

MACRS



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MACRS GENERAL RULES

The Modified Accelerated Cost Recovery System (MACRS) is used to depreciate most business, rental and investment property placed in service after 1986.

Under MACRS, compute depreciation by: [IRC §168(a)]

- 1) Applying an allowable depreciation method,
- 2) Assigning the asset the proper recovery period and
- 3) Using the appropriate convention (assumption about when property is placed in and taken out of service).



MACRS consists of two depreciation systems, the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). The GDS is the method used for regular tax, unless the ADS is used. The ADS can be elected for any asset. However, its use is mandatory in certain situations. See [Alternative Depreciation System \(ADS\) on Page 2-2](#).

Note: For alternative minimum tax (AMT), depreciation is computed under different rules, often resulting in an adjustment

to alternative minimum taxable income. See [Alternative Minimum Tax \(AMT\) Depreciation on Page 2-8](#).

Assets are classified under MACRS. The classification generally determines the depreciation method, convention and recovery period. See [MACRS Property Classification on Page 2-3](#).

GENERAL DEPRECIATION SYSTEM (GDS)

Unless the alternative depreciation system (ADS) is required or elected, the general depreciation system (GDS) applies.

Three depreciation methods are available under the general depreciation system. For most property, other than nonresidential real property and residential rental property, the default (no election made) is the 200% declining balance method over the GDS recovery period.



Alternatively, taxpayers can elect either the:

- 1) 150% declining balance method over the GDS recovery period or
- 2) Straight-line method over the GDS recovery period.

See [MACRS Depreciation Methods Available for Regular Tax](#) below for details on the methods for specific assets.

Elective Depreciation Methods

The election to use a depreciation method other than the default method is made the year the property is placed in service. Once an election is made to use a method for an item in a property class, the same method applies to all property in that class placed in service in the year of the election.

Exception: The election to use a different depreciation method is made on a property-by-property basis for nonresidential real and residential rental property.

Electing a Depreciation Method

| Method | How to Elect |
|-------------|--|
| 150% method | Enter "150 DB" under column (f) in Part III of Form 4562. ¹ |
| SL | Enter "S/L" under column (f) in Part III of Form 4562. ¹ |
| ADS | Complete Section C in Part III of Form 4562. ¹ |

¹ The election is irrevocable. [IRC §168(b)(5) and (g)(7)]

MACRS Depreciation Methods Available for Regular Tax

| Property | General Depreciation System (GDS) | | | Alternative Depreciation System (ADS) ² |
|--|--|---|---|--|
| | No Election Made | Elective 150% Declining Balance Method ¹ | Elective SL MACRS | |
| Three-year, five-year, seven-year and 10-year property classes (except farm property). | 200% declining balance over GDS recovery period. | 150% declining balance over GDS recovery period. | Straight-line over GDS recovery period. | Straight-line over ADS recovery period. |
| • Farm property (except real property). • 15-year and 20-year property. | 150% declining balance over GDS recovery period. | N/A | | |
| • Nonresidential real property. • Residential rental property. • Qualified leasehold improvement property. • Qualified restaurant property. • Qualified retail improvement property. • Trees or vines bearing fruit or nuts. • 25-year (water utility) property. | Straight-line over GDS recovery period. | | N/A | |

¹ For property placed in service before 1999, elective 150% declining balance method used the ADS recovery periods.

² See [ADS Recovery Periods on Page 2-2](#).

Electing a Slower Method

Electing a slower depreciation method (either 150% DB or SL) results in smaller depreciation deductions for the early years in the recovery period than what would be available absent the election. Deferring deductions may allow the taxpayer to use a net operating loss carryover or create passive income to offset passive losses. Electing 150% DB will also eliminate an AMT adjustment for those assets, since the same depreciation method will be used for regular tax and AMT.

ALTERNATIVE DEPRECIATION SYSTEM (ADS)

Under the alternative depreciation system, assets are depreciated straight-line over their ADS recovery period.

When ADS Is Required

The ADS method can be elected for any asset, but is mandatory in the following situations: [IRC §168(b)(2), 168(g)(1) and 280F(b)(1)]

- 1) Listed property with 50% or less qualified business use.
- 2) Tangible property used predominantly outside the U.S. during the year.
- 3) Tax-exempt use property.
- 4) Property financed by tax-exempt bonds.
- 5) Property used predominantly in a farming business if it is placed in service in a year an election not to apply the uniform capitalization rules to certain farming costs is in effect (see [Farm Property on Page 2-9](#)).
- 6) Property imported from a foreign country for which an Executive Order is in effect because the country maintains trade restrictions or engages in other discriminatory acts.

ADS Recovery Periods

The recovery periods for most property generally are longer under ADS than they are under GDS.

| ADS Recovery Periods ¹ | |
|--|-----------------------|
| Property | Recovery Period |
| Rent-to-own property | 4 years |
| Automobiles and light duty trucks | 5 years |
| Computers and peripheral equipment | 5 years |
| High technology telephone station equipment installed on customer premises | 5 years |
| High technology medical equipment | 5 years |
| New York Liberty Zone leasehold improvement property | 9 years |
| Personal property with no class life | 12 years |
| Natural gas gathering lines | 14 years ² |
| Single purpose agricultural and horticultural structures | 15 years |
| Any tree or vine bearing fruit or nuts | 20 years |
| Electric transmission property used in the transmission at 69 or more kilovolts of electricity | 30 years ² |
| Natural gas distribution lines | 35 years ² |
| Qualified leasehold improvement property, qualified restaurant property or qualified retail improvement property | 39 years |
| Nonresidential real property | 40 years |
| Residential rental property | 40 years |
| Section 1245 real property not listed in Revenue Procedure 87-56 | 40 years |
| Railroad grading and tunnel bore | 50 years |

¹ This list is not all-inclusive. The ADS recovery periods for property not listed above can be found in the tables in Revenue Procedure 87-56 (reproduced at [Tab 12](#)).

² Applicable to property placed in service after April 11, 2005, the original use of which began after that date (but not applicable if under a binding contract or if construction began on a self-constructed asset before April 12, 2005).

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

ASSIGNING THE RECOVERY PERIOD

The recovery period is the number of years over which an asset's basis is recovered under MACRS. Different recovery periods are often assigned under GDS and ADS.

GDS Recovery Periods

Property is classified under Code Section 168(e). That classification determines the GDS recovery period. See [MACRS Property Classification on Page 2-3](#).

Revenue Procedure 87-56 Recovery Periods

Revenue Procedure 87-56 (reproduced at [Tab 12](#)) lists the recovery periods for many assets not specified in [MACRS Property Classification on Page 2-3](#). It also lists the recovery periods for assets used in specific activities.

Revenue Procedure 87-56 provides three lives for the assets listed:

- **Class life.** This is the class life that was applicable for the property as of January 1, 1986, under former Section 167(m) and the Class Life Asset Depreciation Range (CLADR) System, which was used before 1981. The class life is used to determine the recovery period for assets not specifically listed in Code Section 168 or in Revenue Procedure 87-56. However, for the assets listed in the Revenue Procedure, the recovery periods are specified, so class life is not needed for determining the recovery period.



- **GDS recovery period.**

- **ADS recovery period.**

Specific and nonspecific activities. Revenue Procedure 87-56 contains two tables of *Class Lives and Recovery Periods*:

- **Specific Depreciable Assets Used in All Business Activities, Except as Noted** lists assets used in all business activities. (Referred to as Table B-1 in IRS Publication 946.)
- **Depreciable Assets Used in the Following Activities** provides recovery periods for assets used in certain activities. (Referred to as Table B-2 in IRS Publication 946.)

Using the recovery period tables. To find an asset's correct recovery period, look at both Table B-1 and Table B-2. Use the tables in the following order to determine the asset's recovery period.

- 1) **Table B-1.** Check Table B-1 for a description of the property. If it is described in Table B-1, also check Table B-2 to find the activity in which the property is being used. If the activity is described in Table B-2, read the text (if any) under the title to determine if the property is specifically included in that asset class. If it is, use the recovery period shown in the appropriate 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.

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MACRS Property Classification

| Classification | Examples | GDS Depreciation Method ² | GDS Recovery Period | Convention |
|---|--|--|---------------------|--------------------------|
| 3-year property | <ul style="list-style-type: none"> • Tractor units for over-the-road use. • Any race horse more than two years old when placed in service.² • Any horse (other than a race horse) over 12 years old when placed in service. • Qualified rent-to-own property.³ | 200% ⁴ Declining balance | 3 years | Half-year or mid-quarter |
| 5-year property | <ul style="list-style-type: none"> • Automobiles, taxis, buses and trucks. • Computers and peripheral equipment. • Office machinery (such as typewriters, calculators and copiers). • Property used in research and experimentation. • Breeding cattle and dairy cattle. • Appliances, carpets, furniture, etc., used in a residential rental real estate activity. • Certain geothermal, solar and wind energy property. | 200% ⁴ Declining balance | 5 years | Half-year or mid-quarter |
| 7-year property | <ul style="list-style-type: none"> • Office furniture and fixtures (such as desks, files and safes). • Agricultural machinery and equipment.⁵ • Motorsports entertainment complex placed in service after October 22, 2004 and before 2017. • Property that does not have a class life and has not been designated by law as being in any other class. • 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 | <ul style="list-style-type: none"> • Vessels, barges, tugs and similar water transportation equipment. • Single purpose agricultural or horticultural structure (see Tab 7). • Any tree or vine bearing fruits or nuts.⁶ • 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 | <ul style="list-style-type: none"> • Certain improvements made directly to land or added to it (such as fences, roads and bridges). • Retail motor fuels outlet (see Tab 7). • Any municipal wastewater treatment plant. • Qualified leasehold improvement property (see Tab 7).⁶ • Qualified restaurant property (see Tab 7).⁶ • Qualified retail improvement property (see Tab 7).⁶ • Initial clearing and grading land improvements for gas utility property placed in service after October 22, 2004. • 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. • 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 | <ul style="list-style-type: none"> • Farm buildings (other than single purpose agricultural or horticultural structures). • Municipal sewers not classified as 25-year property. • 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 | <ul style="list-style-type: none"> • 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. • 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, 2015, regardless of age, are three-year property. [IRC §168(e)(3)(A)]

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. Five-year treatment was unavailable for grain bins, cotton ginning assets, fences or other land improvements. [IRC §168(e)(3)(B)(vii)]

⁶ Must use straight-line method. [IRC §168(b)(3)(E) and (e)(3)(D)(ii)]

⁷ Must use 150% declining balance method. [IRC §168(b)(2)(C)]

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.

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 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 | | |
|---|--------------------------|-----|
| <i>IRS Pub. 527</i> | | |
| 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 | 12 |
| 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 | 40 |

Indian Reservation Property

The recovery periods for qualified property placed in service on an Indian reservation after 1993 and before 2017 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 §168(j)]

| Recovery Periods for Qualified Indian Reservation Property | | |
|--|-----------------|---------------------|
| Property Classification | Recovery Period | Depreciation Method |
| Three-year property | Two years | 200% DB |
| Five-year property | Three years | 200% DB |
| Seven-year property | Four years | 200% DB |
| 10-year property | Six years | 200% DB |
| 15-year property | Nine years | 150% DB |
| 20-year property | 12 years | 150% DB |
| Nonresidential real property | 22 years | SL |

See [Tab 4](#) for optional tables for computing depreciation for qualified Indian reservation property.

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.