25 | 11.52 | 10.80 | 10.19 | 9.65 | 9.17 |
| 6 | | | | | 8.33 | 14.06 | 13.09 | 12.25 | 11.52 | 10.80 | 10.19 | 9.64 | 9.17 |
| 7 | | | | | | 7.03 | 13.08 | 12.25 | 11.52 | 10.80 | 10.18 | 9.65 | 9.17 |
| 8 | | | | | | | | 6.13 | 11.52 | 10.80 | 10.19 | 9.64 | 9.17 |
| 9 | | | | | | | | | | 5.40 | 10.18 | 9.65 | 9.17 |
| 10 | | | | | | | | | | | | 4.82 | 9.16 |

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **10** | **10.5** | **11** | **11.5** | **12** | **12.5** | **13** | **13.5** | **14** | **15** | **16** | **16.5** | **17** |
| 1 | 7.50% | 7.14% | 6.82% | 6.52% | 6.25% | 6.00% | 5.77% | 5.56% | 5.36% | 5.00% | 4.69% | 4.55% | 4.41% |
| 2 | 13.88 | 13.27 | 12.71 | 12.19 | 11.72 | 11.28 | 10.87 | 10.49 | 10.14 | 9.50 | 8.94 | 8.68 | 8.43 |
| 3 | 11.79 | 11.37 | 10.97 | 10.60 | 10.25 | 9.93 | 9.62 | 9.33 | 9.05 | 8.55 | 8.10 | 7.89 | 7.69 |
| 4 | 10.02 | 9.75 | 9.48 | 9.22 | 8.97 | 8.73 | 8.51 | 8.29 | 8.08 | 7.70 | 7.34 | 7.17 | 7.01 |
| 5 | 8.74 | 8.35 | 8.18 | 8.02 | 7.85 | 7.69 | 7.53 | 7.37 | 7.22 | 6.93 | 6.65 | 6.52 | 6.39 |
| 6 | 8.74 | 8.35 | 7.98 | 7.64 | 7.33 | 7.05 | 6.79 | 6.55 | 6.44 | 6.23 | 6.03 | 5.93 | 5.83 |
| 7 | 8.74 | 8.35 | 7.97 | 7.64 | 7.33 | 7.05 | 6.79 | 6.55 | 6.32 | 5.90 | 5.55 | 5.39 | 5.32 |
| 8 | 8.74 | 8.35 | 7.98 | 7.63 | 7.33 | 7.05 | 6.79 | 6.55 | 6.32 | 5.90 | 5.55 | 5.39 | 5.23 |
| 9 | 8.74 | 8.36 | 7.97 | 7.64 | 7.33 | 7.04 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.39 | 5.23 |
| 10 | 8.74 | 8.35 | 7.98 | 7.63 | 7.33 | 7.05 | 6.79 | 6.55 | 6.32 | 5.90 | 5.55 | 5.39 | 5.23 |
| 11 | 4.37 | 8.36 | 7.97 | 7.64 | 7.32 | 7.04 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.39 | 5.23 |
| 12 | | | 3.99 | 7.63 | 7.33 | 7.05 | 6.78 | 6.55 | 6.32 | 5.90 | 5.55 | 5.39 | 5.23 |
| 13 | | | | | 3.66 | 7.04 | 6.79 | 6.56 | 6.32 | 5.91 | 5.54 | 5.38 | 5.23 |
| 14 | | | | | | | 3.39 | 6.55 | 6.31 | 5.90 | 5.55 | 5.39 | 5.23 |
| 15 | | | | | | | | | 3.16 | 5.91 | 5.54 | 5.38 | 5.23 |
| 16 | | | | | | | | | | 2.95 | 5.55 | 5.39 | 5.23 |
| 17 | | | | | | | | | | | 2.77 | 5.38 | 5.23 |
| 18 | | | | | | | | | | | | | 2.62 |

These percentages incorporate the switch from declining balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, multiply the depreciation obtained from this table by ½.

## MACRS Table 11:
## 150% Declining Balance—All Lives—Mid-Quarter Convention, Property Placed in Service 1st Quarter

**For property placed in service after 1986**

- *Regular tax depreciation for qualified Indian reservation property placed in service in 1994–2020 with a nine-year or 12-year recovery period.*
- *AMT depreciation for tangible personal property (three-year, five-year, seven-year and 10-year recovery period).*
  - *– For assets placed in service after 1998, use GDS recovery period.*
  - *– For assets placed in service before 1999, use ADS recovery period.*

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2.5** | **3** | **3.5** | **4** | **5** | **6** | **6.5** | **7** | **7.5** | **8** | **8.5** | **9** | **9.5** |
| 1 | 52.50% | 43.75% | 37.50% | 32.81% | 26.25% | 21.88% | 20.19% | 18.75% | 17.50% | 16.41% | 15.44% | 14.58% | 13.82% |
| 2 | 29.23 | 28.13 | 26.79 | 25.20 | 22.13 | 19.53 | 18.42 | 17.41 | 16.50 | 15.67 | 14.92 | 14.24 | 13.61 |
| 3 | 18.27 | 25.00 | 21.98 | 19.76 | 16.52 | 14.65 | 14.17 | 13.68 | 13.20 | 12.74 | 12.29 | 11.86 | 11.46 |
| 4 | | 3.12 | 13.73 | 19.76 | 16.52 | 14.06 | 13.03 | 12.16 | 11.42 | 10.77 | 10.20 | 9.89 | 9.65 |
| 5 | | | | 2.47 | 16.52 | 14.06 | 13.02 | 12.16 | 11.42 | 10.77 | 10.19 | 9.64 | 9.15 |
| 6 | | | | | 2.06 | 14.06 | 13.03 | 12.16 | 11.41 | 10.76 | 10.20 | 9.65 | 9.15 |
| 7 | | | | | | 1.76 | 8.14 | 12.16 | 11.42 | 10.77 | 10.19 | 9.64 | 9.15 |
| 8 | | | | | | | | 1.52 | 7.13 | 10.76 | 10.20 | 9.65 | 9.15 |
| 9 | | | | | | | | | | 1.35 | 6.37 | 9.64 | 9.14 |
| 10 | | | | | | | | | | | | 1.21 | 5.72 |

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **10** | **10.5** | **11** | **11.5** | **12** | **12.5** | **13** | **13.5** | **14** | **15** | **16** | **16.5** | **17** |
| 1 | 13.13% | 12.50% | 11.93% | 11.41% | 10.94% | 10.50% | 10.10% | 9.72% | 9.38% | 8.75% | 8.20% | 7.95% | 7.72% |
| 2 | 13.03 | 12.50 | 12.01 | 11.56 | 11.13 | 10.74 | 10.37 | 10.03 | 9.71 | 9.13 | 8.61 | 8.37 | 8.14 |
| 3 | 11.08 | 10.71 | 10.37 | 10.05 | 9.74 | 9.45 | 9.18 | 8.92 | 8.67 | 8.21 | 7.80 | 7.61 | 7.42 |
| 4 | 9.41 | 9.18 | 8.96 | 8.74 | 8.52 | 8.32 | 8.12 | 7.93 | 7.74 | 7.39 | 7.07 | 6.92 | 6.77 |
| 5 | 8.71 | 8.32 | 7.96 | 7.64 | 7.46 | 7.32 | 7.18 | 7.04 | 6.91 | 6.65 | 6.41 | 6.29 | 6.17 |
| 6 | 8.71 | 8.32 | 7.96 | 7.64 | 7.33 | 7.04 | 6.78 | 6.53 | 6.31 | 5.99 | 5.80 | 5.71 | 5.63 |
| 7 | 8.71 | 8.32 | 7.96 | 7.64 | 7.33 | 7.04 | 6.77 | 6.54 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 8 | 8.71 | 8.32 | 7.96 | 7.64 | 7.33 | 7.04 | 6.78 | 6.53 | 6.31 | 5.91 | 5.54 | 5.38 | 5.23 |
| 9 | 8.71 | 8.32 | 7.96 | 7.64 | 7.33 | 7.04 | 6.77 | 6.54 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 10 | 8.71 | 8.31 | 7.97 | 7.63 | 7.32 | 7.04 | 6.78 | 6.53 | 6.31 | 5.91 | 5.54 | 5.38 | 5.23 |
| 11 | 1.09 | 5.20 | 7.96 | 7.64 | 7.33 | 7.04 | 6.77 | 6.54 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 12 | | | 1.00 | 4.77 | 7.32 | 7.03 | 6.78 | 6.53 | 6.31 | 5.91 | 5.54 | 5.38 | 5.22 |
| 13 | | | | | 0.92 | 4.40 | 6.77 | 6.54 | 6.32 | 5.90 | 5.54 | 5.38 | 5.23 |
| 14 | | | | | | | 0.85 | 4.08 | 6.31 | 5.91 | 5.55 | 5.38 | 5.22 |
| 15 | | | | | | | | | 0.79 | 5.90 | 5.54 | 5.38 | 5.23 |
| 16 | | | | | | | | | | 0.74 | 5.55 | 5.37 | 5.22 |
| 17 | | | | | | | | | | | 0.69 | 3.36 | 5.23 |
| 18 | | | | | | | | | | | | | 0.65 |

These percentages incorporate the switch from declining balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 12:
## 150% Declining Balance—All Lives—Mid-Quarter Convention, Property Placed in Service 2nd Quarter

**For property placed in service after 1986**

- *Regular tax depreciation for qualified Indian reservation property placed in service in 1994–2020 with a nine-year or 12-year recovery period.*
- *AMT depreciation for tangible personal property (three-year, five-year, seven-year and 10-year recovery period).*
  - *For assets placed in service after 1998, use GDS recovery period.*
  - *For assets placed in service before 1999, use ADS recovery period.*

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2.5** | **3** | **3.5** | **4** | **5** | **6** | **6.5** | **7** | **7.5** | **8** | **8.5** | **9** | **9.5** |
| 1 | 37.50% | 31.25% | 26.79% | 23.44% | 18.75% | 15.63% | 14.42% | 13.39% | 12.50% | 11.72% | 11.03% | 10.42% | 9.87% |
| 2 | 37.50 | 34.38 | 31.38 | 28.71 | 24.38 | 21.09 | 19.75 | 18.56 | 17.50 | 16.55 | 15.70 | 14.93 | 14.23 |
| 3 | 25.00 | 25.00 | 22.31 | 20.15 | 17.06 | 15.82 | 15.19 | 14.58 | 14.00 | 13.45 | 12.93 | 12.44 | 11.98 |
| 4 | | 9.37 | 19.52 | 20.15 | 16.76 | 14.06 | 13.07 | 12.22 | 11.49 | 10.93 | 10.65 | 10.37 | 10.09 |
| 5 | | | | 7.55 | 16.76 | 14.06 | 13.07 | 12.22 | 11.49 | 10.82 | 10.19 | 9.64 | 9.16 |
| 6 | | | | | 6.29 | 14.07 | 13.07 | 12.22 | 11.49 | 10.82 | 10.19 | 9.65 | 9.16 |
| 7 | | | | | | 5.27 | 11.43 | 12.23 | 11.48 | 10.83 | 10.19 | 9.64 | 9.16 |
| 8 | | | | | | | | 4.58 | 10.05 | 10.82 | 10.20 | 9.65 | 9.17 |
| 9 | | | | | | | | | | 4.06 | 8.92 | 9.64 | 9.16 |
| 10 | | | | | | | | | | | | 3.62 | 8.02 |

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **10** | **10.5** | **11** | **11.5** | **12** | **12.5** | **13** | **13.5** | **14** | **15** | **16** | **16.5** | **17** |
| 1 | 9.38% | 8.93% | 8.52% | 8.15% | 7.81% | 7.50% | 7.21% | 6.94% | 6.70% | 6.25% | 5.86% | 5.68% | 5.51% |
| 2 | 13.59 | 13.01 | 12.47 | 11.98 | 11.52 | 11.10 | 10.71 | 10.34 | 10.00 | 9.38 | 8.83 | 8.57 | 8.34 |
| 3 | 11.55 | 11.15 | 10.77 | 10.42 | 10.08 | 9.77 | 9.47 | 9.19 | 8.92 | 8.44 | 8.00 | 7.80 | 7.60 |
| 4 | 9.82 | 9.56 | 9.31 | 9.06 | 8.82 | 8.60 | 8.38 | 8.17 | 7.97 | 7.59 | 7.25 | 7.09 | 6.93 |
| 5 | 8.73 | 8.34 | 8.04 | 7.88 | 7.72 | 7.56 | 7.41 | 7.26 | 7.12 | 6.83 | 6.57 | 6.44 | 6.32 |
| 6 | 8.73 | 8.34 | 7.98 | 7.64 | 7.33 | 7.04 | 6.78 | 6.55 | 6.35 | 6.15 | 5.95 | 5.86 | 5.76 |
| 7 | 8.73 | 8.34 | 7.98 | 7.64 | 7.33 | 7.04 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.38 | 5.25 |
| 8 | 8.73 | 8.34 | 7.98 | 7.64 | 7.33 | 7.05 | 6.78 | 6.55 | 6.32 | 5.90 | 5.55 | 5.39 | 5.23 |
| 9 | 8.73 | 8.34 | 7.99 | 7.64 | 7.33 | 7.04 | 6.79 | 6.54 | 6.32 | 5.91 | 5.55 | 5.38 | 5.23 |
| 10 | 8.73 | 8.35 | 7.98 | 7.63 | 7.33 | 7.05 | 6.78 | 6.55 | 6.32 | 5.90 | 5.54 | 5.39 | 5.23 |
| 11 | 3.28 | 7.30 | 7.99 | 7.64 | 7.33 | 7.04 | 6.79 | 6.54 | 6.32 | 5.91 | 5.55 | 5.38 | 5.23 |
| 12 | | | 2.99 | 6.68 | 7.32 | 7.05 | 6.78 | 6.55 | 6.32 | 5.90 | 5.54 | 5.39 | 5.23 |
| 13 | | | | | 2.75 | 6.16 | 6.79 | 6.54 | 6.32 | 5.91 | 5.55 | 5.38 | 5.24 |
| 14 | | | | | | | 2.54 | 5.73 | 6.33 | 5.90 | 5.54 | 5.39 | 5.23 |
| 15 | | | | | | | | | 2.37 | 5.91 | 5.55 | 5.38 | 5.24 |
| 16 | | | | | | | | | | 2.21 | 5.54 | 5.39 | 5.23 |
| 17 | | | | | | | | | | | 2.08 | 4.71 | 5.24 |
| 18 | | | | | | | | | | | | | 1.96 |

These percentages incorporate the switch from declining balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 13:
## 150% Declining Balance—All Lives—Mid-Quarter Convention, Property Placed in Service 3rd Quarter

**For property placed in service after 1986**

- *Regular tax depreciation for qualified Indian reservation property placed in service in 1994–2020 with a nine-year or 12-year recovery period.*
- *AMT depreciation for tangible personal property (three-year, five-year, seven-year and 10-year recovery period).*
  - *For assets placed in service after 1998, used GDS recovery period.*
  - *For assets placed in service before 1999, use ADS recovery period.*

**Recovery periods in years**

| Year | 2.5 | 3 | 3.5 | 4 | 5 | 6 | 6.5 | 7 | 7.5 | 8 | 8.5 | 9 | 9.5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 22.50% | 18.75% | 16.07% | 14.06% | 11.25% | 9.38% | 8.65% | 8.04% | 7.50% | 7.03% | 6.62% | 6.25% | 5.92% |
| 2 | 46.50 | 40.63 | 35.97 | 32.23 | 26.63 | 22.66 | 21.08 | 19.71 | 18.50 | 17.43 | 16.48 | 15.63 | 14.85 |
| 3 | 27.56 | 25.00 | 22.57 | 20.46 | 18.64 | 16.99 | 16.22 | 15.48 | 14.80 | 14.16 | 13.57 | 13.02 | 12.51 |
| 4 | 3.44 | 15.62 | 22.57 | 20.46 | 16.56 | 14.06 | 13.10 | 12.27 | 11.84 | 11.51 | 11.18 | 10.85 | 10.53 |
| 5 | | | 2.82 | 12.79 | 16.57 | 14.06 | 13.10 | 12.28 | 11.48 | 10.78 | 10.18 | 9.64 | 9.17 |
| 6 | | | | | 10.35 | 14.06 | 13.11 | 12.27 | 11.48 | 10.78 | 10.17 | 9.65 | 9.17 |
| 7 | | | | | | 8.79 | 13.10 | 12.28 | 11.48 | 10.78 | 10.18 | 9.64 | 9.18 |
| 8 | | | | | | | 1.64 | 7.67 | 11.48 | 10.79 | 10.17 | 9.65 | 9.17 |
| 9 | | | | | | | | | 1.44 | 6.74 | 10.18 | 9.64 | 9.18 |
| 10 | | | | | | | | | | | 1.27 | 6.03 | 9.17 |
| 11 | | | | | | | | | | | | | 1.15 |

**Recovery periods in years**

| Year | 10 | 10.5 | 11 | 11.5 | 12 | 12.5 | 13 | 13.5 | 14 | 15 | 16 | 16.5 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 5.63% | 5.36% | 5.11% | 4.89% | 4.69% | 4.50% | 4.33% | 4.17% | 4.02% | 3.75% | 3.52% | 3.41% | 3.31% |
| 2 | 14.16 | 13.52 | 12.94 | 12.41 | 11.91 | 11.46 | 11.04 | 10.65 | 10.28 | 9.63 | 9.05 | 8.78 | 8.53 |
| 3 | 12.03 | 11.59 | 11.18 | 10.79 | 10.43 | 10.08 | 9.77 | 9.46 | 9.18 | 8.66 | 8.20 | 7.98 | 7.78 |
| 4 | 10.23 | 9.93 | 9.65 | 9.38 | 9.12 | 8.88 | 8.64 | 8.41 | 8.20 | 7.80 | 7.43 | 7.26 | 7.09 |
| 5 | 8.75 | 8.51 | 8.33 | 8.16 | 7.98 | 7.81 | 7.64 | 7.48 | 7.32 | 7.02 | 6.73 | 6.60 | 6.47 |
| 6 | 8.75 | 8.34 | 7.97 | 7.63 | 7.33 | 7.05 | 6.79 | 6.65 | 6.54 | 6.31 | 6.10 | 6.00 | 5.90 |
| 7 | 8.75 | 8.34 | 7.97 | 7.63 | 7.33 | 7.05 | 6.79 | 6.55 | 6.31 | 5.90 | 5.55 | 5.45 | 5.38 |
| 8 | 8.74 | 8.34 | 7.97 | 7.63 | 7.33 | 7.05 | 6.79 | 6.54 | 6.31 | 5.90 | 5.55 | 5.38 | 5.23 |
| 9 | 8.75 | 8.34 | 7.97 | 7.63 | 7.33 | 7.05 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.39 | 5.23 |
| 10 | 8.74 | 8.34 | 7.97 | 7.63 | 7.32 | 7.05 | 6.79 | 6.54 | 6.31 | 5.90 | 5.55 | 5.38 | 5.23 |
| 11 | 5.47 | 8.35 | 7.96 | 7.63 | 7.33 | 7.05 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.39 | 5.23 |
| 12 | | 1.04 | 4.98 | 7.64 | 7.32 | 7.04 | 6.80 | 6.54 | 6.31 | 5.90 | 5.55 | 5.38 | 5.23 |
| 13 | | | | 0.95 | 4.58 | 7.05 | 6.79 | 6.55 | 6.32 | 5.91 | 5.55 | 5.39 | 5.22 |
| 14 | | | | | | 0.88 | 4.25 | 6.54 | 6.31 | 5.90 | 5.55 | 5.38 | 5.23 |
| 15 | | | | | | | | 0.82 | 3.95 | 5.91 | 5.55 | 5.39 | 5.22 |
| 16 | | | | | | | | | | 3.69 | 5.55 | 5.38 | 5.23 |
| 17 | | | | | | | | | | | 3.47 | 5.39 | 5.22 |
| 18 | | | | | | | | | | | | 0.67 | 3.27 |

These percentages incorporate the switch from declining balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 14:
## 150% Declining Balance—All Lives—Mid-Quarter Convention, Property Placed in Service 4th Quarter

**For property placed in service after 1986**

- *Regular tax depreciation for qualified Indian reservation property placed in service in 1994–2020 with a nine-year or 12-year recovery period.*
- *AMT depreciation for tangible personal property (three-year, five-year, seven-year and 10-year recovery period).*
  - *– For assets placed in service after 1998, use GDS recovery period.*
  - *– For assets placed in service before 1999, use ADS recovery period.*

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2.5** | **3** | **3.5** | **4** | **5** | **6** | **6.5** | **7** | **7.5** | **8** | **8.5** | **9** | **9.5** |
| 1 | 7.50% | 6.25% | 5.36% | 4.69% | 3.75% | 3.13% | 2.88% | 2.68% | 2.50% | 2.34% | 2.21% | 2.08% | 1.97% |
| 2 | 55.50 | 46.88 | 40.56 | 35.74 | 28.88 | 24.22 | 22.41 | 20.85 | 19.50 | 18.31 | 17.26 | 16.32 | 15.48 |
| 3 | 26.91 | 25.00 | 23.18 | 22.34 | 20.21 | 18.16 | 17.24 | 16.39 | 15.60 | 14.88 | 14.21 | 13.60 | 13.03 |
| 4 | 10.09 | 21.87 | 22.47 | 19.86 | 16.40 | 14.06 | 13.26 | 12.87 | 12.48 | 12.09 | 11.70 | 11.33 | 10.98 |
| 5 | | | 8.43 | 17.37 | 16.41 | 14.06 | 13.10 | 12.18 | 11.41 | 10.74 | 10.16 | 9.65 | 9.24 |
| 6 | | | | | 14.35 | 14.06 | 13.10 | 12.18 | 11.41 | 10.75 | 10.16 | 9.65 | 9.17 |
| 7 | | | | | | 12.31 | 13.10 | 12.19 | 11.41 | 10.74 | 10.16 | 9.64 | 9.17 |
| 8 | | | | | | | 4.91 | 10.66 | 11.41 | 10.75 | 10.16 | 9.65 | 9.17 |
| 9 | | | | | | | | | 4.28 | 9.40 | 10.17 | 9.64 | 9.17 |
| 10 | | | | | | | | | | | 3.81 | 8.44 | 9.18 |
| 11 | | | | | | | | | | | | | 3.44 |

| Year | Recovery periods in years | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **10** | **10.5** | **11** | **11.5** | **12** | **12.5** | **13** | **13.5** | **14** | **15** | **16** | **16.5** | **17** |
| 1 | 1.88% | 1.79% | 1.70% | 1.63% | 1.56% | 1.50% | 1.44% | 1.39% | 1.34% | 1.25% | 1.17% | 1.14% | 1.10% |
| 2 | 14.72 | 14.03 | 13.40 | 12.83 | 12.31 | 11.82 | 11.37 | 10.96 | 10.57 | 9.88 | 9.27 | 8.99 | 8.73 |
| 3 | 12.51 | 12.03 | 11.58 | 11.16 | 10.77 | 10.40 | 10.06 | 9.74 | 9.44 | 8.89 | 8.40 | 8.17 | 7.96 |
| 4 | 10.63 | 10.31 | 10.00 | 9.70 | 9.42 | 9.15 | 8.90 | 8.66 | 8.43 | 8.00 | 7.61 | 7.43 | 7.25 |
| 5 | 9.04 | 8.83 | 8.63 | 8.44 | 8.24 | 8.06 | 7.87 | 7.69 | 7.52 | 7.20 | 6.90 | 6.75 | 6.61 |
| 6 | 8.72 | 8.32 | 7.95 | 7.63 | 7.33 | 7.09 | 6.96 | 6.84 | 6.72 | 6.48 | 6.25 | 6.14 | 6.03 |
| 7 | 8.72 | 8.31 | 7.96 | 7.63 | 7.33 | 7.05 | 6.78 | 6.53 | 6.31 | 5.90 | 5.66 | 5.58 | 5.50 |
| 8 | 8.72 | 8.32 | 7.95 | 7.62 | 7.33 | 7.05 | 6.78 | 6.53 | 6.31 | 5.90 | 5.54 | 5.38 | 5.22 |
| 9 | 8.72 | 8.31 | 7.96 | 7.63 | 7.33 | 7.05 | 6.78 | 6.53 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 10 | 8.71 | 8.32 | 7.95 | 7.62 | 7.32 | 7.05 | 6.78 | 6.54 | 6.31 | 5.91 | 5.54 | 5.38 | 5.22 |
| 11 | 7.63 | 8.31 | 7.96 | 7.63 | 7.33 | 7.05 | 6.78 | 6.53 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 12 | | 3.12 | 6.96 | 7.62 | 7.32 | 7.04 | 6.78 | 6.54 | 6.30 | 5.91 | 5.55 | 5.38 | 5.22 |
| 13 | | | | 2.86 | 6.41 | 7.05 | 6.78 | 6.53 | 6.31 | 5.90 | 5.54 | 5.38 | 5.23 |
| 14 | | | | | | 2.64 | 5.94 | 6.54 | 6.30 | 5.91 | 5.55 | 5.38 | 5.22 |
| 15 | | | | | | | | 2.45 | 5.52 | 5.90 | 5.54 | 5.37 | 5.23 |
| 16 | | | | | | | | | | 5.17 | 5.55 | 5.38 | 5.22 |
| 17 | | | | | | | | | | | 4.85 | 5.37 | 5.23 |
| 18 | | | | | | | | | | | | 2.02 | 4.57 |

These percentages incorporate the switch from declining balance (DB) to straight-line (SL) method when SL yields a larger deduction.

**Note:** For early disposition, see *Convention in Year of Disposition* on Page 2-7.

## MACRS Table 26: Two-Year Qualified Indian Reservation Property, 200% Declining Balance—Half-Year and Mid-Quarter Conventions

For property placed in service in 1994–2020

| Year | Half-Year Convention | Mid-Quarter Convention–Quarter in Which Acquired | | | |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 |
| 1 | 50.00% | 87.50% | 62.50% | 37.50% | 12.50% |
| 2 | 50.00 | 12.50 | 37.50 | 62.50 | 87.50 |

**Note:** See *Indian Reservation Property* on Page 2-5 for more information.

## MACRS Table 27: Four-Year Qualified Indian Reservation Property, 200% Declining Balance—Half-Year and Mid-Quarter Conventions

For property placed in service in 1994–2020

| Year | Half-Year Convention | Mid-Quarter Convention–Quarter in Which Acquired | | | |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 |
| 1 | 25.00% | 43.75% | 31.25% | 18.75% | 6.25% |
| 2 | 37.50 | 28.13 | 34.37 | 40.63 | 46.87 |
| 3 | 18.75 | 14.06 | 17.19 | 20.31 | 23.44 |
| 4 | 12.50 | 12.50 | 12.50 | 12.50 | 12.50 |
| 5 | 6.25 | 1.56 | 4.69 | 7.81 | 10.94 |

**Note:** See *Indian Reservation Property* on Page 2-5 for more information.

## MACRS Table 28: Six-Year Qualified Indian Reservation Property, 200% Declining Balance—Half-Year and Mid-Quarter Conventions

For property placed in service in 1994–2020

| Year | Half-Year Convention | Mid-Quarter Convention–Quarter in Which Acquired | | | |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 |
| 1 | 16.67% | 29.17% | 20.83% | 12.50% | 4.17% |
| 2 | 27.78 | 23.61 | 26.39 | 29.17 | 31.94 |
| 3 | 18.52 | 15.74 | 17.59 | 19.44 | 21.30 |
| 4 | 12.35 | 10.49 | 11.73 | 12.96 | 14.20 |
| 5 | 9.87 | 9.88 | 9.88 | 9.88 | 9.87 |
| 6 | 9.87 | 9.88 | 9.88 | 9.88 | 9.88 |
| 7 | 4.94 | 1.23 | 3.70 | 6.17 | 8.64 |

**Note:** See *Indian Reservation Property* on Page 2-5 for more information.

**Note:** Use *MACRS Table 1* to compute depreciation for qualified Indian reservation property with a three-year recovery period, and *MACRS Table 10–MACRS Table 14* to compute depreciation for qualified Indian reservation property with a nine-year or 12-year recovery period.

## MACRS Table 29:
## 22-Year Qualified Indian Reservation Property, Straight Line—Mid-Month Convention

**For property placed in service in 1994–2020**

| Year | Month Placed in Service | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| 1 | 4.356% | 3.977% | 3.598% | 3.220% | 2.841% | 2.462% | 2.083% | 1.705% | 1.326% | 0.947% | 0.568% | 0.189% |
| 2–3 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 | 4.545 |
| 4 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 5 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 6 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 7 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 8 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 9 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 10 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 |
| 11 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 12 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 13 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 14 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 15 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 16 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 17 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 18 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 19 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 20 | 4.546 | 4.546 | 4.546 | 4.546 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 21 | 4.545 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.545 |
| 22 | 4.546 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.545 | 4.545 | 4.546 | 4.546 | 4.546 |
| 23 | 0.189 | 0.568 | 0.947 | 1.326 | 1.705 | 2.083 | 2.462 | 2.841 | 3.220 | 3.598 | 3.977 | 4.356 |

**Note:** See *Indian Reservation Property* on Page 2-5 for more information.

## MACRS Table 30:
## Straight-Line—30-Year—Mid-Month Convention

**For property placed in service after 2017**

- *Alternative Depreciation System for residential rental property placed in service after 2017.*
- *Can be elected for regular tax and AMT.*

| Year | Month Placed in Service | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| 1 | 3.204% | 2.926% | 2.649% | 2.371% | 2.093% | 1.815% | 1.528% | 1.250% | 0.972% | 0.694% | 0.417% | 0.139% |
| 2–30 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 | 3.333 |
| 31 | 0.139 | 0.417 | 0.694 | 0.972 | 1.250 | 1.528 | 1.815 | 2.093 | 2.371 | 2.649 | 2.926 | 3.204 |

**Note:** For early disposition, pro-rate the depreciation from this table for the number of months in service in the disposition year (using mid-month convention).
**Source:** Rev. Proc. 2019-8.

***— End of Tab 4 —***

**Controlled group.** When a corporation is a member of a controlled group (greater than 50% ownership), the annual dollar and qualifying property limitations are apportioned among the members of the group [IRC Sec. 179(d)(6)]. In addition, property purchased from another group member does not qualify as Section 179 property. See *Controlled Groups* on Page 5-3 for more information.

# Increased Limits for Targeted Areas

## Enterprise Zone Businesses ~~(Pre-2018)~~

An enterprise zone business (defined in IRC Sec. 1397C) that places qualified zone property in service in an empowerment zone before 2021 can increase its Section 179 deduction and qualifying property limits. See *Glossary* on Page 13-5 for a list of the empowerment zones.

**Qualified zone property.** This is property depreciable under IRC Sec. 168 (MACRS) that meets all of the following requirements (IRC Sec. 1397D):

1) The taxpayer acquires it by purchase after the date the empowerment zone designation took effect.
2) Its original use in an empowerment zone commences with the taxpayer. Used property may qualify as long as it has not previously been used in the empowerment zone.
3) Substantially all of its use is in an empowerment zone in the active conduct of a qualified business by the taxpayer in the zone.

**Observation:** Presumably, *qualified business* in item 3 has the same meaning as in IRC Sec. 1397C, which defines an enterprise zone business.

**Substantial renovation.** Requirements 1 and 2 above are considered satisfied if the taxpayer substantially renovates the property. Property is substantially renovated if, during any 24-month period beginning after the date the zone designation takes effect, additions to the taxpayer's basis of the property exceed the taxpayer's adjusted basis at the beginning of the 24-month period (or, if greater, $5,000).

**Sale-leaseback.** For requirement 2 above, property that is sold and leased back by the taxpayer within three months after the date it was originally placed in service is treated as originally placed in service not earlier than the date it is used under the leaseback.

**Annual deduction limit.** The annual Section 179 deduction limit is increased by the smaller of [IRC Sec. 1397A(a)]:

- $35,000 or
- The cost of Section 179 property that is also qualified zone property placed in service during the year.

**Qualifying property threshold.** Only 50% of the cost of qualified zone property placed in service is counted when determining whether the qualifying property threshold has been exceeded.

**Caution:** Qualified Section 179 disaster assistance property [see *Disaster Assistance Property (Pre-2013)* on Page 5-2] is not treated as qualified zone property unless the taxpayer elects not to treat the property as qualified Section 179 disaster assistance property.

## Disaster Assistance Property (Pre-2013)

An increased Section 179 deduction was available for qualified Section 179 disaster assistance property placed in service in a federally declared disaster area if the disaster was declared after 2007 and occurred before 2010 [former IRC Sec. 179(e)]. A list of the federally declared disaster areas is available at **www.fema.gov**.

Qualified Section 179 disaster assistance property is property that qualifies for Section 179 expensing (see *Qualifying Property* on Page 5-6), is placed in service after 2007 and is qualified disaster assistance property. Generally, qualified disaster assistance property is property acquired by purchase on or after the applicable disaster date that rehabilitates or replaces property damaged, destroyed or condemned as a result of the federally declared disaster. The property must be placed in service by the last day of the third calendar year following the applicable disaster date [former IRC Sec. 168(n)(2)].

**Example:** A disaster occurred in a federally declared disaster area on January 2, 2009. John Smith placed property that qualified for Section 179 expensing in service on December 30, 2012. This property meets the requirements to be considered qualified Section 179 disaster assistance property for 2012 as it was placed in service on or before December 31, 2012 (the end of the third calendar year following the applicable disaster date).

**Annual deduction limit.** The annual Section 179 deduction limit was increased by the smaller of [former IRC Sec. 179(e)(1)]:

- $100,000 or
- The cost of qualified Section 179 disaster assistance property placed in service during the year.

**Qualifying property threshold.** The qualifying property threshold was increased by the smaller of:

- $600,000 or
- The cost of qualified Section 179 disaster assistance property placed in service during the tax year.

## Other Targeted Areas

**Renewal communities.** The increased Section 179 deduction rules that apply to qualified zone property placed in service by an enterprise zone business [see *Enterprise Zone Businesses ~~(Pre-2018)~~* on Page 5-2] apply to qualified renewal property placed in service before 2010 by a renewal community business [former IRC Sec. 1400J(a)].

**New York Liberty Zone.** For NY Liberty Zone assets placed in service before 2007, the annual expensing limit was increased by up to $35,000, and only 50% of the cost of qualifying assets was counted toward the qualifying property threshold [former IRC Sec. 1400L(f)].

**Gulf Opportunity (GO) Zone**. The expensing limit and qualifying property thresholds were increased by up to $100,000 and $600,000, respectively, for GO Zone property placed in service before 2008 [former IRC Sec. 1400N(e)].

**Kansas disaster area.** The rules for increasing the Section 179 expensing limit that applied to GO Zone property also apply to qualified recovery assistance property (property placed in service in the Kansas disaster area) placed in service before 2009 [P.L. 110-246, Sec. 15345(d)(2)].

## Recapture of Additional Expensing

If any qualified disaster assistance property placed in service during the year ceases to be qualified disaster assistance property in a later year, the benefit of the increased Section 179 deduction must be recaptured [IRC Sec. 179(d)(10) and former (e)(4)].

Similar rules apply to:

- Qualified zone property that ceases to be used in an empowerment zone by an enterprise business [IRC Sec. 1397A(b)].

<table>
<tr><th colspan="3">Comparison of Standard Mileage Rate and Actual Cost Methods (2019)[1]</th></tr>
<tr><td colspan="3">Note: See Rev. Proc. 2010-51 and Rev. Proc. 2019-46 for detailed definitions and discussion of using standard mileage rates. Annual mileage rates are published in an IRS notice. See Notice 2019-2 for 2019 amounts and Notice 2020-5 for 2020 amounts.</td></tr>
<tr><th></th><th>Standard Mileage Rate Method</th><th>Actual Cost Method</th></tr>
<tr><td>Available to</td><td>• Self-employed individuals using a car for business (including rental activities, certain taxpayers entitled to deduct unreimbursed employee travel expenses as an adjustment to income) and employees requesting expense reimbursements under an accountable plan (business mileage rate).<br>• Individuals using a car for charitable, medical or certain military moving purposes (charitable, medical or moving rate).<br>• Taxpayers who use the car for hire (such as a taxi).<br>Exceptions: Not available to taxpayers who:<br>• Use five or more cars simultaneously in their business.<br>• Claimed depreciation using a method other than SL, a Section 179 deduction or special depreciation allowance for the car.<br>• Previously claimed actual car expense for a car they lease.<br>• Are using an employer-provided vehicle for business.<br>• Are rural mail carriers and receive a qualified reimbursement.</td><td>Any taxpayer using a car for business (including rental activities), charitable, medical or certain military moving purposes.<br>Taxpayers can convert from the standard mileage method to the actual cost method any year. If the vehicle is not fully depreciated, the taxpayer must use SL depreciation based on remaining useful life.</td></tr>
<tr><td>Calculating the deduction</td><td>Multiply the following rates per mile by the number of miles driven:<br>• Business—58¢ per mile.<br>• Charitable—14¢ per mile.<br>• Medical—20¢ per mile.<br>• Certain military-related moves—20¢ per mile.<br>No additional deductions are allowed for the actual costs of owning and operating the car (such as depreciation or lease payments, maintenance, repairs, tires, gasoline, oil, insurance, and registration fees).</td><td>Determine percentage of use (based on miles driven) for business, charitable, medical or certain military-related moving purposes. Apply that percentage to actual expenses of owning and operating the vehicle, including: gasoline and oil, tires, lease payments, maintenance and repairs, insurance, registration fees and licenses and basis for depreciation/Section 179 expensing.<br>Exception: For charitable, medical or certain military-related moving use may deduct actual out-of-pocket costs directly attributable to use. No portion of depreciation, Section 179 expense, insurance or general maintenance expenses can be deducted.</td></tr>
<tr><td>Additional deductible expenses</td><td colspan="2">• Parking fees and tolls for business, charitable, medical, or certain military moving use.<br>• Business percentage of interest and personal property taxes. Exception: Employees must treat all interest as personal interest [IRC Sec. 163(h)(2)(A)].<br>• Nonbusiness percentage of personal property taxes (itemized deduction).</td></tr>
<tr><td>Depreciation and Section 179 rules</td><td>• Basis reduced (but not below zero) for business miles driven:<br>Year / Cents per mile<br>2001–2002........15¢<br>2003–2004........16<br>2005–2006........17<br>2007.................19<br>2008–2009..........21¢<br>2010....................23<br>2011....................22<br>2012–2013..........23<br>2014.................22¢<br>2015–2016.......24<br>2017–2018.......25<br>2019.................26<br>• No Section 179 expense or special depreciation allowance available.</td><td>• Generally, 200% DB five-year recovery period. But, can elect SL over five years (ADS) or 150% DB over five years (AMT method). See Tab 4 for MACRS depreciation tables.<br>• Annual depreciation and first-year Section 179 expense limited under IRC Sec. 280F for passenger autos.<br>• If used 50% or less for business, must use SL/five-year recovery period. No Section 179 expense or special depreciation allowance available.</td></tr>
<tr><td colspan="3">[1] These methods are available for cars, which include vans, pickups, and panel trucks.</td></tr>
</table>

**Impact on deductions.** When the special depreciation allowance or Section 179 expensing is available, the actual cost method often results in larger deductions than the standard mileage rate in the year the vehicle is placed in service. But, vehicles for which the actual cost method is used in the year placed in service must continue on the actual cost method, even if the standard mileage rate produces larger deductions in later years.

## Rules for Multiple Vehicles

**Five or more vehicles used in the same business.** The standard mileage method is not available when a taxpayer uses five or more autos at the same time in the same business (for example, taxpayer and his employees use different autos owned by the taxpayer), but it can be used if a taxpayer alternates between (uses at different times) five or more autos in the same business.

**Two autos used in different businesses.** A taxpayer can use either the standard mileage or actual cost method for either or both autos. This rule applies when spouses use different autos in different businesses.

**One auto disposed of, another purchased.** Taxpayers can use either the standard mileage or actual cost method for the replacement auto regardless of the method used for the first auto during the same year.

## Leased Vehicles

A taxpayer can deduct the business/investment-use portion of lease payments in any tax year, in addition to the business/investment-use percentage of other out-of-pocket operating costs for the vehicle.

### Deductions for Leased Vehicles

**Available to:** Any taxpayer using a leased vehicle for business or investment.
**How to compute deduction:**
*Actual Cost Method*
- Determine business/investment use percentage based on miles driven.
- Apply that percentage to *actual cost* of the following:
  - Upkeep/repairs.
  - Tires.
  - Gasoline/oil.
  - Insurance.
  - Registration fees.
  - Lease payments (adjustment for income inclusion amount may be required).
  - Other.
- *Income inclusion*—Taxpayers leasing vehicles may have to include in gross income an amount based on the value of the vehicle, number of days leased during the year and percentage of business/investment use.

*Standard Mileage Rate Method*
- Deductions for leased vehicles may be computed using the standard mileage rate rather than actual expenses.

**Additional deductible expenses:** Business/investment-related parking fees and tolls.

## Income Inclusion Rules

- If a passenger automobile (see *Passenger Automobiles* on Page 6-5 for definition) is leased for 30 days or more, an amount may have to be included in income for each tax year the vehicle is leased. For vehicles first leased in 2019, the income inclusion applies when the vehicle's FMV exceeds $50,000 (Rev. Proc. 2019-26). See the *Lease Income Inclusion Tables—Passenger Autos Leased in 2017–2019* on Page 6-13.
- The deductible portion of the lease payment is reduced by the amount of the income inclusion.
- For determining the lease income inclusion amount, the FMV of the leased vehicle is the capitalized cost of the auto, if that cost is specified in the lease agreement.
- The taxpayer may refer to a publication [such as a National Automobile Dealers Association (NADA) book or the Kelley Blue Book] or a website (such as **www.nadaguides.com**) to determine a FMV if the capitalized cost is not specified.


- Lease inclusion amounts are specified in the *Lease Income Inclusion Tables—Passenger Autos Leased in 2017–2019* on Page 6-13 and *Lease Income Inclusion Tables—Passenger Autos Leased in 2016* on Page 6-14.
- The preceding year lease income inclusion amounts are used in the final year of the lease unless the lease begins and ends in the same tax year [Reg. 1.280F-7(a)(2)(i)].

**Example:** On January 16, 2019, Vicki leases a car for three years for use in her business. The car has a FMV of $61,250 on the first day of the lease term. Vicki uses the car for 65% business and 35% personal use. Each year, Vicki deducts as lease expense on her Schedule C the business-use percentage of the lease payments, reduced by the inclusion amounts shown below.

| Tax Year | Inclusion Amount | Pro-ration | Business Use | Income Inclusion |
|---|---|---|---|---|
| 2019 | $ 46 | 350/365 | 65% | $ 29 |
| 2020 | 102 | 366/366 | 65 | 66 |
| 2021 | 151 | 365/365 | 65 | 98 |
| 2022[1] | 151 | 15/365 | 65 | 4 |

[1] Preceding year's lease inclusion amount used in final year of the lease.

**Observation:** Using the standard mileage rate will avoid the lease income inclusion. However, this may not be beneficial since the lease payment (net of the lease income inclusion) plus actual expenses will often be greater than the standard mileage deduction.

## Alternative Motor Vehicle Credit

~~**Expired Provision Alert:**~~ For vehicles purchased from 2006–2020, the alternative motor vehicle credit is available for qualified fuel cell motor vehicles (IRC Sec. 30B). ~~This discussion is included in the event the credit is extended.~~

**Qualified fuel cell motor vehicle.** These include, for example, vehicles that run on hydrogen power cells. Only new vehicles placed in service after 2005 and purchased before 2021 qualify for the credit.

The IRS will certify the credit amount for qualifying vehicles. Taxpayers can rely on this certification (Notice 2006-9).

**Note:** Taxpayers may rely on the manufacturer's (or, if a foreign manufacturer, its domestic distributor's) certification that a make, model, and model year of a vehicle qualifies for the credit, and the amount of the credit allowable for that vehicle (Notice 2008-33).

**Observation:** Credits were also available for the following vehicles placed in service before 2011 [IRC Sec. 30B(k)]:

- Qualified hybrid vehicles.
- Qualified alternative fuel motor vehicles and heavy hybrids.
- Advanced lean-burn technology vehicles.

### Reporting

Form 8910 (Alternative Motor Vehicle Credit) is used to claim the alternative motor vehicle credit. The business/investment-use percentage of the credit is part of the general business credit.

The personal-use portion of the credit is transferred to 2017 Form 1040, line 54 (check box c and write "8910" in the space next to that box). This credit can offset both regular tax and AMT. Any part of the personal-use portion of the credit that can't be used in the current year is lost. It cannot be carried over to other years.

### Recapture

The IRS has been instructed to issue regulations on the rules for recapturing the credits for vehicles that cease to qualify for the credits [IRC Sec. 30B(h)(8)], except that no recapture will be required if the vehicle ceases to qualify because it is converted to a qualified plug-in electric drive motor vehicle. As of the date of this publication, no regulations have been issued.

## Credits for Plug-In Vehicles

### Plug-In Electric Drive Motor Vehicle Credit

Taxpayers can claim a credit for each new qualifying vehicle purchased for use or for lease, but not for resale. The credit amount ranges from $2,500 to $7,500. The portion of the credit attributable to the vehicle's business-use percentage is treated as part of the taxpayer's general business credit. The remainder is a nonrefundable personal credit that can offset both regular tax and AMT (IRC Sec. 30D).

**Qualifying vehicles.** These are new four-wheeled plug-in electric vehicles manufactured primarily for use on public streets, roads, and highways that meet certain technical requirements and the original use of the vehicle began with the taxpayer.

However, the following do not qualify:

1) Vehicles manufactured primarily for off-road use (such as golf carts).
2) Vehicles weighing 14,000 pounds or more.
3) Low-speed vehicles.

**Manufacturer's certification.** The IRS will acknowledge a manufacturer's (or in the case of a foreign vehicle manufacturer, its domestic distributor's) certification that a vehicle meets the standards to qualify for the credit. Taxpayers may rely on such a certification (Notice 2009-89).

The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles manufactured by that manufacturer have been sold for use in the U.S. (determined cumulatively for sales after 2009). For General Motors, LLC and Tesla, Inc. the phaseout period begins in 2019. For the latest information on the phase out amounts, see the IRS website at **www.irs.gov/businesses/irc-30d-new-qualified-plug-in-electric-drive-motor-vehicle-credit**.

**Note:** A vehicle is considered acquired on the date when title to that vehicle passes under state law (Notice 2009-89).

## Reporting

The credit for plug-in electric drive motor vehicles is claimed on Form 8936. The portion of the credit attributable to business/investment use of the vehicle is part of the general business credit. The remainder is a personal nonrefundable credit that can offset regular tax and AMT. It is reported on Form 1040, Schedule 3, line 6 (check box c and write "8936" in the space next to that box). Any part of the personal-use portion of the credit that cannot be used is lost. It cannot be carried over to other years.

Line 4b is used for GM and Tesla vehicles purchased after 2018 that are subject to the credit phaseout.

**Vehicles Certified for the Plug-In Electric Drive Motor Vehicle Credit[1] (Vehicles Acquired After 2016)**

| Model Year | Vehicle Description | Credit |
|---|---|---|
| 2017, 2018 | Audi A3 e-tron | $ 4,502 |
| 2019 | Audi e-tron SUV | 7,500 |
| 2017–2019 | BMW i3 Sedan with Ranger Extender | 7,500 |
| 2017–2019 | BMW i3 Sedan | 7,500 |
| 2017 | BMW i3 (60Ah) Sedan | 7,500 |
| 2018, 2019 | BMW i3s Sedan | 7,500 |
| 2018, 2019 | BMW i3s Sedan with Ranger Extender | 7,500 |
| 2017 | BMW i8 | 3,793 |
| 2019 | BMW i8 Coupe | 5,669 |
| 2019 | BMW i8 Roadster | 5,669 |
| 2017, 2018 | BMW X5 xDrive 40e | 4,668 |
| 2017, 2018 | BMW 330e | 4,001 |
| 2018, 2019 | BMW 530e | 4,668 |
| 2020 | BMW 530e | 5,836 |
| 2018, 2019 | BMW 530e xDrive | 4,668 |
| 2020 | BMW 530e xDrive | 5,836 |
| 2017 | BMW 740e | 4,668 |
| 2018, 2019 | BMW 740e xDrive | 4,668 |
| 2020 | BMW 745e xDrive | 5,836 |
| 2017 | BYD e6 Electric Vehicle | 7,500 |
| 2017–2019 | Chrysler Pacifica PHEV | 7,500 |
| 2017–2019 | Fiat 500e | 7,500 |
| 2017, 2018 | Ford Focus Electric | 7,500 |
| 2017 | Ford C-MAX Energi | 4,007 |
| 2017, 2018 | Ford Fusion Energi | 4,007 |
| 2019 | Ford Fusion Energi | 4,609 |
| 2017, 2018 | GM Cadillac CT6 Plug-in[2] | 7,500[2] |
| 2017–2019 | GM Chevrolet Bolt[2] | 7,500[2] |
| 2017–2019 | GM Chevrolet Volt[2] | 7,500[2] |
| 2018, 2019 | Honda Clarity Plug-in Hybrid | 7,500 |
| 2017, 2018 | Hyundai Sonata Plug-in Hybrid Electric Vehicle | 4,919 |
| 2017–2019 | Hyundai Ioniq Electric Battery Vehicle | 7,500 |
| 2018, 2019 | Hyundai Ioniq Plug-in Hybrid Electric Vehicle | 4,543 |
| 2019 | Hyundai Kona Electric Vehicle | 7,500 |
| 2019 | Jaguar I-Pace (First Edition, HSE, SE, S models) | 7,500 |
| 2020 | Jaguar I-Pace (HSE, SE, S models) | 7,500 |
| 2018 | Karma Revero | 7,500 |
| 2019, 2020 | Kandi EX3 | 7,500 |
| 2019, 2020 | Kandi K22 | 7,500 |
| 2020 | Kandi K23 | 7,500 |
| 2017–2019 | Kia Soul Electric | 7,500 |
| 2017–2019 | Kia Optima Plug-in Hybrid | 4,919 |
| 2019 | Kia Niro EV | 7,500 |
| 2018, 2019 | Kia Niro Plug-in Hybrid | 4,543 |
| 2019 | Land Rover Range Rover PHEV (HSE) | 7,087 |
| 2019 | Land Rover Range Rover Sport PHEV (HSE) | 7,087 |
| 2017 | Mercedes S550e PHEV | 4,460 |
| 2017, 2018 | Mercedes-Benz smart Cabrio EV | 7,500 |
| 2017, 2018 | Mercedes-Benz smart Coupe EV | 7,500 |
| 2017, 2018 | Mercedes-Benz C350e PHEV | 3,501 |
| 2018, 2019 | Mercedes GLC350e 4M PHEV | 4,460 |
| 2017, 2018 | Mercedes-Benz GLE550e 4m PHEV | 4,460 |

**Vehicles Certified for the Plug-In Electric Drive Motor Vehicle Credit[1] (Vehicles Acquired After 2016)**

| Model Year | Vehicle Description | Credit |
|---|---|---|
| 2017 | Mercedes-Benz B-Class EV | $ 7,500 |
| 2019 | Mercedes-Benz smart EQ Fortwo Coupe | 7,500 |
| 2019 | Mercedes-Benz smart EQ Fortwo Cabrio | 7,500 |
| 2018, 2019 | MINI Cooper SE Countryman ALL4 | 4,001 |
| 2017 | Mitsubishi i-MiEV | 7,500 |
| 2018, 2019 | Mitsubishi Outlander Plug-in Hybrid | 5,836 |
| 2017–2019 | Nissan LEAF | 7,500 |
| 2018 | Porsche Panamera 4 PHEV (Five certified models—see IRS website) | 6,670 |
| 2019 | Porsche Panamera 4 PHEV (Six certified models—see IRS website) | 6,712 |
| 2017, 2018 | Porsche Cayenne S E-Hybrid | 5,336 |
| 2019 | Porsche Cayenne S E-Hybrid | 6,712 |
| 2019 | Subaru Crosstek Hybrid | 4,502 |
| 2017–2019 | Tesla Model S | 7,500[2] |
| 2017–2019 | Tesla Model X | 7,500[2] |
| 2017–2019 | Tesla Model 3 Long Range | 7,500[2] |
| 2018, 2019 | Tesla Model 3 Mid Range | 7,500[2] |
| 2019 | Tesla Model 3 Long Range AWD and AWD Performance | 7,500[2] |
| All | Tesla Model 3 Standard Range Plus | 7,500[2] |
| 2017–2019 | Toyota Prius Prime Plug-in Hybrid | 4,502 |
| 2017–2019 | Volkswagen e-Golf | 7,500 |
| 2017 | Volvo XC-90 T8 Twin Engine Plug-in Hybrid | 4,585 |
| 2018, 2019 | Volvo XC90, XC90 Excellence, XC60, and S90 | 5,002 |
| 2017 | Zenith Electric Van | 7,500 |
| 2017 | Zenith Electric Minibus | 7,500 |

[1] Current as of publication date. Check IRS website for updates. Search for "Plug-in electric drive motor vehicle."

[2] For General Motors, LLC and Tesla, Inc., the phaseout period begins in 2019. For the latest on the phase out amounts, see the IRS website at **www.irs.gov/businesses/irc-30d-new-qualified-plug-in-electric-drive-motor-vehicle-credit**.

## Two-Wheeled Electric Vehicles

~~Expired Provision Alert:~~ The credit for two-wheeled plug-in electric vehicles is available for property placed in service before 2021 [IRC Sec. 30D(g)(3)(E)(ii)]. ~~This discussion is included in the event the credit is extended.~~

Among other criteria, the vehicle must be (1) capable of achieving a speed of 45 miles per hour or greater and (2) manufactured for use on public roads. The credit equals 10% of the vehicle's cost (limited to $2,500) [IRC Sec. 30D(g)].

## Recapture

The IRS has been instructed to issue regulations on the rules for recapturing the credits for plug-in vehicles that cease to qualify for the credits [IRC Sec. 30D(f)(5)]. As of the date of this publication, no regulations have been issued.

## Lease Income Inclusion Table—Electric Autos

IRC Sec. 280F(a)(1)(C), which directed the use of higher depreciation deduction limits for certain electric automobiles, was applicable only to property placed in service after 2001 and before 2007. Therefore, separate tables are no longer provided for electric automobiles. For electric automobiles placed in service in 2016–2019, taxpayers should use the table for *Inclusion Amount—Cars* in the *Lease Income Inclusion Tables—Passenger Autos Leased in 2017–2019* on Page 6-13 or the *Lease Income Inclusion Tables—Passenger Autos Leased in 2016* on Page 6-14.

surfacing a road is generally depreciable. See *Road Building Costs* on Page 7-7 for analysis of specific costs.

## Other Construction Costs

**Impact fees.** Impact fees (one-time charges to finance specific offsite capital improvements for general public use) paid by developers should be capitalized and added to the cost of newly constructed buildings, rather than considered a cost of the nondepreciable land (Rev. Rul. 2002-9).

**Density variances.** The cost of so-called *density variances* allowing development of larger buildings than would have otherwise been permitted is added to the basis of the depreciable buildings (*Maguire/Thomas Partners Fifth & Grand, Ltd.*, TC Memo 2005-34). The variances have a determinable useful life that is equal to the depreciable lives of the buildings because they would expire if the buildings were ever replaced. In other words, a new variance would have to be obtained if the original buildings were replaced.

**Land and environmental surveys.** These studies generally cover the entire property being developed, not just where the buildings and improvements will be placed. Surveys that help define the property (for example, boundary or mortgage surveys) are related to the land itself and are not depreciable.

Other surveys such as percolation tests and contamination studies are used to determine if a structure can properly be built on the site.

- If the survey will not necessarily need to be redone when the depreciable improvement is replaced, the cost of the survey is associated with the land and, therefore, is not depreciable.
- A survey that must be redone when the depreciable improvement is replaced is added to the basis of the improvement.

*Exception:* The existence of an ordinance requiring that the survey be redone does not mean that the improvement's replacement requires the survey to be replaced (Ltr. Rul. 200043016).

## Energy Efficient Commercial Building Deduction

~~Expired Provision Alert:~~ Taxpayers that own or lease commercial buildings may deduct, rather than capitalize and depreciate, all or part of the cost of qualifying energy efficient commercial building property (IRC Sec. 179D). The deduction is allowed for both new and existing buildings but only for qualifying property placed in service after 2005 and before 2021. ~~Although the deduction for the cost of energy efficient commercial building property has expired for property placed in service after 2017, this discussion is included in the event the deduction is extended.~~

## Qualifying Property

Energy efficient commercial building property is depreciable property that is:

- Installed on or in a building located in the U.S. that is not a (1) single-family house, (2) multi-family structure of three stories or fewer above grade, (3) mobile home, or (4) manufactured house.
- Part of the (1) interior lighting system, (2) heating, cooling, ventilation and hot water systems, or (3) building envelope. Building envelope includes insulation materials primarily designed to reduce heat loss or gain, exterior windows, skylights, exterior doors, and some metal roofs [IRC Sec. 25C(c)(3)].
- Certified that it will reduce or is part of a plan to reduce the overall energy costs of these systems by 50% or more.

## Certification

Before claiming the deduction, the property must be certified as meeting the requirements by an unrelated, qualified and licensed engineer or contractor. Taxpayers must retain the certification in their tax records.

## Deduction Amount

The maximum allowable deduction for any building is $1.80 per building square footage. This is an aggregate limit over all tax years so once it is reached, no further deductions for that building are allowed.

**Example:** Jack operates his sole proprietorship in a small office building he owns. Jack places in service $3,000 of qualified energy saving property in 2018 and $6,000 in 2019. The building has 3,000 square feet.

Jack's total deduction for the expenditures is limited to $5,400 (3,000 square feet × $1.80). Therefore, he deducts the full $3,000 spent in 2018 and $2,400 ($5,400 – $3,000) spent in 2019. The remaining 2019 costs of $3,600 ($6,000 – $2,400) must be capitalized and depreciated.

**Partially qualifying property.** Property that would otherwise qualify, except that it does not meet the 50% energy reduction test, is still eligible for a reduced deduction, limited to 60¢ times the building square footage [IRC Sec. 179D(d)].

**Observation:** The partial deduction is allowed for any energy-saving property installed in an eligible building system (interior lighting; heating, cooling, ventilation and hot water; or building envelope) if it meets the energy-saving target prescribed for that particular system, even if the overall 50% cost reduction is not achieved with regard to the building. See Notices 2006-52, 2008-40 and 2012-26 for the system-specific requirements for partially qualifying property.

**Road Building Costs**

| Type of Cost | Treatment | Authority |
|---|---|---|
| Excavating, grading and removing soil to prepare a roadbed—road is intended to be permanent. | Generally added to the basis of nondepreciable land. | FSA 200021013 |
| Excavating, grading and removing soil to prepare a roadbed—road is temporary. | If the road is temporary (will be used only for a determinable length of time), costs can be depreciated. Whether a road is temporary depends on the original intent, not on the road's physical condition. In the ruling, road built by loggers to harvest a specific tract of trees was temporary. Once the harvest was complete, road would be abandoned. | Rev. Rul. 88-99 |
| Excavating, grading and removing soil to prepare a roadbed—road closely associated with a depreciable asset. | If a road is so closely tied to a depreciable asset that the road will be retired, abandoned or replaced contemporaneously with that asset, costs are depreciable. In the ruling, the roads were between buildings in an industrial complex. | Rev. Rul. 68-193, clarifying Rev. Rul. 65-265 |
| Initial costs of surfacing the road (for example, applying gravel or paving). | Depreciable, regardless of whether the road is temporary or permanent, since the surface is subject to wear and tear (has an expected useful life). | Rev. Rul. 88-99 |
| Costs of resurfacing the road. | Generally, expensed as repairs—see Tab 1. | *Toledo Home Federal Savings and Loan Ass'n.*, 9 AFTR 2d 1109 (DC OH 1962); *W.K. Coors*, 60 TC 368 (1973) |
| Building bridges and culverts. | Depreciable, regardless of whether the road is temporary or permanent. | Rev. Rul. 88-99 |

**Reporting.** C corporations, S corporations and partnerships claim the deduction on the "Other deductions" line of their respective returns. Presumably, individuals report the deduction on the "Other expenses" line of Schedule C, E, or F.

**Basis reduction.** If a deduction is allowed, the basis of the property is reduced by the amount of the deduction.

**Recapture.** The energy efficient commercial building deduction is subject to Section 1245 ordinary income recapture when the building or property is sold [IRC Sec. 1245(a)(2)(C)]. Thus, when the building is sold, gain to the extent of the deduction is taxed as ordinary income.

**Public buildings.** When qualified property is installed on or in property owned by a federal, state or local government, the related energy efficient commercial building deduction is allocated to the person primarily responsible for designing the property instead of the actual building owner (the tax-exempt governmental unit). Public buildings include those owned by public schools. See Notice 2008-40 for how this rule works.

## Builders of Energy Efficient New Homes Credit

~~**Expired Provision Alert:** The credit for builders of energy efficient new homes has expired for homes acquired after 2017. The following discussion is included in the event the credit is extended.~~

Contractors (including producers of manufactured homes) that build new energy efficient homes in the U.S. are eligible for a credit of $2,000 per dwelling unit (IRC Sec. 45L). The credit is reported on Form 8908 (Energy Efficient Home Credit). Partnerships and S corporations transfer the amount to Schedule K. All others carry it to Form 3800 (General Business Credit).

- To qualify, the dwelling unit must be certified to have annual energy consumption for heating and cooling that is at least 50% less than comparable units and meet certain other requirements.
- The credit can also apply to a substantial reconstruction and rehabilitation of an existing dwelling unit.
- A manufactured home that meets a 30% reduced energy consumption standard can generate a $1,000 credit.
- These credits only apply to homes sold by contractors for use as personal residences.
- The contractor's tax basis in the home is reduced by the amount of the credit.
- Construction must be substantially completed after August 8, 2005, and the home must be purchased after 2005 and before 2021.

**Certification.** The IRS issued guidance on the certification process that builders must complete to qualify for the credit. The notices also provide a public list of software programs that may be used in calculating energy consumption for obtaining a certification. See Notice 2008-35 for standard homes rules. Notice 2008-36 covers manufactured homes.

## Nonbusiness Energy Property Credit

~~**Expired Provision Alert:** The nonbusiness energy property credit has expired for property placed in service after 2017. The following discussion is included in the event the credit is extended.~~

Taxpayers are allowed a nonrefundable credit equal to the sum of (1) 10% of the cost of qualified energy efficiency improvements and (2) the amount of residential energy property expenditures (up to certain limits). The credit is limited to $500 (of which only $200 may be used for windows) per taxpayer. This is a lifetime limit. The property must be new property, and it must be installed in or on the taxpayer's principal residence (including a manufactured home) in the U.S. The credit applies to property placed in service in 2006, 2007, and 2009–2020.

### Qualified Energy Efficiency Improvements

These improvements are building envelope components, such as [IRC Sec. 25C(c)(3)]:

1) Insulation materials or systems designed to reduce the heat loss or gain of a dwelling unit;
2) Exterior doors and windows (including skylights); and
3) Metal or asphalt roofs installed on a dwelling unit (including manufactured homes), but only if they are designed to reduce the heat gain of such dwelling unit.

### Residential Energy Property Expenditures

Expenditures must be for the following types of property (including labor costs for onsite preparation, assembly or original installation of the property) [IRC Sec. 25C(d)(2); Ltr. Rul. 201130003]:

1) Energy efficient building property (such as certain electric heat pumps, water heaters, biomass fuel stoves, and central air conditioners) (up to $300);
2) A qualified natural gas, propane or oil furnace or hot water boiler (up to $150); or
3) An advanced main air circulating fan (up to $50).

### Certification Requirements

Taxpayers must receive a proper certification from the manufacturer for property on which they plan to take the credit. Notices 2009-53 and 2013-70 provide that taxpayers may rely on the manufacturer's certification to claim the credit, except as specified therein.

### Allocation of Costs

Costs eligible for the nonbusiness energy property credit (IRC Sec. 25C) and the *Residential Energy Efficient Property Credit* on Page 7-8 (IRC Sec. 25D) can be allocated according to the manufacturer's certification that a portion of the property is qualified energy property. Additionally, the IRS has agreed that labor costs related to the installation of the property can be similarly apportioned (Ltr. Rul. 201130003).

## Residential Energy Efficient Property Credit

Individuals can claim a tax credit for residential energy efficient property placed in service in 2006–2021 (IRC Sec. 25D; Notice 2013-70).

**Note:** The Bipartisan Budget Act of 2018 (BBA) extended the availability of the credit for qualified fuel cell property, qualified small wind energy property and qualified geothermal heat pump property expenditures through December 31, 2021, with percentage rate decreases for property placed in service in 2020 and 2021. Previously, the Consolidated Appropriations Act, 2016, extended the availability of the credit for qualified solar water heating property and solar electric property expenditures to property placed in service through December 31, 2021 [IRC Sec. 25D(g) and (h)].

**Residential Energy Efficient Property Credit**

| Property Type | Credit Amount |
|---|---|
| Solar Water Heating | 30% of cost (in tax years beginning before 2009, the credit was capped at $2,000) |
| Solar Electric | 30% of cost (in tax years beginning before 2009, the credit was capped at $2,000) |
| Fuel Cells | 30% of cost; max credit = $1,000 per kW of capacity |
| Small Wind Energy | 30% of cost (in tax years beginning before 2009, the credit was capped at $4,000) |
| Geothermal Heat Pump | 30% of cost (in tax years beginning before 2009, the credit was capped at $2,000) |

**Note:** For property placed in service through 2021. The applicable percentage for 2017–2019 is 30%, 26% in 2020, and 22% in 2021.

The election out is made by reporting the entire gain in the sale year on the appropriate form (for example, Form 4797 or Form 8949). Once made, the election cannot be revoked without IRS approval.

**Strategy:** It may be beneficial for the seller to elect out of the installment method and report the entire gain in the year of sale if:

- Seller has expiring carryovers (NOL, charitable contribution or business credit carryovers) that can shelter the gain.
- Seller has a tax loss or little taxable income so that tax on the gain would be paid at a relatively low rate.
- Installment gain relates to a passive activity with suspended losses that equal or exceed the gain. (An installment sale of an entire interest in a passive activity with suspended losses requires the suspended loss to be recognized ratably as the installment gain is recognized.)

- Seller anticipates tax law changes that will result in additional tax if gain is deferred to future tax years.

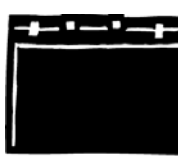
# Borrower's Property Is Foreclosed or Repossessed

When a borrower (buyer) fails to make payments on a loan secured by property acquired, the lender (seller) may foreclose on the loan or repossess the property. The foreclosure or repossession is treated as a sale or exchange from which the borrower may realize gain or loss. This is true even if the property is voluntarily returned to the lender.

A borrower's gain or loss from a foreclosure or repossession is computed and reported the same way as gain or loss from a sale or exchange. The gain or loss is the difference between the adjusted basis in the transferred property and the amount realized.

## Cancellation of Debt (COD) Income

A borrower who is personally liable on the debt has COD income when the debt is satisfied by foreclosure or repossession and the FMV of the property transferred is less than the loan balance. This income is separate from any gain or loss realized from the foreclosure or repossession.



Individuals report COD income related to a business or rental activity as business income on Schedule C or rental income on Schedule E. COD income from cancellation of a nonbusiness debt is other income reported on 2019 Form 1040, Schedule 1 line 8.

Corporations report COD income as "Other income" on page one of their returns (on Form 8825 if the cancelled debt pertains to property used in a rental real estate operation by an S corporation). Because the treatment of COD is determined at the partner level, partnerships report COD income as a separately stated item on Form 1065, Schedule K-1 [box 11, Other income (loss), code E].

**Exceptions.** Income from cancellation of debt is not taxed if any of the following conditions apply [IRC Sec. 108(a)(1)]:

- The cancellation is intended as a gift.
- The debt is qualified farm debt (see Pub. 225).
- The debt is qualified real property business debt (see Pub. 334).
- The borrower is insolvent or bankrupt (see Pub. 908).
- The debt was qualified principal residence indebtedness discharged before 2021 (defined later).

**Court Case:** The taxpayer was a general partner in a partnership and personally guaranteed some of the partnership's debts. The partnership filed Chapter 11 bankruptcy which was approved and released the partners from all liability related to the partnership. The taxpayer did not include the cancellation of debt income (COD income) allocated to him by the partnership on his tax return for the year of discharge. The IRS sent the taxpayer a notice of deficiency. The Tax Court held that the taxpayer could exclude his COD income because the partnership debt was discharged in Chapter 11 bankruptcy. The IRS disagrees with the Tax Court's ruling, as discussed below (*Gracia, Jose,* TC Memo 2004-147).

**Caution:** In 2015, the IRS announced its nonacquiesence in the Gracia case as well as three related Tax Court cases, each of which held that a partner's exclusion of partnership debt cancellation income was appropriate. In each of these cases, the partner guaranteed the partnership's debt and was not in bankruptcy in his individual capacity. The partnership, not the partners, filed for bankruptcy, and none of the partners met the Bankruptcy Code's definition of a debtor. According to the IRS, the Tax Court's rulings were inconsistent with the structure of IRC Sec. 108 and Congressional intent, which applies only to partners who are debtors in bankruptcy. Therefore, in all of these cases, the IRS has now concluded that none of the partners should have been entitled to exclude his share of the partnership cancellation of debt income (AOD 2015-001).

**Borrower's Tax Treatment—Foreclosure or Repossession**

| | Property Secured by | |
|---|---|---|
| | **Nonrecourse Debt** | **Recourse Debt** |
| **Description of Debt** | Borrower is not personally liable to repay the debt even if the value of the property used to satisfy the debt is less than the outstanding debt. | Borrower is personally liable to pay any amount of the debt not covered by the property's value. |
| **Reporting by Lender** | Box 5 on Form 1099-A (Acquisition or Abandonment of Secured Property) is not checked. | Box 5 on Form 1099-A is checked. |
| **Amount realized for borrower's gain or loss on transaction** | Full amount of debt canceled by the transfer of property. | Smaller of the debt canceled or the FMV of the transferred property. |
| **Borrower's cancellation of debt (COD) income** | None. | COD (ordinary) income if the loan balance exceeds property's FMV.[1] |

[1] **Note:** The borrower may be able to exclude the income in certain situations. See *Cancellation of Debt (COD) Income* on Page 8-13.

**Example:** Chris bought a new car for $15,000. Chris is not personally liable for the loan (nonrecourse), but pledges the new car as security. The lender repossessed the car because he stopped making loan payments. The balance due on Chris' loan was $10,000. The car's FMV when it was repossessed was $9,000. The amount Chris realized on the repossession is $10,000. That is the debt canceled by the repossession, even though the car's FMV is less than $10,000. Chris figures his gain or loss on the repossession by comparing the amount realized ($10,000) with his adjusted basis ($15,000). He has a $5,000 nondeductible loss. Because the loan was nonrecourse, he recognizes no income for the cancellation of debt.

*Variation:* Now assume Chris was personally liable for the car loan (recourse debt) and that, after repossessing the car, the lender wrote off the remaining debt. In this case, the amount he realizes on the repossession is $9,000. This is the canceled debt ($10,000) up to the car's FMV ($9,000). Chris figures his gain or loss on the repossession by comparing the amount realized ($9,000) with his adjusted basis ($15,000). He has a $6,000 nondeductible loss. He also recognizes ordinary income from cancellation of debt of $1,000 ($10,000 debt cancelled – $9,000 property FMV). This is the part of the canceled debt not included in the amount realized.

| Foreclosures and Repossessions Worksheet | |
|---|---|
| **Part 1.** Income from cancellation of debt. **Note:** If the taxpayer is not personally liable for the debt, there is no income from debt cancellation. Skip Part 1 and go to Part 2. | |
| 1) Enter the amount of debt canceled by the transfer of property | 1) $ |
| 2) Enter the FMV of the transferred property | 2) ( ) |
| 3) Income from cancellation of debt.[1] Subtract line 2 from line 1. If less than zero, enter -0- | 3) $ |
| **Part 2.** Gain or loss from foreclosure or repossession. | |
| 4) Enter the smaller of line 1 or line 2. Also include any proceeds received from the foreclosure sale. (If the taxpayer is not personally liable for the debt, enter the amount of debt canceled by the transfer of property.) | 4) $ |
| 5) Enter the adjusted basis of the transferred property | 5) ( ) |
| 6) Gain or loss from foreclosure or repossession. Subtract line 5 from line 4 | 6) $ |

[1] This income may not be taxable. See *Cancellation of Debt (COD) Income* on Page 8-13.

## Qualified Principal Residence Indebtedness ~~(Pre-2018, and Certain Discharges in 2018)~~

~~The exclusion for COD income on qualified principal residence debt expired on December 31, 2017 except for certain discharges in 2018 if the indebtedness is discharged subject to an arrangement that is entered into and evidenced in writing prior to January 1, 2018 [IRC Sec. 108(a)(1)(E)]~~.

The exclusion of COD income from taxable gross income is available for qualified principal residence indebtedness discharged after 2006 and before 2021 [IRC Sec. 108(a)(1)(E)]. The exclusion also applies to certain discharges in 2021 if the indebtedness is discharged subject to an arrangement that is entered into and evidenced in writing before 2021 [IRC Sec. 108(a)(1)(E)]. The exclusion is limited to $2 million ($1 million for married filing separately) [IRC Sec. 108(h)(2)]. Qualified principal residence indebtedness is debt that is incurred in the acquisition, construction or substantial improvement of a taxpayer's principal residence and that is secured by that residence. The principal residence is the taxpayer's main home where the taxpayer lives most of the time; the taxpayer can only have one main home at any one time. It does not include home equity loans used for other purposes or vacation home mortgages. See IRS Pub. 4681 for details.

**Note:** The income exclusion includes debt modifications to certain loans under the Federal Housing Finance Agency's (FHFA's) Principal Reduction Modification Program (PRMP) and the Home Affordable Modification Program (HAMP) that were initiated before 2017, even though a permanent modification was entered into after 2016 (Notice 2016-72).

The amount excluded from gross income reduces (but not below zero) the basis of the taxpayer's principal residence. The exclusion from income for qualified principal residence indebtedness is reported on Form 982 [Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)].

# Repossessing Personal Property

Taxpayers who finance the sale of personal property and later repossess that property generally will have a gain or loss on the repossession. They may also have a bad debt expense if the gain was not reported on the installment method.

The repossession rules apply whether or not title to the property was ever transferred to the buyer. Also, there is no difference if the seller repossesses the property or the buyer voluntarily surrenders it. However, it is not a repossession if the buyer puts the property up for sale and the seller repurchases it.

For the repossession rules to apply, the repossession must at least partially discharge (satisfy) the buyer's installment obligation to the seller. The discharged obligation must be secured by the repossessed property.

The seller/lender's gain or loss on the repossession of personal property is determined by subtracting the basis of the installment obligation (plus any repossession expenses) from the property's FMV plus the FMV of any other assets received in the transaction.

**Lender's Tax Treatment—Foreclosure or Repossession of Personal Property**

| | Original Sale Reported | |
|---|---|---|
| | **Installment method not used** | **Installment method used** |
| Basis in debt obligation[1] | Debt's full face value (or its FMV at the time of the original sale if FMV used to compute gain or loss in the year of sale) less all principal payments received. | Unpaid balance of debt multiplied by one minus the gross profit percentage on the sale. |
| Gain or loss | FMV of the repossessed property less:<br>• Basis in the debt obligation and<br>• Any repossession costs.<br>If a gain, it is all ordinary income. If a loss, see *Bad debt* on Page 8-14. | FMV of the repossessed property less:<br>• Basis in the debt obligation and<br>• Any repossession costs.<br>Character (capital or ordinary) of the gain or loss on repossession is same as on the original sale. |
| Bad debt | If FMV of the repossessed property is less than the sum of debt basis plus repossession costs, taxpayer deducts a bad debt [2] | N/A |
| Basis in repossessed property | FMV at date of repossession. | FMV at date of repossession. |

[1] If only part of the debt is discharged by the repossession, consider only the basis of the part discharged.
[2] Either business or nonbusiness, depending on the property originally sold.

**Repossession of Personal Property Worksheet (Original Sale Reported on Installment Method)**

| | | |
|---|---|---|
| 1) | FMV of the repossessed property | 1) $ |
| 2) | Unpaid balance of the debt obligation | 2) |
| 3) | Gross profit percentage for the installment sale | 3) % |
| 4) | Unrealized profit. Multiply line 2 by line 3 | 4) $ |
| 5) | Basis in the debt. Subtract line 4 from line 2 | 5) $ |
| 6) | Costs of repossessing the property | 6) |
| 7) | Add lines 5 and 6 | 7) $ |
| 8) | Gain or loss on repossession. Subtract line 7 from line 1 | 8) $ |

**Example:** Courtney sold her violin for $1,500 [$300 down and $100 a month for 12 months (plus interest)]. Her gross profit percentage is 40%. She reported the sale on the installment method. After the fourth monthly payment, the buyer defaulted on the note (which had an unpaid balance of $800), and Courtney repossessed the violin. Its FMV on the date of repossession was $1,400. The legal costs of repossession were $75. Courtney's gain on the repossession is as follows:

| | |
|---|---|
| FMV of repossessed property | $ 1,400 |
| Unpaid note balance | 800 |
| Gross profit percentage | × 40% |
| Unrealized profit | $ 320 |
| Basis in installment note ($800 – $320) | $ 480 |
| Repossession costs | 75 |
| Total basis and costs ($480 + $75) | $ 555 |
| Gain ($1,400 – $555) | $ 845 |

# Qualified Opportunity Funds

Qualified Opportunity Zones (QOZs), created by the TCJA, offer unique planning opportunities for taxpayers with gains to defer. A QOZ is a designated low-income community, nominated by a state or U.S. possession and certified by the Treasury Department as qualifying for this program, that meets the requirements of IRC Sec. 1400Z-1. For a list of QOZs, see **www.cdfifund.gov/pages/opportunity-zones.aspx.**

The two major tax benefits of QOZs are the ability for eligible taxpayers to:

1) Temporarily defer capital gain from the sale of property if such gain is reinvested in a Qualified Opportunity Fund (QOF), and
2) Permanently exclude from income post-acquisition capital gain on the disposition of QOF investments held for 10 years.

An *eligible taxpayer* is any taxpayer that may recognize gains for federal income tax purposes. This includes individuals; C corporations, including regulated investment companies (RICs) and real estate investment trusts (REITs); partnerships; S corporations; trusts; and estates [Prop. Reg. 1.1400Z2(a)-1(b)(1)].

## IRS Guidance

Taxpayers can rely upon the following proposed regulations found in REG-115420-18 and REG-120186-18: Prop. Reg. 1.1400Z2(a)-1 through 1.1400Z2(g)-1, except for Prop. Reg. 1.1400Z2(c)-1, if applied in a consistent manner for all tax years. As an alternative, final regulations found in TD 9889 can be applied to tax years beginning after December 21, 2017, and on or before 60 days after January 13, 2020 (when the final regulations will be applicable) to provide guidance under IRC Sec. 1400Z-2 on investing in QOFs. ~~These proposed regulations would be effective when finalized. However, taxpayers can rely on them now if they apply the proposed regulations consistently and in their entirety [Prop. Reg. 1.1400Z2(a)-1(e)].~~

**Note:** The IRS has issued a series of frequently asked questions (FAQs) on QOZs and QOFs. Go to **www.irs.gov** and type "opportunity zones frequently asked questions" in the search box.

## Temporary Deferral Election

An eligible taxpayer that sells property to an unrelated person can elect to defer the portion of the capital gain reinvested in a QOF within 180 days [IRC Sec. 1400Z-2(a)(1)]. A QOF is any investment vehicle that [IRC Sec. 1400Z-2(d)]:

1) Is organized as a corporation or partnership for investing in QOZ property, and
2) Holds at least 90% of its assets in QOZ property.

In general, QOZ property includes the following:

- *QOZ stock.* This is stock acquired by the QOF after 2017, at its original issue from a domestic corporation solely for cash. At the time the stock is issued, substantially all the tangible property owned or leased by the corporation must be QOZ business property. The corporation must satisfy these requirements during substantially all the QOF's holding period in the stock.
- *QOZ partnership interests.* These are capital or profits interests issued by a domestic partnership for cash after 2017. The QOZ stock requirements also apply to QOZ partnership interests.
- *QOZ business property.* This is tangible property used in a trade or business if (1) the property is purchased by the QOF after 2017; (2) the original use of the property in the QOZ starts with the QOF (or the QOF substantially improves the property); and (3) during the QOF's holding period, substantially all of the use of the property is in a QOZ.

**Observation:** QOFs can be used to defer gains on non-real property that can no longer be deferred using like-kind exchanges.

Gain excluded under the temporary deferral election is included in income in the tax year that includes the earlier of the date on which the investment in the QOF is sold or exchanged or December 31, 2026 [IRC Sec. 1400Z-2(b)(1)]. The lesser of the amount of gain excluded under the election or the fair market value (FMV) of the investment at the earlier of the date sold or December 31, 2026 is included in income. Tax basis in the investment is subtracted from that amount [IRC Sec.1400Z-2(b)(2)(A)].

Tax basis in the investment is generally zero [IRC Sec. 1400Z-2(b)(2)(B)(i)]. However, if the investment is held for at least five years, its basis is increased by an amount equal to 10% of the gain temporarily deferred. If the investment is held for at least seven years, basis is increased by an additional 5% of the gain deferred. This results in a 15% total increase in tax basis. Basis is also increased by the amount of gain recognized when the temporary deferral period ends. If the investment is held until December 31, 2026, basis increases by the amount of gain recognized at December 31, 2026.

## Permanent Exclusion Election

If a QOF investment is held for at least 10 years, a permanent election can be made to exclude from income post-acquisition capital gains on the disposition of the investment. This is accomplished by increasing the investment's basis to its FMV on the date the investment is sold or exchanged [IRC Sec. 1400Z-2(c)].

**Observation:** The permanent exclusion election relates solely to any gain based on the actual increase in FMV of the QOZ property, not the deferred gain initially reinvested in the QOZ property. The deferred gain will only have the partial exclusion from the increase in basis if held over five or seven years.

## Notes

| |
|---|
| |
| |
| |
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| |
| |
| |

***—End of Tab 8—***

**Practice Tip:** It is often in the taxpayer's interest to change an impermissible accounting method rather than wait for the IRS to raise the issue on audit. A taxpayer that voluntarily corrects depreciation errors (even if it means an addition to taxable income) generally obtains audit protection for that issue. If the error in depreciation is not corrected and the IRS finds it upon exam, the agent may open another year for exam. Also, an understatement of tax discovered by the IRS is subject to interest. If an accounting method change is made voluntarily, the additional income can be recognized over four years without interest. See *Section 481(a) Adjustments* on Page 10-2.

## Requesting an Accounting Method Change

Accounting method changes are made by filing Form 3115 (Application for Change in Accounting Method). Often, permission is automatically granted to change from an impermissible to a permissible method of depreciating or amortizing assets (Rev. Proc. 2018-31, Section 6.01; Rev. Proc. 2019-43, Section 6.01). See *Form 3115 Instructions* on Page 10-13 for other depreciation method changes that can be made automatically.

**Note:** If permission to change method is not automatically granted, see the procedures for nonautomatic accounting method changes in Rev. Proc. 2015-13, as modified by Rev. Proc. 2015-33 and Rev. Proc. 2017-59.

See Tab 12 for Section 6 of Rev. Proc. 2018-31, dealing with automatic changes to depreciation and amortization.

A change in accounting method generally results in additional income or deductions, depending on whether the expenses claimed were greater or less than the corrected amounts under the "new" method. See *Section 481(a) Adjustments* on Page 10-2.

**Statute of limitations.** When Form 3115 is filed, it does not matter whether the statute of limitations is still open for any of the years in question. Effectively, this allows taxpayers to go back and recalculate depreciation on assets placed in service in a tax year that is closed by the statute.

**Example:** Constance Corp. placed an asset in service in 2015 and depreciated it over a 15-year recovery period. In 2019, after the statute of limitations has closed on the 2015 return, Constance determines that the asset should have been assigned a seven-year recovery period. Because changing the recovery period for a MACRS asset is an accounting method change, Constance Corp. will file Form 3115 to correct its depreciation for the asset. The adjustment is based on the difference between what should have been claimed (based on a seven-year recovery period) since the asset was placed in service and what actually was claimed in those years, even though the 2015 return was closed by statute.

**Note:** Rev. Proc. 2019-8 provides guidance on how to elect to expense the cost of qualified real property under IRC Sec. 179 and how to change from GDS to ADS. See *Qualified Real Property* on Page 5-8 and *Rev. Proc. 2019-8* on Page 2-11.

### Method Used for Only One Year

Generally, an impermissible depreciation method must be used for two consecutive years before it is considered an accounting method. Under this rule, correcting a depreciation error occurring only for a single year would require filing an amended return, rather than filing a change in accounting method.

However, taxpayers can change from an impermissible depreciation method that was used only in the preceding year (that is, for only a single tax year) either by filing an amended return or by filing a Form 3115 [Rev. Proc. 2018-31, Section 6.01(1)(b); Rev. Proc. 2019-43, Section 6.01(1)(b)].

The waiver of the two-year rule is helpful when a taxpayer has used an improper method of accounting on two or more returns for some assets, but on only one return for other assets. Without the waiver, a Form 3115 would be required for the first group of assets and an amended return for the second group of assets. By waiving the two-year rule, the taxpayer may change the accounting method for both groups of assets by filing a Form 3115, thereby reducing the administrative burden.

**Example:** Courtco, a retailer, placed similar assets in service in 2016, 2017, and 2018. While preparing the 2019 tax return, the tax preparer discovers that all these assets were erroneously depreciated over seven years. Retail trade assets belong in Asset Class 57.0 and have a five-year recovery period.

Courtco has established an accounting method for the assets placed in service in 2016 and 2017, so a Form 3115 must be filed to correct the depreciation claimed on these assets. The depreciation on the assets placed in service in 2018 can also be corrected by including them on the Form 3115, along with the assets placed in service in 2016 and 2017. Alternatively, Courtco could correct the depreciation errors for 2016 and 2017 on Form 3115 and file an amended return for 2018, since the erroneous depreciation method had only been used for one year for assets placed in service that year.

### Filing Form 3115

Under the automatic change procedures, Form 3115 (Application for Change in Accounting Method) is filed in duplicate. The original is attached to a timely filed tax return (including extensions) for the year of the change. (However, see exception to filing date for changes related to disposed assets at *Depreciation Changes for Disposed Assets* on Page 10-3.)

The copy (signed and dated) generally is filed with the applicable IRS office listed in the address chart in the Form 3115 instructions no earlier than the first day of the year of the change and no later than the date the original or amended tax return is filed. See page 2 of the *Form 3115 Instructions* on Page 10-13 for the mailing address for the applicable IRS office.

**Observation:** There is no user fee for requesting an automatic change in accounting method. The IRS does not acknowledge receipt of an automatic change in method request. Therefore, the mailing or shipping receipt should be retained with the taxpayer's copy of the Form 3115 to establish proof of filing.

**Practice Tip:** Be sure to use the most current version of Form 3115. As of publication date, the most current version is the December 2018 revision. Practitioners can monitor for updates on the IRS website Form 3115 page at **www.irs.gov/form3115**.

**List of automatic changes.** The list of automatic accounting method changes begins on page 13 of the *Form 3115 Instructions* on Page 10-13 and reflects changes as of the date the instructions were last revised (December 2018). In addition, (1) Rev. Proc. 2018-31, as modified through the date of this publication by Rev. Procs. 2018-35, 2018-40, 2018-44, 2018-49, 2018-56, 2018-60, 2019-8, 2019-10, 2019-30, 2019-33, 2019-34, and 2019-37; and (2) Rev. Proc. 2019-43 include the most recent lists of automatic change methods. Rev. Proc. 2019-43 is generally effective for Forms 3115 filed on or after November 8, 2019 for a year of change ending on or after March 31, 2019.

Accounting method changes for which automatic permission is granted are assigned a number, which is entered on Form 3115, Part I, line 1(a). The number for a change from an impermissible to a permissible depreciation method allowed under Reg. 1.446-1(e)(2)(ii)(d) (including changes to the recovery period, convention or depreciation method) is "7." For other change numbers, see the Form 3115 instructions or subsequent IRS guidance.

See *Example—Change in Accounting Method* on Page 10-5 for an example that includes a filled-in Form 3115.

## Section 481(a) Adjustments

When a taxpayer changes accounting methods, adjustments must be made to ensure the change does not result in omitting or duplicating income or expense items [IRC Sec. 481(a)]. These adjustments, known as *Section 481(a) adjustments*, represent the accounting method change's cumulative effect on taxable income. Changes that increase taxable income (that is, depreciation was overstated on returns as originally filed) are positive adjustments. Those that decrease taxable income (depreciation was understated) are negative adjustments. Section 481(a) adjustments must be considered in a taxpayer's income over the period specified.

| Recognizing the Section 481(a) Adjustment | |
|---|---|
| *Rev. Proc. 2015-13, Section 7.03*—general and *de minimis* rules | |
| **Income Adjustment** | **Adjustment Recognized** |
| Positive adjustment < $50,000 | • Elect to recognize in the year of the change *or*<br>• Recognize over four-year period, starting in the year the change is effective. |
| Positive adjustment $50,000 or more | Recognize over four-year period, starting in the year the change is effective. |
| Negative adjustment | Deduct entire amount in the year of change. |

The Section 481(a) adjustment for a change in depreciation equals the difference between total depreciation claimed in prior tax years and the amount that should have been claimed under the new method.

**Caution:** The Section 481(a) adjustment must be adjusted for depreciation that is required to be capitalized under other IRC sections—for example, under the Section 263A UNICAP rules.

**Example:** Brad purchased a rental duplex on January 1, 2016, for $250,000 (not including land). While preparing the 2019 return, the tax professional discovers that no depreciation had been claimed for the duplex on the previous three returns. Straight-line depreciation over 27.5 years for the years 2016–2018 equals $26,894 ($9,091 per year with mid-month convention in 2016). A Form 3115 to change the accounting method is attached to Brad's 2019 Form 1040. The automatic accounting method change number [Part I, line 1(a) of Form 3115] is "7." The negative Section 481(a) adjustment of $26,894 is reported on his Schedule E reporting income from the duplex. 2019 depreciation of $9,091 is claimed on Form 4562.

## Depreciation Changes for Disposed Assets

Adjusted basis for computing gain or loss on an asset disposition includes depreciation *allowed or allowable* (IRC Sec. 1016). In other words, if the asset is underdepreciated, then the basis for computing gain or loss is reduced by the allowable amount of depreciation, even if greater than the amount actually claimed. For MACRS assets, allowable depreciation is depreciation under the (1) GDS rules in IRC Sec. 168(a) or (2) ADS rules in IRC Sec. 168(g) if the asset was required to be depreciated under the ADS (because, for example, it was listed property used 50% or less or it was in a property class for which the taxpayer elected to apply ADS). Limits under other IRC sections (such as IRC Sec. 280F) also apply [Rev. Proc. 2018-31, Section 6.01(6) and (7); Rev. Proc. 2019-43, Section 6.01(6) and (7)].

Allowable depreciation also includes special (bonus) depreciation that could have been claimed, unless the taxpayer timely elected out for that property class. This includes special depreciation under IRC Sec. 168(k), as well as special depreciation on:

1) Qualified disaster assistance property under IRC Sec. 168(n).
2) Qualified New York Liberty Zone (NYLZ) property under IRC Sec. 1400L(b).
3) Qualified Gulf Opportunity Zone property under IRC Sec. 1400N(d).
4) Recovery assistance property in the Kansas Disaster Area under Notice 2008-67.
5) Qualified biofuel plant property under IRC Sec. 168(l).
6) Qualified reuse and recycling property under IRC Sec. 168(m).

See Rev. Proc. 2018-31 and Rev. Proc. 2019-43 for special rules for qualified revitalization buildings and qualified NYLZ leasehold improvement property, as well as for computing allowable depreciation on assets that are not subject to MACRS.

Taxpayers can automatically change their accounting method for depreciation on assets disposed of during the year if they (Rev. Proc. 2018-31, Section 6.07; Rev. Proc. 2019-43, Section 6.07):

1) Used an impermissible depreciation method for the asset and
2) Did not claim the full amount of depreciation allowable (including claiming no depreciation).

The change is made by filing Form 3115, effective for the year the asset was sold, and reporting a negative adjustment for the understated depreciation. Change No. 107 is indicated on Part I, line 1(a) of Form 3115.

The Form 3115 must be filed within the statute of limitations for the return for the disposition year (generally three years from the filing date). The Form 3115 is attached to a timely filed (including extensions) original or amended return for the year of disposition that reports the adjustment to income from the Form 3115 plus any changes to taxable income or the character of income due to the recomputed depreciation amount.

If the change of method is made on an amended return, a copy of the Form 3115 is attached to that return. The copy must be filed with the IRS office listed in the address chart in the Form 3115 instructions no later than the date the amended return is filed.

**Caution:** Depreciation can be corrected this way only if the understatement was caused by using an impermissible accounting method. Depreciation changes that are not accounting method changes (for example, correcting a mathematical error) can only be made on an amended return for each affected year.

**Example:** LynnCo. purchased a $100,000 printer in 2017. It is depreciated over a seven-year recovery period. In 2019, LynnCo. sells the printer for $60,000. In 2020, LynnCo.'s 2019 return is audited and the IRS changes the recovery period on the printer from seven to five years. The actual and allowable depreciation and the effect of the IRS change to the recovery period are as follows:

| | As Reported | | Per IRS | |
|---|---|---|---|---|
| Sales proceeds | | $ 60,000 | | $ 60,000 |
| Cost | $ 100,000 | | $100,000 | |
| Accum. deprec. | ( 47,530) | | ( 61,600) | |
| Adjusted basis | | ( 52,470) | | ( 38,400) |
| Gain | | $ 7,530 | | $ 21,600 |

The IRS proposes to increase 2019 income by $14,070 ($21,600 – $7,530) to adjust the gain reported on the printer because, regardless of the depreciation claimed, the printer's basis is reduced by allowable depreciation to $38,400. LynnCo. can request an accounting method change for the printer on Form 3115 filed with an amended return for 2019 (the year of sale). The result of the method change will be a negative Section 481 adjustment equal to $14,070 ($61,600 – $47,530). This is reported on the amended 2019 return, which also reports a positive adjustment to the gain that year.

## Changing Special (Bonus) Depreciation

When an asset qualifies for special depreciation, but the taxpayer fails to claim it or claims the wrong percentage, a change to the correct percentage is an accounting method change. When a taxpayer claims special depreciation on a nonqualified asset, the change to remove it is an accounting method change.

However, changing to or from claiming special depreciation is not an accounting method change if the taxpayer is trying to make a late election out of special depreciation or to apply the 30% rate instead of the 50% rate, or to revoke such an election [Reg. 1.446-1(e)(2)]. Requests to make or revoke an election on an untimely basis must be made under Reg. 301.9100-3, which requires the taxpayer to request a private letter ruling. See *Special (Bonus) Depreciation* on Page 2-13.

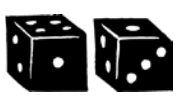
For these rules, special depreciation includes several provisions, as listed in the *Special (Bonus) Depreciation Summary* on Page 10-4.

| Special (Bonus) Depreciation Summary | | |
|---|---|---|
| **Description** | **IRC Sec.** | **Applies to qualified property placed in service:** |
| All taxpayers—50% (or 100%) | 168(k) | During 2008–2026 (80% for 2023, 60% for 2024, 40% for 2025, and 20% for 2026)[1] |
| All taxpayers—30% | 168(k)[2] | After 9/10/01 and before 5/6/03 |
| All taxpayers—50% | 168(k)[2] | After 5/5/03 and before 1/1/05[3,4] |
| NY Liberty Zone—30% | 1400L | After 9/10/01 and before 1/1/07[5] |
| Gulf Opportunity Zone—50% | 1400N | After 8/27/05 and before 1/1/08[6,7] |
| Kansas Disaster Area—50% | 1400N | After 5/4/07 and before 1/1/09[5] |
| Other Disaster Areas—50% | 168(n) | After 12/31/07 for disasters occurring before 2010 (see *Qualified Disaster Assistance Property* on Page 2-17) |

[1] During 2008−2027 for certain long-production property (80% for 2024, 60% for 2025, 40% for 2026, and 20% for 2027) [IRC Sec. 168(k)(2)(B)].
[2] As in effect before amendment in 2008–2010.
[3] Before 1/1/06 for certain long-production property (before 1/1/07 if long-production property affected by Hurricanes Katrina, Rita or Wilma) [IRC Sec. 168(k)(2); Announcement 2006-29].
[4] Taxpayers could elect to use 30% rate instead of 50%.
[5] Before 1/1/10 for nonresidential real and residential rental property.
[6] Before 1/1/09 for nonresidential real and residential rental property.
[7] Before 1/1/12 for nonresidential real and residential rental property in certain counties and parishes that sustained significant damage [IRC Sec. 1400N(d)(6)].

**Example**: Asta, Inc. (a calendar-year taxpayer) purchased and placed in service a $50,000 computer on July 31, 2018. The computer qualified for 100% special depreciation, which was claimed on Asta's 2018 tax return filed in March 2019. During November 2020, Asta realizes that it would have been better off had it not claimed special depreciation on the computer in 2018. Changing from claiming special depreciation to not claiming it is not an accounting method change because Asta is effectively trying to make a late election out of the special depreciation. Therefore, Asta cannot make this change on a Form 3115. Instead, Asta must request a private letter ruling to make the change.

**Note:** For taxpayers who acquired qualified property after September 27, 2017 and placed in service such property during the tax year that includes September 28, 2017, the IRS issued guidance on making a late special (bonus) depreciation election or revoking an election for certain property. For more information, see *IRS Guidance on Certain Special (Bonus) Depreciation Elections* on Page 2-17.



## Tangible Property Regulations and Reduced Filing Requirements

For 2014, taxpayers may need to file an accounting method change to comply with the tangible property regulations published on September 13, 2013 (TD 9636). (See *Tangible Property Regulations* on Page 1-4 for discussion of the regulations.) Automatic consent procedures are provided for amounts paid to acquire, produce or improve tangible property. Procedures are also provided for obtaining automatic consent to change to a reasonable method for self-constructed assets and to change to a permissible method for certain costs related to real property acquired through a foreclosure or similar transaction. Automatic consent procedures for changes in accounting for dispositions of tangible property, a late partial disposition election and a revocation of a general asset account election are also available. (See Rev. Proc. 2014-17, Rev. Proc. 2014-54, Rev. Proc. 2015-13, ~~and~~ Rev. Proc. 2018-31, and Rev. Proc. 2019-43.)

**Practice Tip:** A *small business taxpayer* (a business with total assets of less than $10 million or average annual gross receipts of $10 million or less for the prior three tax years) may make certain tangible property changes in methods of accounting by taking into account only amounts paid or incurred, and dispositions, in tax years beginning after December 31, 2013. In addition, these small business taxpayers need not file Form 3115 for their first tax year that begins after December 31, 2013 (Rev. Proc. 2015-20).

**Observation:** A *small business taxpayer*, as discussed in the preceding Practice Tip, should not be confused with a *qualified small taxpayer*, which qualifies for a reduced Form 3115 filing requirement for certain automatic accounting method changes under Rev. Proc. 2018-31 or Rev. Proc. 2019-43. A *qualified small taxpayer* is a taxpayer with average annual gross receipts of less than or equal to $10 million for the three tax years preceding the year of change [Rev. Proc. 2018-31, Section 6.01(4)(b); Rev. Proc. 2019-43, Section 6.01(4)(b)]. The *year of change* is the first tax year the *applicant* (an entity, a person, or a separate and distinct trade or business of an entity or a person whose method of accounting is being changed) uses the proposed method of accounting, even if no affected items are taken into account for that year.

**Example**: A calendar year taxpayer that has consistently capitalized certain building repair costs from 2013 to 2018 files a Form 3115 in 2019 to deduct these repair costs. The year of change is calendar year 2019.

For qualifying changes and filing requirements for a qualified small taxpayer, see the *List of Automatic Changes* in Rev. Proc. 2018-31 or Rev. Proc. 2019-43 (Sections 1 through 32 of each).

## Errors Corrected on an Amended Return

Depreciation changes that are not accounting method changes are made on an amended return for the year being changed. Thus, these changes can be made only within the statute of limitations for the year being changed.

| Depreciation Changes Made on an Amended Return | |
|---|---|
| **Change** | **Example** |
| Mathematical, calculation or posting errors [Reg 1.446-1(e)]. | A number is transposed when the preparer enters it on the tax return. |
| Changing a depreciation method that has only been used on one return.[1] | In 2018, taxpayer claims depreciation on a piece of equipment based on a seven-year recovery period, but the actual recovery period is five years. If the 2019 return has not been filed, an amended 2018 return can be filed to correct the error. |
| Adjustment in the useful life of an asset that is not a MACRS asset, as long as it is not a change to or from a useful life that is specifically assigned by the Code [for example, the 36-month life assigned to depreciable computer software by IRC Sec. 167(f)(1)]. | A change in the useful life of an amortizable copyright asset that is not a Section 197 intangible. |
| A change in an asset's placed-in-service date. | An asset was ordered and paid for in 2018, but was not delivered and placed in service until 2019. Any depreciation claimed in 2018 would be erroneous and can be corrected by filing an amended return.[2] |

[1] In this situation, the taxpayer can also choose to file a Form 3115 to request an accounting method change. See *Method Used for Only One Year* on Page 10-2.
[2] If the taxpayer initiates the change, the placed-in-service date can be corrected by adjustments in the current and following tax years, rather than by filing amended returns [Reg. 1.446-1(e)(2)(ii)(d)(5)(v)].

# Section 6 of Rev. Proc. 2018-31, Depreciation or Amortization Accounting Method Changes

**Note:** The IRS automatically grants permission to make several accounting method changes if the taxpayer fulfills certain requirements (Rev. Proc. 2015-13). (See Tab 10 for discussion of accounting method changes for depreciable or amortizable assets.) The list of the changes for which permission is automatically granted, and the conditions and requirements for making the changes, are described in Rev. Proc. 2018-31, and subsequently in Rev. Proc. 2019-43 (generally effective for Forms 3115 filed on or after November 8, 2019 for a year of change ending on or after March 31, 2019). Following is Section 6 of Rev. Proc. 2018-31, which specifies depreciation and amortization accounting method changes that can be made under Rev. Proc. 2015-13.

**Observation:** Section 6 (Depreciation or Amortization) of Rev. Proc. 2018-31 has been modified as follows:

- Section 6.05 was modified by Rev. Proc. 2019-8.
- Section 6.18 was added by Rev. Proc. 2019-33.

Throughout the following reproduction of the text of Section 6, modifications are highlighted by "**Note:** alerts." Section 6.18 is reproduced following the heading *Subsequent Changes to Rev. Proc. 2018-31* on Page 12-36.

**Practice Tip:** The complete text of Rev. Proc. 2018-31, as originally issued, is available in IRB 2018-22 at **www.irs.gov/pub/irs-irbs/irb18-22.pdf**. Rev. Proc. 2019-43 is available in IRB 2019-48 at **www.irs.gov/pub/irs-irbs/irb19-48.pdf**.

## 6. Depreciation Or Amortization [§56(a)(1), 56(g)(4)(A), 167, 168, 197, 280F(a), 1400I, 1400L, or 1400N(d), Or Former §168]

**.01. Impermissible to permissible method of accounting for depreciation or amortization**

1) *Description of change*.
   a) *Applicability*. This change applies to a taxpayer that wants to change from an impermissible to a permissible method of accounting for depreciation or amortization (depreciation) for any item of depreciable or amortizable property under the taxpayer's present or proposed method of accounting:
      i) for which the taxpayer used the impermissible method of accounting in at least two taxable years immediately preceding the year of change (but see section 6.01(1)(b) of this revenue procedure for property placed in service in the taxable year immediately preceding the year of change);
      ii) for which the taxpayer is making a change in method of accounting under §1.446-1(e)(2)(ii)(d);
      iii) for which depreciation is determined under §56(a)(1), §56(g)(4)(A) (as in effect on the day before the date of enactment of Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017) (the "Act")), §167, §168, §197, §1400I, or §1400L(c), under §168 prior to its amendment in 1986 (former §168), or under any additional first year depreciation deduction provision of the Code (for example, §168(k), §168(l), §1400L(b), or §1400N(d)); and
      iv) that is owned by the taxpayer at the beginning of the year of change (but see section 6.07 of this revenue procedure for property disposed of before the year of change).
   b) *Taxpayer has not adopted a method of accounting for the item of property.* If a taxpayer does not satisfy section 6.01(1)(a)(i) of this revenue procedure for an item of depreciable or amortizable property because this item of property is placed in service by the taxpayer in the taxable year immediately preceding the year of change ("1-year depreciable property"), the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for the 1-year depreciable property by filing a Form 3115 for this change, provided the §481(a) adjustment reported on the Form 3115 includes the amount of any adjustment that is attributable to all property (including the 1-year depreciable property) subject to the Form 3115. Alternatively, the taxpayer may change from the impermissible method of determining depreciation to the permissible method of determining depreciation for a 1-year depreciable property by filing an amended federal tax return for the property's placed-in-service year prior to the date the taxpayer files its federal tax return for the taxable year succeeding the placed-in-service year.
   c) *Inapplicability*. This change does not apply to:
      i) any property to which §1016(a)(3) (regarding property held by a tax-exempt organization) applies;
      ii) a taxpayer that is required under §263A and the regulations thereunder to capitalize the costs with respect to which the taxpayer wants to change its method of accounting under this section 6.01 if the taxpayer is not capitalizing these costs, unless the taxpayer concurrently changes its method to capitalize these costs in conjunction with a change to a UNICAP method under section 12.01, 12.02, 12.08, or 12.12 of this revenue procedure (as applicable);
      iii) any property for which a taxpayer is making a change in depreciation under §1.446-1(e)(2)(ii)(d)(2)(vi) or (vii);
      iv) any property subject to §167(g) regarding property depreciated under the income forecast method;
      v) any §1250 property that a taxpayer is reclassifying to an asset class of Rev. Proc. 87-56, 1987-2 C.B. 674 (as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785), or Rev. Proc. 83-35, 1983-1 C.B. 745, as appropriate, that does not explicitly include §1250 property (for example, asset class 57.0, Distributive Trades and Services);
      vi) any property for which a taxpayer is revoking a timely valid election, or making a late election, under §167, §168, §179, §1400I, §1400L(c), former §168, §13261(g)(2) or (3) of the Revenue Reconciliation Act of 1993 (1993 Act), 1993-3 C.B. 1, 128 (relating to amortizable §197 intangibles), or any additional first year depreciation deduction provision of the Code (for example, §168(k), §168(l), §1400L(b), or §1400N(d)). A taxpayer may request consent to revoke or make the election by submitting a request for a letter ruling under Rev. Proc. 2018-1, 2018-1 I.R.B. 1 (or successor). However, if a taxpayer is revoking or making an election under §179, see §179(c) and §1.179-5. See §1.446-1(e)(2)(ii)(d)(3)(iii);
      vii) any property for which depreciation is determined under §56(g)(4)(A) (as in effect on the day before the date of enactment of the Act) or §167 (other than under §168, §1400I, §1400L(c), former §168, or any additional first year depreciation deduction provision of the Code (for example, §168(k), §168(l), §1400L(b), or §1400N(d))) and a taxpayer is changing the useful life of the property. A change in the useful life of property is corrected by adjustments in the applicable taxable year provided under §1.446-1(e)(2)(ii)(d)(5)(iv). However, this section 6.01(1)(c)(vii) does not apply if the taxpayer is changing to or from a useful life, recovery period, or amortization period that is specifically assigned by the Code (for example, §167(f)(1), §168(c)), the regulations thereunder, or other guidance published in the Internal Revenue Bulletin and, therefore, this change is a change in method of

*Continued on the next page*

# What's New and Glossary

## Tab 13 Topics



## Notes

## Tax Legislation History

The following table identifies selected tax legislation enacted beginning in 2010 that may impact 2019 and later tax returns.

| Name of Act | Public Law Number | Date of Enactment |
|---|---|---|
| Hiring Incentives to Restore Employment (HIRE) Act | PL 111-147 | 3/18/10 |
| Patient Protection and Affordable Care Act | PL 111-148 | 3/23/10 |
| Health Care and Education Reconciliation Act of 2010 | PL 111-152 | 3/30/10 |
| Small Business Jobs Act of 2010 | PL 111-240 | 9/27/10 |
| Tax Relief Act of 2010 | PL 111-312 | 12/17/10 |
| Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (the 1099 Act) | PL 112-9 | 4/14/11 |
| American Taxpayer Relief Act of 2012 | PL 112-240 | 1/2/13 |
| Tax Increase Prevention Act of 2014 | PL 113-295 | 12/19/14 |
| Protecting Americans From Tax Hikes Act of 2015 (PATH Act) | PL 114-113 | 12/18/15 |
| Disaster Tax Relief and Airport and Airway Extension Act of 2017 | PL 115-63 | 9/29/17 |
| Tax Cuts and Jobs Act | PL 115-97 | 12/22/17 |
| Bipartisan Budget Act of 2018 (BBA) | PL 115-123 | 2/9/18 |
| Consolidated Appropriations Act, 2018 | PL 115-141 | 3/23/18 |
| Consolidated Appropriations Act, 2020 | PL 116-93 | 12/20/19 |
| Further Consolidated Appropriations Act, 2020 | PL 116-94 | 12/20/19 |

## Selected Tax Law Changes Affecting Business Assets

| Item | Effective Dates[1] | Page | Provision in Effect for 2018 | Provision in Effect for 2019 |
|---|---|---|---|---|
| **Business Property** | | | | |
| **Energy Efficient Commercial Buildings Deduction** | Property placed in service before 2021 | 7-7 | A business can deduct, rather than capitalize and depreciate, all or part of the cost of energy efficient commercial building property ~~placed in service before 2018~~ [IRC Sec. 179D(h)]. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **Farming Equipment—Recovery Period** | Property placed in service after 2017 | 2-2, 2-3, 2-4, 2-8, 2-10 | The recovery period of new machinery or equipment used in a farming business (other than any grain bin, cotton ginning asset, fence, or other land improvement) is five years. Use of the 150% declining balance depreciation method for these assets is no longer required. | Same as 2018. |
| **Indian Reservation Property—Shorter Recovery Periods** | Property placed in service before 2021 | 2-5 | Shortened recovery periods for both regular tax and AMT apply to qualified Indian reservation property ~~placed in service before 2018~~ [IRC Sec. 168(j)(9)]. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **Luxury Automobile Depreciation Limits Increased** | Passenger autos placed in service after 2017 | 6-1, 6-5, 6-6 | The annual limit on the amount of depreciation allowed for passenger autos for which bonus depreciation is not claimed for 2018 is $10,000 for the placed-in-service year, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years. These amounts will be indexed for inflation for autos placed in service after 2018. For passenger autos eligible for bonus depreciation, the increase to the first-year depreciation limit is $8,000. | The annual limit on the amount of depreciation allowed for passenger autos for which bonus depreciation is not claimed for 2019 is $10,100 for the placed-in-service year, $16,100 for the second year, $9,700 for the third year, and $5,760 for the fourth and later years. **Note:** These amounts are indexed for inflation beginning for autos placed in service after 2018. For passenger autos eligible for bonus depreciation, the increase to the first-year depreciation limit remains $8,000. |
| **Motorsports Entertainment Complexes—Seven-Year Recovery Period** | Property placed in service before 2021 | 2-4 | Motorsports entertainment complexes are depreciated over a seven-year recovery period ~~for property placed in service before 2018~~ [IRC Sec. 168(e)(3)(C)(ii) and IRC Sec. 168(i)(15)]. | Same as 2018. Qualifying property is required to be placed in service before 2021. |

*Continued on the next page*

| Selected Tax Law Changes Affecting Business Assets (Continued) | | | | |
|---|---|---|---|---|
| **Item** | **Effective Dates[1]** | **Page** | **Provision in Effect for 2018** | **Provision in Effect for 2019** |
| **Qualified Improvement Property; Residential Rental Property** | Property placed in service after 2017 | 2-1, 2-2, 2-3, 2-14, 7-1, 7-10 | The separate definitions of *qualified leasehold improvement, qualified restaurant,* and *qualified retail improvement property* are eliminated. A 15-year recovery period (20 years for ADS) may apply and straight-line method applies for qualified improvement property. *Qualified improvement property* means any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date such building was first placed in service. In addition, the ADS recovery period for residential rental property is shortened to 30 years. **Note:** The IRS has stated that, in the absence of corrective legislation, it will treat qualified improvement property as 39-year property rather than as 15-year property. Therefore, tax professionals should watch for technical correction legislation. | Same as 2018. |
| **Race Horses—3-Year Property** | Property placed in service before 2021 | 2-3, 2-4, 2-11 | A race horse, regardless of age when placed in service, is treated as three-year property. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **Section 179—Qualified Zone Property** | Property placed in service before 2021 | 5-9 | An enterprise zone business that places qualified zone property (defined in IRC Sec. 1397D) in service in an empowerment zone ~~before 2018~~ can increase its Section 179 deduction and qualifying property limits [IRC Sec. 1391(d) and IRC Sec. 1397A]. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **Section 179 Deduction Qualifying Property** | For property placed in service in tax years beginning after 2017 | 5-6 | The definition of *Section 179 property* is expanded to include certain tangible personal property used predominantly to furnish lodging and certain improvements to nonresidential real property (roofs, HVAC, fire protection and alarm systems, and security systems). | Same as 2018. |
| **Section 179—Election Can Be Revoked** | Permanent for tax years beginning after 2014 | 5-10 | For tax years beginning before 2003, a Section 179 election could only be revoked with IRS consent. However, the ability to irrevocably revoke a Section 179 election without IRS consent for any property applies to tax years beginning after 2002 [IRC Sec. 179(c)(2)]. | Same as 2018. |
| **Section 179—Expansion and Inflation Adjustment** | Property placed in service after 2014[1] | 5-1 | For tax years beginning in 2015, the Section 179 deduction and qualifying property limits were $500,000 and $2,000,000 [IRC Sec. 179(b)]. For tax years beginning after 2015, these amounts are adjusted for inflation. The 2018 limits were $1 million and $2.5 million and certain tangible personal property used predominantly to furnish lodging and certain improvements to nonresidential real property (roofs, HVAC, fire protection and alarm systems, and security systems) is eligible for expensing. | The 2019 limits are $1,020,000 and $2,550,000 and certain tangible personal property used predominantly to furnish lodging and certain improvements to nonresidential real property (roofs, HVAC, fire protection and alarm systems, and security systems) is eligible for expensing. |
| **Section 179—Expensing for Off-the-Shelf Software** | Permanent for software placed in service in a tax year beginning after 2014 | 5-6, 11-4 | Off-the-shelf computer software is eligible for the Section 179 election if placed in service in a tax year beginning after 2002 [IRC Sec. 179(d)(1)(A)(ii)]. | Same as 2018. |

[1] Tax years beginning in such year.

| Selected Tax Law Changes Affecting Business Assets (Continued) | | | | |
|---|---|---|---|---|
| **Item** | **Effective Dates[1]** | **Page** | **Provision in Effect for 2018** | **Provision in Effect for 2019** |
| **Special (Bonus) Depreciation—Allowance** | Property acquired and placed in service after 9/27/17 and before 2023 (2024 for certain property with longer production periods and certain aircraft) | 2-13 | The additional (bonus) first-year depreciation deduction allowed for qualified property is increased to 100% and applies to new and used property. In later years, this first-year deduction phases down as follows:<br>• 80% for property placed in service in 2023.<br>• 60% for property placed in service in 2024.<br>• 40% for property placed in service in 2025.<br>• 20% for property placed in service in 2026.<br>For certain property with longer production periods and certain aircraft, the phase down is as follows:<br>• 80% for property placed in service in 2024.<br>• 60% for property placed in service in 2025.<br>• 40% for property placed in service in 2026.<br>• 20% for property placed in service in 2027.<br>The definition of *qualified property* is expanded to include certain *qualified film or television productions* and *qualified live theatrical productions*.<br>**Note:** The IRS has stated that, in the absence of corrective legislation, it will treat qualified improvement property as 39-year property rather than as 15-year property, and thus ineligible for bonus depreciation. Therefore, tax professionals should watch for technical correction legislation. | Same as 2018. |
| **Special (Bonus) Depreciation—Corporate Election to Accelerate Alternative Minimum Tax (AMT) Credits Instead** | Property placed in service in 2015–2017 (and some months in 2018 for fiscal year taxpayers) | 2-17 | **Repealed provision.** This provision is repealed effective for tax years beginning after 2017. | Same as 2018. |
| **Special (Bonus) Depreciation— Second Generation Biofuel Plant Property** | Property placed in service before 2021 | 2-10, 2-16 | A 50% additional first-year depreciation deduction is available for qualified property. **Note:** This provision is separate from bonus depreciation under Section 168(k). Property qualifying under Section 168(k) is not eligible for the Section 168(l) deduction. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **General Deductions, Exclusions, and Credits** | | | | |
| **Alternative Motor Vehicle Credit** | Vehicles purchased through 2020 | 6-10 | A credit is available for vehicles propelled by chemically combining oxygen with hydrogen and creating electricity ("fuel cell motor vehicles"). | Same as 2018. Qualifying vehicles are required to be placed in service before 2021 |
| **Energy Efficient Homes** | Qualified new energy efficient homes acquired from an eligible contractor through 2020 | 7-8 | A credit is available to eligible contractors who construct or manufacture homes that meet certain energy efficiency standards [IRC Sec. 45L(g)]. | Same as 2018. Qualifying property is required to be placed in service before 2021. |
| **Interest Expense** | 2018 and later | 2-16 | Regardless of its form, every business is subject to a net interest expense disallowance. Net interest expense in excess of 30% of the company's adjusted taxable income is disallowed. *Adjusted taxable income* is generally defined as taxable income computed without regard to deductions for depreciation, amortization, depletion, or the Section 199 deduction.<br>**Note:** Taxpayers (other than tax shelters) with average annual gross receipts for the prior three years of $25 million or less are exempt from this limitation. | Same as 2018. **Note:** For 2019, taxpayers (other than tax shelters) with average annual gross receipts for the prior three years of $26 million or less are exempt from this limitation. |
| **Like-Kind Exchanges** | Exchanges completed after 2017 | 9-1, 9-3, 9-4 | Like-kind exchanges are allowed only with respect to real property that is not held primarily for sale. However, under a special transition rule, the like-kind exchange rules continue to apply to exchanges of personal property if the taxpayer has either disposed of the relinquished property or acquired the replacement property on or before 12/31/17. | Same as 2018, but the special transition rule is no longer effective as the replacement period for pre-2018 exchanges expired before 2019. |
| **Nonbusiness Energy Property** | Qualified property placed in service through 2020 | 7-8 | The $500 lifetime credit for qualified energy efficiency improvements and expenditures to a taxpayer's principal residence is available ~~for property placed in service in 2015–2017~~ (IRC Sec. 25C). | Same as 2018. Qualifying property is required to be placed in service before 2021. |

*Continued on the next page*

## Selected Tax Law Changes Affecting Business Assets (Continued)

| Item | Effective Dates[1] | Page | Provision in Effect for 2018 | Provision in Effect for 2019 |
|---|---|---|---|---|
| ~~**Plug-in Electric Vehicles—Four-Wheeled Vehicles**~~ | ~~Qualified four-wheeled vehicles acquired after 2009~~ | ~~6-11~~ | ~~Taxpayers who purchase a qualified four-wheeled plug-in electric vehicle after 2009 are eligible for a credit of up to $7,500 (IRC Sec. 30D). See *Credits for Plug-In Vehicles* on Page 6-10 for applicable rules and a table of certified vehicles~~. | ~~Same as 2018.~~ |
| **Plug-in Electric Vehicles—Two- and Four-Wheeled Vehicles** | Qualified two-wheeled vehicles acquired through 2020 qualified four-wheeled vehicles acquired after 2009 | 6-10, 6-11 | A credit is available for two-wheeled plug-in electric vehicles ~~purchased in 2015–2017~~. Taxpayers who purchase a qualified four-wheeled plug-in electric vehicle after 2009 are eligible for a credit of up to $7,500 (IRC Sec. 30D). See *Plug-In Electric Drive Motor Vehicle Credit* on Page 6-10 for applicable rules and a table of certified vehicles. | Same as 2018. Qualifying property is required to be acquired before 2021 [IRC Sec. 30D(g)(3)(E)(ii)]. ~~Same as 2017 for four-wheeled vehicles.~~ |
| **Research and Experimental (R&E) Expenses** | Amounts paid or incurred in tax years beginning after 2021 | 11-1, 11-4, 11-9 | Taxpayers currently deduct R&E expenses paid or incurred in connection with a trade or business. Alternatively, taxpayers can capitalize their R&E expenditures and amortize them ratably over the useful life of the research (not less than 60 months) or a period of 10 years. | Same as 2018. **Note:** Specified R&E expenses must be capitalized and amortized ratably over five years (15 years if R&E is conducted outside of the U.S.). *Specified R&E expenses* include costs for software development, but exclude costs for exploration for ore and other minerals. |
| **Residential Energy Efficient Property** | 2017–2021 | 7-8 | A credit is allowed for 30% of expenditures for qualified fuel cell property, qualified small wind energy property, and qualified geothermal heat pump property, subject to certain limits. The credit percentage decreases to 26% in 2020 and 22% in 2021. | Same as 2018. |
| **Taxes and Rates** | | | | |
| **Long-Term Capital Gains and Qualified Dividends Rate** | 2014 and later | 8-2, 8-8 | The 15% maximum rate on long-term capital gains and qualified dividends applies to the extent taxable income does not exceed $425,800 (Single), $452,400 (HOH), $479,000 (MFJ or QW), and $239,500 (MFS). When taxable income exceeds those amounts, a 20% rate applies to long-term capital gains and qualified dividends (to the lesser of such gains and dividends or taxable income in excess of the threshold amount). These rates apply for regular tax and AMT [IRC Sec. 1(h)]. | The 15% maximum rate on long-term capital gains and qualified dividends applies to the extent taxable income does not exceed $434,550 (Single), $461,700 (HOH), $488,850 (MFJ or QW) and $244,425 (MFS). When taxable income exceeds those amounts, a 20% rate applies as explained in the previous column. |
| **Net Investment Income Tax (NIIT)** | 2014 and later | 8-16 | Individuals with modified AGI (MAGI) over $200,000 ($250,000 if MFJ or QW; $125,000 if MFS) are subject to a 3.8% additional tax on NII (or if less, on the excess of MAGI over the threshold amount). NII generally includes interest, dividends, royalties, rents, gross income from a passive trade or business and net gain from property dispositions (other than most property held for use in a nonpassive trade or business). NII is reduced by deductions allocable to such income. The tax also applies to estates and trusts (IRC Sec. 1411). | Same as 2018. Unlike the long-term capital gain and qualified dividend taxable income threshold amounts referenced above, the NII tax MAGI threshold amounts are not adjusted for inflation. |

[1] Tax years beginning in such year.

## Selected Expired and Repealed Provisions Affecting Business Assets

| Item | Effective Dates[1] | Page | Provision in Effect for 2017 | Provision in Effect for 2018 and Later |
|---|---|---|---|---|
| **Business Property** | | | | |
| **Qualified Leasehold, Restaurant, and Retail Improvement Property—15-Year Recovery Period** | Property placed in service before 2018 | 6-11 | Qualified leasehold improvements, qualified restaurant property, and qualified retail improvements are 15-year MACRS property [former IRC Sec. 168(e)(3)(E)]. | **Repealed provision.** The separate definitions of qualified leasehold, restaurant, and retail improvement property are eliminated for property placed in service after 2017. |
| **General Deductions, Exclusions, and Credits** | | | | |
| **Domestic Producers Deduction** | Tax years beginning after 2017 | 13-3 | A deduction equal to 9% of the income earned from certain manufacturing and other production activities conducted within the U.S. was allowed. | **Repealed provision.** The domestic producers deduction is repealed. |
| **Incremental Research** | Qualified research expenditures incurred after 2014 | 11-9 | A credit is available for the cost of increasing research activities (IRC Sec. 41).<br>Also, beginning in 2016, eligible small businesses ($50 million or less in gross receipts) may claim the credit against AMT, and the credit can be utilized by certain small businesses against employer payroll tax (FICA) liability. | **Repealed provision.** For tax years beginning after 2017, the corporate AMT is repealed. Therefore, the incremental research credit cannot be claimed against AMT. |

[1] Tax years beginning in such year.

allocate as much cost as possible to shorter-lived Section 1245 (generally tangible, personal) property.

## D

**Date placed in service.** Date when property is ready and available for use in a trade or business or for-profit activity, regardless of when the asset was purchased. Depreciation begins when property is placed in service.

**Declining balance method.** An accelerated method to depreciate property. The General Depreciation System (GDS) of MACRS uses the 150% and 200% declining balance methods for certain types of property. A depreciation rate (percentage) is determined by dividing the declining balance percentage by the recovery period for the property.

**Deferred exchange.** A like-kind exchange in which property received in the exchange (replacement property) is not received immediately upon the transfer of property given up (relinquished property). For a deferred exchange to qualify as a like-kind exchange, certain actions must be completed within a set time period.

**Depletion.** Amortization of capitalized costs of a mineral or timber property.

**Depreciable property.** Property that is (1) owned by the taxpayer, (2) used in a business or investment activity, (3) has a determinable useful life, and (4) expected to last more than one year.

**Depreciable real property.** Buildings and their structural components, other inherently permanent structures and certain land improvements.

**Depreciation.** The annual deduction for the cost of tangible and intangible business or investment property over a specified number of years.

**Disaster assistance property.** An increased Section 179 deduction was available for qualified Section 179 disaster assistance property placed in service in a federally declared disaster area if the disaster occurred before 2010. The property must be placed in service by the last day of the third calendar year following the applicable disaster date. A list of the federally declared disaster areas is available at **www.fema.gov**.

**Disposal well.** A well used to pump salt water to subsurface reservoirs.

**Disposition.** The permanent withdrawal from use in a trade or business or from the production of income.

**Documentary evidence.** Written records that establish certain facts.

**Dry hole.** A well that does not produce oil or gas in commercial quantities.

## E

**Economic interest.** Any interest in an oil or gas, other mineral, or timber property that entitles the holder to a depletion deduction. It exists where a taxpayer has acquired an interest in mineral or timber in place and secures, by any form of legal relationship, income derived from the extraction of the mineral or timber to which he must look for a return on capital.

**Economic owner.** The party who bears the economic risks and rewards related to the property.

**Economic useful life.** The economic useful life of a unit of property is generally the period over which the property may reasonably be expected to be useful to the taxpayer in its trade or business or for the production of income.

**Electric vehicle.** A vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells or other portable sources of electrical power.

**Employer provided cell phones.** When provided primarily for noncompensatory business reasons, neither the business nor personal use of the phone results in income to the employee, and no recordkeeping of usage is required (Notice 2011-72).

**Empowerment zone.** An area designated by the Secretaries of Agriculture and HUD as eligible for certain tax incentives.

~~**Note:** The credit associated with empowerment zones expired after 2017. See *Enterprise Zone Businesses (Pre-2018)* on Page 5-2 for more information. The designations generally remain in effect through December 31, 2017.~~

Parts of the following urban areas were listed as 2017 empowerment zones in the 2017 instructions for Form 8844 (Empowerment Zone Employment Credit):

| Empowerment Zones | |
|---|---|
| **Urban Areas** | |
| • Pulaski County, AR | • New York, NY |
| • Tucson, AZ | • Syracuse, NY |
| • Fresno, CA | • Yonkers, NY |
| • Los Angeles, CA (city and county) | • Cincinnati, OH |
| • Santa Ana, CA | • Cleveland, OH |
| • New Haven, CT | • Columbus, OH |
| • Jacksonville, FL | • Oklahoma City, OK |
| • Miami/Dade County, FL | • Philadelphia, PA |
| • Chicago, IL | • Camden, NJ |
| • Gary/Hammond/East Chicago, IN | • Columbia/Sumter, SC |
| • Boston, MA | • Knoxville, TN |
| • Baltimore, MD | • El Paso, TX |
| • Detroit, MI | • San Antonio, TX |
| • Minneapolis, MN | • Norfolk/Portsmouth, VA |
| • St. Louis, MO | • Huntington, WV |
| • East St. Louis, IL | • Ironton, OH |
| • Cumberland County, NJ | |
| **Note:** The treatment of parts of Washington, DC as an empowerment zone ended after 2011. | |
| **Rural Areas** | |
| • Desert Communities, CA (part of Riverside County) | • Griggs-Steele, ND (part of Griggs County and all of Steele County) |
| • Southwest Georgia United, GA (part of Crisp County and all of Dooly County) | • Oglala Sioux Tribe, SD (parts of Jackson and Bennett Counties and all of Shannon County) |
| • Southernmost Illinois Delta, IL (parts of Alexander and Johnson Counties and all of Pulaski County) | • Middle Rio Grande FUTURO Communities, TX (parts of Dimmit, Maverick, Uvalde and Zavala Counties) |
| • Kentucky Highlands, KY (part of Wayne County and all of Clinton and Jackson Counties) | • Rio Grande Valley, TX (parts of Cameron, Hidalgo, Starr and Willacy Counties) |
| • Aroostook County, ME (part of Aroostook County) | |
| • Mid-Delta, MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower and Washington Counties) | |
| Information on how to identify locations within empowerment zones can be found at **www.hudexchange.info/programs/community-renewal-initiative/**. | |

**Exchange.** To barter, swap, part with, give, or transfer property for other property or services.

## F

**Fair market value (FMV).** The price that property brings when it is offered for sale by one who is willing but not obligated to sell, and is bought by one who is willing or desires to buy but is not compelled to do so.

**Farm property.** Assets used in agriculture, such as machinery and equipment, grain bins and fences.

**Federally declared disaster area.** Formerly called a Presidentially declared disaster area, it is the area that is determined by