

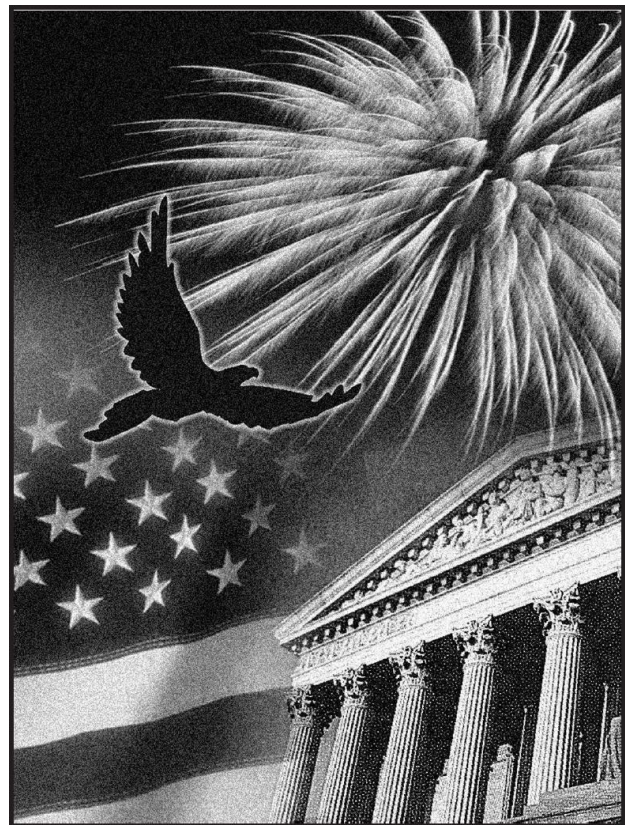
Publication 946

How To Depreciate Property

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

For use in preparing
2024 Returns

Volume 1 of 6



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Future Developments

For the latest information about developments related to Pub. 946, such as legislation enacted after it was published, go to [IRS.gov/Pub946](https://www.irs.gov/pub946).

What's New for 2024

Section 179 deduction dollar limits. For tax years beginning in 2024, the maximum

section 179 expense deduction is \$1,220,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$3,050,000. See Dollar Limits in chapter 2.

Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2024 is \$30,500.

Phase down of special depreciation allowance. The special depreciation allowance is 60% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft). Property with a long production period and certain aircraft placed in service after December 31, 2023, and before January 1, 2025, is eligible for a special depreciation allowance of 80% of the depreciable basis of the property.

The special depreciation allowance is also 60% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025. See *Certain Qualified Property Acquired After September 27, 2017* and *Certain Plants Bearing Fruits and Nuts* under *What Is Qualified Property?* in chapter 3.

What's New for 2025

Section 179 deduction dollar limits.

For tax years beginning in 2025, the maximum section 179 expense deduction is \$1,250,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$3,130,000.

Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2025 is \$31,300.

Phase down of special depreciation

allowance. The special depreciation allowance is 40% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2024, and before January 1, 2026 (other than certain property with a long production period and certain aircraft). For property with a long production period and certain aircraft placed in service after December 31, 2024, and before January 1, 2026, the special depreciation allowance is 60%. The special depreciation allowance is also 40% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2024, and before January 1, 2026. See Certain Qualified Property Acquired After September 27, 2017 and Certain Plants Bearing Fruits and Nuts under What Is Qualified Property? in chapter 3.

Additions to 5-year property. Any qualified facility (as defined in section 45Y(b)(1)(A) of the Internal Revenue Code), any qualified property (as defined in subsection (b) (2) of section 48E of the Internal Revenue Code) which is a qualified investment (as defined in subsection (b)(1) of such section), or any energy storage technology (as defined in subsection (c)(2) of such section) that is placed in service after December 31, 2024, is 5-year property.

Reminders

Photographs of missing children. The Internal Revenue Service is a proud partner with the [*National Center for Missing & Exploited Children® \(NCMEC\)*](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains how you can recover the cost of business or income-producing property through deductions for depreciation (for example, the special depreciation allowance and deductions under the Modified Accelerated Cost Recovery System (MACRS)). It also explains how you can elect to take a section 179 deduction, instead of depreciation deductions, for certain property and the additional rules for listed property.



The depreciation methods discussed in this publication generally do not apply to property placed in service before 1987. For more information, see Pub. 534, Depreciating Property Placed in Service Before 1987.

Definitions. Many of the terms used in this publication are defined in the Glossary at the end of this publication.

Glossary terms used in each discussion under the major headings are listed before the beginning of each discussion throughout this publication.

Do you need a different publication? The following table shows where you can get more detailed information when depreciating certain types of property.

For information on depreciating:	See Publication:
a car	463, Travel, Gift, and Car Expenses.
residential rental property	527, Residential Rental Property.
office space in your home	587, Business Use of Your Home.
farm property	225, Farmer's Tax Guide.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

Don't send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication,

go to the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

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1.

Overview of Depreciation

Introduction

Depreciation is an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, deterioration, or obsolescence of the property.

This chapter discusses the general rules for depreciating property and answers the following questions.

- What property can be depreciated?
- What property cannot be depreciated?
- When does depreciation begin and end?
- What method can you use to depreciate your property?

- What is the basis of your depreciable property?
- How do you treat repairs and improvements?
- Do you have to file Form 4562?
- How do you correct depreciation deductions?

Useful Items

You may want to see:

Publication

- ☐ **534** Depreciating Property Placed in Service Before 1987
- ☐ **538** Accounting Periods and Methods
- ☐ **551** Basis of Assets

Form (and Instructions)

- ☐ **Sch C (Form 1040)** Profit or Loss From Business

- ❑ **2106** Employee Business Expenses
- ❑ **3115** Application for Change in Accounting Method
- ❑ **4562** Depreciation and Amortization

See *How To Get Tax Help* at the end of this publication for information about getting publications and forms.

What Property Can Be Depreciated?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Commuting

Disposition

Fair market value (FMV)

Intangible property

Listed property

Placed in service

Tangible property

Term interest

Useful life

You can depreciate most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment. You can also depreciate certain intangible property, such as patents, copyrights, and computer software.

To be depreciable, the property must meet all the following requirements.

- It must be property you own.
- It must be used in your business or income-producing activity.
- It must have a determinable useful life.
- It must be expected to last more than 1 year.

The following discussions provide information about these requirements.

Property You Own

To claim depreciation, you must usually be the owner of the property. You are considered as owning property even if it is subject to a debt.

Example 1. You made a down payment to purchase rental property and assumed the previous owner's mortgage. You own the property and you can depreciate it.

Example 2. You bought a new van that you will use only for your courier business. You will be making payments on the van over the next 5 years. You own the van and you can depreciate it.

Leased property. You can depreciate leased property only if you retain the incidents of ownership in the property (explained below).

This means you bear the burden of exhaustion of the capital investment in the property. Therefore, if you lease property from someone to use in your trade or business or for the production of income, generally you cannot depreciate its cost because you do not retain the incidents of ownership. You can, however, depreciate any capital improvements you make to the property. See *How Do You Treat Repairs and Improvements*, later in this chapter, and *Additions and Improvements* under *Which Recovery Period Applies?* in chapter 4.

If you lease property to someone, you can generally depreciate its cost even if the lessee (the person leasing from you) has agreed to preserve, replace, renew, and maintain the property. However, if the lease provides that the lessee is to maintain the property and return to you the same property or its equivalent in value at the expiration of the

lease in as good condition and value as when leased, you cannot depreciate the cost of the property.

Incidents of ownership. Incidents of ownership in property include the following.

- The legal title to the property.
- The legal obligation to pay for the property.
- The responsibility to pay maintenance and operating expenses.
- The duty to pay any taxes on the property.
- The risk of loss if the property is destroyed, condemned, or diminished in value through obsolescence or exhaustion.

Life tenant. Generally, if you hold business or investment property as a life tenant, you can depreciate it as if you were the absolute owner of the property.

However, see Certain term interests in property under Excepted Property, later.

Cooperative apartments. If you are a tenant-stockholder in a cooperative housing corporation and use your cooperative apartment in your business or for the production of income, you can depreciate your stock in the corporation, even though the corporation owns the apartment.

Figure your depreciation deduction as follows.

1. Figure the depreciation for all the depreciable real property owned by the corporation in which you have a proprietary lease or right of tenancy. If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.
 - a. Multiply your cost per share by the total number of outstanding

shares, including any shares held by the corporation.

- b. Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.
 - c. Subtract from the amount figured in (b) any mortgage debt that is not for the depreciable real property, such as the part for the land.
- 2. Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but cannot be lived in by tenant-stockholders.
 - 3. Divide the number of your shares of stock by the total number of outstanding shares, including any shares held by the corporation.

4. Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year cannot be more than the part of your adjusted basis in the stock of the corporation that is allocable to your business or income-producing property. You must also reduce your depreciation deduction if only a portion of the property is used in a business or for the production of income.

Example. You figure your share of the cooperative housing corporation's depreciation to be \$30,000. Your adjusted basis in the stock of the corporation is \$50,000. You use one-half of your apartment solely for business purposes. Your depreciation deduction for the stock for the year cannot be more than \$25,000 ($\frac{1}{2}$ of \$50,000).

Change to business use. If you change your cooperative apartment to business use, figure your allowable depreciation as explained earlier. The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

- The FMV of the property on the date you change your apartment to business use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.
- The corporation's adjusted basis in the property on that date. Do not subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) under *Cooperative apartments*, earlier.

The FMV of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.

For a discussion of FMV and adjusted basis, see Pub. 551.

Property Used in Your Business or Income-Producing Activity

To claim depreciation on property, you must use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be taxable. You cannot depreciate property that you use solely for personal activities.

Partial business or investment use. If you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the business or investment use.

For example, you cannot deduct depreciation on a car used only for commuting, personal shopping trips, family vacations, driving children to and from school, or similar activities.



You must keep records showing the business, investment, and personal use of your property. For more information on the records you must keep for listed property, such as a car, see *What Records Must Be Kept?* in chapter 5.



Although you can combine business and investment use of property when figuring depreciation deductions, do not treat investment use as qualified business use when determining whether the business-use requirement for listed property is met. For information about qualified business use of listed property, see What Is the Business-Use Requirement? in chapter 5.

Office in the home. If you use part of your home as an office, you may be able to deduct depreciation on that part based on its business use. For information about depreciating your home office, see Pub. 587.

Inventory. You cannot depreciate inventory because it is not held for use in your business. Inventory is any property you hold primarily for sale to customers in the ordinary course of your business.

If you are a rent-to-own dealer, you may be able to treat certain property held in your business as depreciable property rather than as inventory. See *Rent-to-own dealer* under *Which Property Class Applies Under GDS?* in chapter 4.

In some cases, it is not clear whether property is held for sale (inventory) or for use in your business. If it is unclear, examine carefully all the facts in the operation of the particular business.

The following example shows how a careful examination of the facts in two similar situations results in different conclusions.

Example. Maple Corporation is in the business of leasing cars. At the end of their useful lives, when the cars are no longer profitable to lease, Maple sells them. Maple does not have a showroom, used car lot, or individuals to sell the cars. Instead, it sells them through wholesalers or by similar arrangements in which a dealer's profit is not intended or considered. Maple can depreciate the leased cars because the cars are not held primarily for sale to customers in the ordinary course of business, but are leased.

If Maple buys cars at wholesale prices, leases them for a short time, and then sells them at retail prices or in sales in which a dealer's profit is intended, the cars are treated as inventory and are not depreciable property.

In this situation, the cars are held primarily for sale to customers in the ordinary course of business.

Containers. Generally, containers for the products you sell are part of inventory and you cannot depreciate them. However, you can depreciate containers used to ship your products if they have a life longer than 1 year and meet the following requirements.

- They qualify as property used in your business.
- Title to the containers does not pass to the buyer.

To determine if these requirements are met, consider the following questions.

- Does your sales contract, sales invoice, or other type of order acknowledgment indicate whether you have retained title?
- Does your invoice treat the containers as separate items?

- Do any of your records state your basis in the containers?

Property Having a Determinable Useful Life

To be depreciable, your property must have a determinable useful life. This means that it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

Property Lasting More Than 1 Year

To be depreciable, property must have a useful life that extends substantially beyond the year you place it in service.

Example. You maintain a library for use in your profession. You can depreciate it. However, if you buy technical books, journals, or information services for use in your business that have a useful life of 1 year or less, you cannot depreciate them. Instead, you deduct their cost as a business expense.

What Property Cannot Be Depreciated?

Terms you may need to know (see Glossary):

Amortization

Basis

Goodwill

Intangible property

Remainder interest

Term interest

Certain property cannot be depreciated. This includes land and certain excepted property.

Land

You cannot depreciate the cost of land because land does not wear out, become obsolete, or get used up. The cost of land generally includes the cost of clearing, grading, planting, and landscaping.

Although you cannot depreciate land, you can depreciate certain land preparation costs, such as landscaping costs, incurred in preparing land for business use. These costs must be so closely associated with other depreciable property that you can determine a life for them along with the life of the associated property.

Example. You constructed a new building for use in your business and paid for grading, clearing, seeding, and planting bushes and trees. Some of the bushes and trees were planted right next to the building, while others were planted around the outer border of the lot. If you replace the building, you would have to destroy the bushes and trees right next to it. These bushes and trees are closely associated with the building, so they have a determinable useful life. Therefore, you can depreciate them.

Add your other land preparation costs to the basis of your land because they have no determinable life and you cannot depreciate them.

Excepted Property

Even if the requirements explained in the preceding discussions are met, you cannot depreciate the following property.

- Property placed in service and disposed of in the same year. Determining when property is placed in service is explained later.
- Equipment used to build capital improvements. You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements. See *Uniform Capitalization Rules* in Pub. 551.
- Section 197 intangibles. You must amortize these costs. Intangible property, such as certain computer software,

that is not section 197 intangible property, can be depreciated if it meets certain requirements. See Intangible Property, later.

- Certain term interests.

Certain term interests in property. You cannot depreciate a term interest in property created or acquired after July 27, 1989, for any period during which the remainder interest is held, directly or indirectly, by a person related to you. A term interest in property means a life interest in property, an interest in property for a term of years, or an income interest in a trust.

Related persons. For a description of related persons, see Related persons, later. For this purpose, however, treat as related persons only the relationships listed in items (1) through (10) of that discussion and substitute “50%” for “10%” each place it appears.

Basis adjustments. If you would be allowed a depreciation deduction for a term interest in property except that the holder of the remainder interest is related to you, you must generally reduce your basis in the term interest by any depreciation or amortization not allowed.

If you hold the remainder interest, you must generally increase your basis in that interest by the depreciation not allowed to the term interest holder. However, do not increase your basis for depreciation not allowed for periods during which either of the following situations applies.

- The term interest is held by an organization exempt from tax.
- The term interest is held by a nonresident alien individual or foreign corporation, and the income from the term interest is not effectively connected with the conduct of a trade or business in the United States.

Exceptions. The above rules do not apply to the holder of a term interest in property acquired by gift, bequest, or inheritance. They also do not apply to the holder of dividend rights that were separated from any stripped preferred stock if the rights were purchased after April 30, 1993, or to a person whose basis in the stock is determined by reference to the basis in the hands of the purchaser.

When Does Depreciation Begin and End?

Terms you may need to know (see Glossary):

Basis

Exchange

Placed in service

You begin to depreciate your property when you place it in service for use in your trade or business or for the production of income. You stop depreciating property either when you have fully recovered your cost or other basis or when you retire it from service, whichever happens first.

Placed in Service

You place property in service when it is ready and available for a specific use, whether in a business activity, an income-producing activity, a tax-exempt activity, or a personal activity. Even if you are not using the property, it is in service when it is ready and available for its specific use.

Example 1. You bought a machine for your business. The machine was delivered last year. However, it was not installed and operational until this year. It is considered placed in service this year.

If the machine had been ready and available for use when it was delivered, it would be considered placed in service last year even if it was not actually used until this year.

Example 2. On April 6, Sue Thorn bought a house to use as residential rental property. Sue made several repairs and had it ready for rent on July 5. At that time, Sue began to advertise it for rent in the local newspaper. The house is considered placed in service in July when it was ready and available for rent. Sue can begin to depreciate it in July.

Example 3. James Elm is a building contractor who specializes in constructing office buildings. James bought a truck last year that had to be modified to lift materials to second-story levels. The installation of the lifting equipment was completed and James accepted delivery of the modified truck on January 10 of this year.

The truck was placed in service on January 10, the date it was ready and available to perform the function for which it was bought.

Conversion to business use. If you place property in service in a personal activity, you cannot claim depreciation. However, if you change the property's use to use in a business or income-producing activity, then you can begin to depreciate it at the time of the change. You place the property in service in the business or income-producing activity on the date of the change.

Example. You bought a home and used it as your personal home several years before you converted it to rental property. Although its specific use was personal and no depreciation was allowable, you placed the home in service when you began using it as your home. You can begin to claim depreciation in the year you converted it to rental property because its use changed to an income-producing use at that time.

Idle Property

Continue to claim a deduction for depreciation on property used in your business or for the production of income even if it is temporarily idle (not in use). For example, if you stop using a machine because there is a temporary lack of a market for a product made with that machine, continue to deduct depreciation on the machine.

Cost or Other Basis Fully Recovered

You stop depreciating property when you have fully recovered your cost or other basis. You fully recover your basis when your section 179 deduction, allowed or allowable depreciation deductions, and salvage value, if applicable, equal the cost or investment in the property. See *What Is the Basis of Your Depreciable Property*, later.

Retired From Service

You stop depreciating property when you retire it from service, even if you have not

fully recovered its cost or other basis. You retire property from service when you permanently withdraw it from use in a trade or business or from use in the production of income because of any of the following events.

- You sell or exchange the property.
- You convert the property to personal use.
- You abandon the property.
- You transfer the property to a supplies or scrap account.
- The property is destroyed.



If you included the property in a general asset account, see How Do You Use General Asset Accounts? in chapter 4 for the rules that apply when you dispose of that property.

What Method Can You Use To Depreciate Your Property?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Convention

Exchange

Fiduciary

Grantor

Intangible property

Nonresidential real property

Placed in service

Related persons

Residential rental property

Salvage value

Section 1245 property

Section 1250 property

Standard mileage rate

Straight line method

Unit-of-production method

Useful life

You must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate most property. MACRS is discussed in chapter 4.

You cannot use MACRS to depreciate the following property.

- Property you placed in service before 1987.
- Certain property owned or used in 1986.
- Intangible property.
- Films, videotapes, and recordings.
- Certain corporate or partnership property acquired in a nontaxable transfer.

- Property you elected to exclude from MACRS.

The following discussions describe the property listed above and explain what depreciation method should be used.

Property You Placed in Service Before 1987

You cannot use MACRS for property you placed in service before 1987 (except property you placed in service after July 31, 1986, if MACRS was elected). Property placed in service before 1987 must be depreciated under the methods discussed in Pub. 534.

For a discussion of when property is placed in service, see *When Does Depreciation Begin and End*, earlier.

Use of real property changed. You must generally use MACRS to depreciate real property that you acquired for personal use before 1987 and changed to business or income-producing use after 1986.

Improvements made after 1986. You must treat an improvement made after 1986 to property you placed in service before 1987 as separate depreciable property. Therefore, you can depreciate that improvement as separate property under MACRS if it is the type of property that otherwise qualifies for MACRS depreciation. For more information about improvements, see *How Do You Treat Repairs and Improvements*, later, and *Additions and Improvements* under *Which Recovery Period Applies?* in chapter 4.

Property Owned or Used in 1986

You may not be able to use MACRS for property you acquired and placed in service after 1986 if any of the situations described below apply. If you cannot use MACRS, the property must be depreciated under the methods discussed in Pub. 534.



For the following discussions, do not treat property as owned before you placed it in service. If you owned property in 1986 but did not place it in service until 1987, you do not treat it as owned in 1986.

Personal property. You cannot use MACRS for personal

property (section 1245 property) in any of the following situations.

1. You or someone related to you owned or used the property in 1986.
2. You acquired the property from a person who owned it in 1986 and as part of the transaction the user of the property did not change.
3. You lease the property to a person (or someone related to this person) who owned or used the property in 1986.

4. You acquired the property in a transaction in which:
 - a. The user of the property did not change, and
 - b. The property was not MACRS property in the hands of the person from whom you acquired it because of (2) or (3) above.

Real property. You generally cannot use MACRS for real property (section 1250 property) in any of the following situations.

- You or someone related to you owned the property in 1986.
- You lease the property to a person who owned the property in 1986 (or someone related to that person).
- You acquired the property in a like-kind exchange, an involuntary conversion, or a repossession of property you or someone related to you owned in 1986.

For property acquired in a like-kind exchange or an involuntary conversion, MACRS applies only to the portion of the acquired property's basis that exceeds the adjusted basis of property given up at the time of the like-kind exchange or the time of the involuntary conversion. This is referred to as "excess basis." It does not apply to the adjusted basis of the property at the time it was given up or involuntarily converted, which is referred to as the "carryover basis." See Property acquired in a nontaxable transaction, later, and Pub. 551.

Exceptions. The rules above do not apply to the following.

1. Residential rental property or nonresidential real property.
2. Any property if, in the first tax year it is placed in service, the deduction under the Accelerated Cost Recovery System (ACRS) is more than the

deduction under MACRS using the half-year convention. For information on how to figure depreciation under ACRS, see Pub. 534.

3. Property that was MACRS property in the hands of the person from whom you acquired it because of (2) above.

Related persons. For this purpose, the following are related persons.

1. An individual and a member of their family, including only a spouse, child, parent, sibling, half sibling, ancestor, and lineal descendant.
2. A corporation and an individual who directly or indirectly owns more than 10% of the value of the outstanding stock of that corporation.
3. Two corporations that are members of the same controlled group.

4. A trust fiduciary and a corporation if more than 10% of the value of the outstanding stock is directly or indirectly owned by or for the trust or grantor of the trust.
5. The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
6. The fiduciaries of two different trusts, and the fiduciaries and beneficiaries of two different trusts, if the same person is the grantor of both trusts.
7. A tax-exempt educational or charitable organization and any person (or, if that person is an individual, a member of that person's family) who directly or indirectly controls the organization.
8. Two S corporations, and an S corporation and a regular corporation, if the same persons own more than 10% of the value of the outstanding stock of each corporation.

9. A corporation and a partnership if the same persons own both of the following.
 - a. More than 10% of the value of the outstanding stock of the corporation.
 - b. More than 10% of the capital or profits interest in the partnership.
10. The executor and beneficiary of any estate.
11. A partnership and a person who directly or indirectly owns more than 10% of the capital or profits interest in the partnership.
12. Two partnerships, if the same persons directly or indirectly own more than 10% of the capital or profits interest in each.
13. The related person and a person who is engaged in trades or businesses

under common control. See sections 52(a) and 52(b) of the Internal Revenue Code.

When to determine relationship. You must determine whether you are related to another person at the time you acquire the property.

A partnership acquiring property from a terminating partnership must determine whether it is related to the terminating partnership immediately before the event causing the termination.

Constructive ownership of stock or partnership interest. To determine whether a person directly or indirectly owns any of the outstanding stock of a corporation or an interest in a partnership, apply the following rules.

1. Stock or a partnership interest directly or indirectly owned by or for a corporation, partnership, estate, or trust is considered owned

proportionately by or for its shareholders, partners, or beneficiaries. However, for a partnership interest owned by or for a C corporation, this applies only to shareholders who directly or indirectly own 5% or more of the value of the stock of the corporation.

2. An individual is considered to own the stock or partnership interest directly or indirectly owned by or for the individual's family.
3. An individual who owns, except by applying rule (2), any stock in a corporation is considered to own the stock directly or indirectly owned by or for the individual's partner.
4. For purposes of rule (1), (2), or (3), stock or a partnership interest considered to be owned by a person under rule (1) is treated as actually owned by that person. However, stock

or a partnership interest considered to be owned by an individual under rule (2) or (3) is not treated as owned by that individual for reapplying either rule (2) or (3) to make another person considered to be the owner of the same stock or partnership interest.

Intangible Property

Generally, if you can depreciate intangible property, you usually use the straight line method of depreciation. However, you can choose to depreciate certain intangible property under the income forecast method (discussed later).



You cannot depreciate intangible property that is a section 197 intangible or that does not otherwise meet all the requirements discussed earlier under What Property Can Be Depreciated.

Straight Line Method

This method lets you deduct the same amount of depreciation each year over the useful life of the property. To figure your deduction, first determine the adjusted basis, salvage value, and estimated useful life of your property. Subtract the salvage value, if any, from the adjusted basis. The balance is the total depreciation you can take over the useful life of the property.

Divide the balance by the number of years in the useful life. This gives you your yearly depreciation deduction. Unless there is a big change in adjusted basis or useful life, this amount will stay the same throughout the time you depreciate the property. If, in the first year, you use the property for less than a full year, you must prorate your depreciation deduction for the number of months in use.

Example. In April, you bought a patent for \$5,100 that is not a section 197 intangible.

You depreciate the patent under the straight line method, using a 17-year useful life and no salvage value. You divide the \$5,100 basis by 17 years to get your \$300 yearly depreciation deduction. You only used the patent for 9 months during the first year, so you multiply \$300 by $\frac{9}{12}$ to get your deduction of \$225 for the first year. Next year, you can deduct \$300 for the full year.

Patents and copyrights. If you can depreciate the cost of a patent or copyright, use the straight line method over the useful life. The useful life of a patent or copyright is the lesser of the life granted to it by the government or the remaining life when you acquire it. However, if the patent or copyright becomes valueless before the end of its useful life, you can deduct in that year any of its remaining cost or other basis.

Computer software. Computer software is generally a section 197 intangible and cannot be depreciated if you acquired it in connection

with the acquisition of assets constituting a business or a substantial part of a business.

However, computer software is not a section 197 intangible and can be depreciated, even if acquired in connection with the acquisition of a business, if it meets all of the following tests.

- It is readily available for purchase by the general public.
- It is subject to a nonexclusive license.
- It has not been substantially modified.

If the software meets the tests above, it may also qualify for the section 179 deduction and the special depreciation allowance, discussed later in chapters 2 and 3. If you can depreciate the cost of computer software, use the straight line method over a useful life of 36 months.

Tax-exempt use property subject to a lease. The useful life of computer software leased under a lease agreement entered into after March 12, 2004, to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership) cannot be less than 125% of the lease term.

Certain created intangibles. You can amortize certain intangibles created on or after December 31, 2003, over a 15-year period using the straight line method and no salvage value, even though they have a useful life that cannot be estimated with reasonable accuracy. For example, amounts paid to acquire memberships or privileges of indefinite duration, such as a trade association membership, are eligible costs.

The following are not eligible.

- Any intangible asset acquired from another person.
- Created financial interests.

- Any intangible asset that has a useful life that can be estimated with reasonable accuracy.
- Any intangible asset that has an amortization period or limited useful life that is specifically prescribed or prohibited by the Internal Revenue Code, regulations, or other published IRS guidance.
- Any amount paid to facilitate an acquisition of a trade or business, a change in the capital structure of a business entity, and certain other transactions.

You must also increase the 15-year safe harbor amortization period to a 25-year period for certain intangibles related to benefits arising from the provision, production, or improvement of real property.

For this purpose, real property includes property that will remain attached to the real property for an indefinite period of time, such as roads, bridges, tunnels, pavements, and pollution control facilities.

Income Forecast Method

You can choose to use the income forecast method instead of the straight line method to depreciate the following depreciable intangibles.

- Motion picture films or videotapes.
- Sound recordings.
- Copyrights.
- Books.
- Patents.

Under the income forecast method, each year's depreciation deduction is equal to the cost of the property, multiplied by a fraction.

The numerator of the fraction is the current year's net income from the property, and the denominator is the total income anticipated from the property through the end of the 10th tax year following the tax year the property is placed in service. For more information, see section 167(g) of the Internal Revenue Code.

Films, videotapes, and recordings. You cannot use MACRS for motion picture films, videotapes, and sound recordings. For this purpose, sound recordings are discs, tapes, or other phonorecordings resulting from the fixation of a series of sounds. You can depreciate this property using either the straight line method or the income forecast method.

Participations and residuals. You can include participations and residuals in the adjusted basis of the property for purposes of computing your depreciation deduction under the income forecast method.

The participations and residuals must relate to income to be derived from the property before the end of the 10th tax year after the property is placed in service. For this purpose, participations and residuals are defined as costs, which by contract vary with the amount of income earned in connection with the property.

Instead of including these amounts in the adjusted basis of the property, you can deduct the costs in the tax year that they are paid.

Videocassettes. If you are in the business of renting videocassettes, you can depreciate only those videocassettes bought for rental. If the videocassette has a useful life of 1 year or less, you can currently deduct the cost as a business expense.

Corporate or Partnership Property Acquired in a Nontaxable Transfer

MACRS does not apply to property used before 1987 and transferred after 1986 to a corporation or partnership (except property the transferor placed in service after July 31, 1986, if MACRS was elected) to the extent its basis is carried over from the property's adjusted basis in the transferor's hands. You must continue to use the same depreciation method as the transferor and figure depreciation as if the transfer had not occurred. However, if MACRS would otherwise apply, you can use it to depreciate the part of the property's basis that exceeds the carried-over basis.

The nontaxable transfers covered by this rule include the following.

- A distribution in complete liquidation of a subsidiary.

- A transfer to a corporation controlled by the transferor.
- An exchange of property solely for corporate stock or securities in a reorganization.
- A contribution of property to a partnership in exchange for a partnership interest.
- A partnership distribution of property to a partner.

Election To Exclude Property From MACRS

If you can properly depreciate any property under a method not based on a term of years, such as the unit-of-production method, you can elect to exclude that property from MACRS. You make the election by reporting your depreciation for the property on line 15 in Part II of Form 4562 and attaching a statement, as described in the Instructions for Form 4562.

You must make this election by the return due date (including extensions) for the tax year you place your property in service. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address you filed the original return.

Use of standard mileage rate. If you use the standard mileage rate to figure your tax deduction for your business automobile, you are treated as having made an election to exclude the automobile from MACRS. See Pub. 463 for a discussion of the standard mileage rate.

What Is the Basis of Your Depreciable Property?

Terms you may need to know (see Glossary):

Abstract fees

Adjusted basis

Basis

Exchange

Fair market value (FMV)

To figure your depreciation deduction, you must determine the basis of your property. To determine basis, you need to know the cost or other basis of your property.

Cost as Basis

The basis of property you buy is its cost plus amounts you paid for items such as sales tax (see Exception below), freight charges, and installation and testing fees.

The cost includes the amount you pay in cash, debt obligations, other property, or services.

Exception. You can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A (Form 1040). If you make that choice, you cannot include those sales taxes as part of your cost basis.

Assumed debt. If you buy property and assume (or buy subject to) an existing mortgage or other debt on the property, your basis includes the amount you pay for the property plus the amount of the assumed debt.

Example. You make a \$20,000 down payment on property and assume the seller's mortgage of \$120,000. Your total cost is \$140,000, the cash you paid plus the mortgage you assumed.

Settlement costs. The basis of real property also includes certain fees and charges you pay in addition to the purchase price. These are generally shown on your settlement statement and include the following.

- Legal and recording fees.
- Abstract fees.
- Survey charges.
- Owner's title insurance.
- Amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

For fees and charges you cannot include in the basis of property, see *Real Property* in Pub. 551.

Property you construct or build. If you construct, build, or otherwise produce property for use in your business,

you may have to use the uniform capitalization rules to determine the basis of your property. For information about the uniform capitalization rules, see Pub. 551 and the regulations under section 263A of the Internal Revenue Code.

Other Basis

Other basis usually refers to basis that is determined by the way you received the property. For example, your basis is other than cost if you acquired the property in exchange for other property, as payment for services you performed, as a gift, or as an inheritance. If you acquired property in this or some other way, see Pub. 551 to determine your basis.

Property changed from personal use. If you held property for personal use and later use it in your business or income-producing activity, your depreciable basis is the lesser of the following.

1. The FMV of the property on the date of the change in use.
2. Your original cost or other basis adjusted as follows.
 - a. Increased by the cost of any permanent improvements or additions and other costs that must be added to basis.
 - b. Decreased by any deductions you claimed for casualty and theft losses and other items that reduced your basis.

Example. Several years ago, Nia paid \$160,000 to have a home built on a lot that cost \$25,000. Before changing the property to rental use last year, Nia paid \$20,000 for permanent improvements to the house and claimed a \$2,000 casualty loss deduction for damage to the house.

Land is not depreciable, so Nia includes only the cost of the house when figuring the basis for depreciation.

The adjusted basis in the house when Nia changed its use was \$178,000 ($\$160,000 + \$20,000 - \$2,000$). On the same date, the property had an FMV of \$180,000, of which \$15,000 was for the land and \$165,000 was for the house. The basis for depreciation on the house is the FMV on the date of change (\$165,000) because it is less than Nia's adjusted basis (\$178,000).

Property acquired in a nontaxable transaction. Generally, if you receive property in a nontaxable exchange, the basis of the property you receive is the same as the adjusted basis of the property you gave up. This is referred to as the "carryover basis." Special rules apply in determining the basis and figuring the MACRS depreciation deduction and special depreciation allowance for property acquired in a like-kind exchange

or an involuntary conversion. See *Like-kind exchanges and involuntary conversions* under *How Much Can You Deduct?* in chapter 3, and *Figuring the Deduction for Property Acquired in a Nontaxable Exchange* in chapter 4.

There are also special rules for determining the basis of MACRS property involved in a like-kind exchange or an involuntary conversion when the property is contained in a general asset account. See *How Do You Use General Asset Accounts?* in chapter 4.

Adjusted Basis

To find your property's basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the property for events occurring between the time you acquired the property and the time you placed it in service. These events could include the following.

- Installing utility lines.
- Paying legal fees for perfecting the title.

- Settling zoning issues.
- Receiving rebates.
- Incurring a casualty or theft loss.

For a discussion of adjustments to the basis of your property, see *Adjusted Basis* in Pub. 551.

If you depreciate your property under MACRS, you may also have to reduce your basis by certain deductions and credits with respect to the property. For more information, see *What Is the Basis for Depreciation?* in chapter 4.

Basis adjustment for depreciation allowed or allowable. You must reduce the basis of property by the depreciation allowed or allowable, whichever is greater.

Depreciation allowed is depreciation you actually deducted (from which you received a tax benefit). Depreciation allowable is depreciation you are entitled to deduct.

If you do not claim depreciation you are entitled to deduct, you must still reduce the basis of the property by the full amount of depreciation allowable.

If you deduct more depreciation than you should, you must reduce your basis by any amount deducted from which you received a tax benefit (the depreciation allowed).

How Do You Treat Repairs and Improvements?

If you improve depreciable property, you must treat the improvement as separate depreciable property. Improvement means an addition to or partial replacement of property that is a betterment to the property, restores the property, or adapts it to a new or different use. See section 1.263(a)-3 of the regulations.

You generally deduct the cost of repairing business property in the same way as any other business expense.

However, if the cost is for a betterment to the property, to restore the property, or to adapt the property to a new or different use, you must treat it as an improvement and depreciate it.

Example. You repair a small section on one corner of the roof of a rental house. You deduct the cost of the repair as a rental expense. However, if you completely replace the roof, the new roof is an improvement because it is a restoration of the building. You depreciate the cost of the new roof.

Improvements to rented property. You can depreciate permanent improvements you make to business property you rent from someone else.

Do You Have To File Form 4562?

Terms you may need to know (see Glossary):

Amortization

Listed property

Placed in service

Standard mileage rate

Use Form 4562 to figure your deduction for depreciation and amortization. Attach Form 4562 to your tax return for the current tax year if you are claiming any of the following items.

- A section 179 deduction for the current year or a section 179 carryover from a prior year. See chapter 2 for information on the section 179 deduction.
- Depreciation for property placed in service during the current year.
- Depreciation on any vehicle or other listed property, regardless of when it was placed in service. See chapter 5 for information on listed property.

- A deduction for any vehicle if the deduction is reported on a form other than Schedule C (Form 1040).
- Amortization of costs if the current year is the first year of the amortization period.
- Depreciation or amortization on any asset on a corporate income tax return (other than Form 1120-S, U.S. Income Tax Return for an S Corporation) regardless of when it was placed in service.



You must submit a separate Form 4562 for each business or activity on your return for which a Form 4562 is required.

Table 1-1 presents an overview of the purpose of the various parts of Form 4562.

Employee. Do not use Form 4562 if you are an employee and you deduct job-related vehicle expenses using either actual expenses (including depreciation) or the standard mileage rate. Instead, use Form 2106.

How Do You Correct Depreciation Deductions?

If you deducted an incorrect amount of depreciation in any year, you may be able to make a correction by filing an amended return for that year. See *Filing an Amended Return* next. If you are not allowed to make the correction on an amended return, you may be able to change your accounting method to claim the correct amount of depreciation. See *Changing Your Accounting Method*, later.

Filing an Amended Return

You can file an amended return to correct the amount of depreciation claimed for any property in any of the following situations.

- You claimed the incorrect amount because of a mathematical error made in any year.
- You claimed the incorrect amount because of a posting error made in any year.

- You have not adopted a method of accounting for property placed in service by you in tax years ending after December 29, 2003.
- You claimed the incorrect amount on property placed in service by you in tax years ending before December 30, 2003.

Adoption of accounting method defined.

Generally, you adopt a method of accounting for depreciation by using a permissible method of determining depreciation when you file your first tax return, or by using the same impermissible method of determining depreciation in two or more consecutively filed tax returns.

For an exception to the 2-year rule, see sections 6.01(1)(b), 6.19(1)(b), and 6.21(3)(b) of Revenue Procedure 2024-23 on page 1334 of Internal Revenue Bulletin 2024-23, available at

[IRS.gov/irb/2024-23 IRB#REVPROC-2024-23](https://www.irs.gov/irb/2024-23_IRB#REVPROC-2024-23); or any successor.

When to file. If an amended return is allowed, you must file it by the later of the following.

- 3 years from the date you filed your original return for the year in which you did not deduct the correct amount. A return filed before an unextended due date is considered filed on that due date.
- 2 years from the time you paid your tax for that year.

Changing Your Accounting Method

Generally, you must get IRS approval to change your method of accounting. You must generally file Form 3115 to request a change in your method of accounting for depreciation.

The following are examples of a change in method of accounting for depreciation.

- A change from an impermissible method of determining depreciation for

depreciable property if the impermissible method was used in two or more consecutively filed tax returns.

- A change in the treatment of an asset from nondepreciable to depreciable or vice versa.
- A change in the depreciation method, period of recovery, or convention of a depreciable asset.
- A change from not claiming to claiming the special depreciation allowance if you did not make the election to not claim any special allowance.
- A change from claiming a 50% special depreciation allowance to claiming a 100% special depreciation allowance for qualified property acquired and placed in service by you after September 27, 2017 (if you did not make the election under section 168(k)(10) to claim a 50% special depreciation allowance).

Changes in depreciation that are not a change in method of accounting (and may only be made on an amended return) include the following.

- An adjustment in the useful life of a depreciable asset for which depreciation is determined under section 167.
- A change in use of an asset in the hands of the same taxpayer.
- Making a late depreciation election or revoking a timely valid depreciation election (including the election not to deduct the special depreciation allowance). If you elected not to claim any special depreciation allowance, a change from not claiming to claiming the special depreciation allowance is a revocation of the election and is not an accounting method change. Generally, you must get IRS approval to make a late depreciation election or revoke a depreciation election.

You must submit a request for a letter ruling to make a late election or revoke an election.

- Any change in the placed in service date of a depreciable asset.

See sections 1.446-1(e)(2)(ii)(d) and 1.446-1(e)(2)(iii) of the regulations for more information and examples.

IRS approval. If your change in method of accounting for depreciation is described in Revenue Procedure 2019-43, on page 1107 of Internal Revenue Bulletin 2019-48, as modified, amplified, and superseded by Revenue Procedure 2022-14, on page 502 of Internal Revenue Bulletin 2022-7, as modified, amplified, and superseded by Revenue Procedure 2023-34, on page 1207 of Internal Revenue Bulletin 2023-28, you may be able to get approval from the IRS to make that change under the automatic change request procedures generally covered in Revenue Procedure 2015-13 on page 419 of

Internal Revenue Bulletin 2015-5. If you do not qualify to use the automatic procedures to get approval, you must use the advance consent request procedures generally covered in Revenue Procedure 2015-13. Also, see the Instructions for Form 3115 for more information on getting approval, including lists of scope limitations and automatic accounting method changes.

Additional guidance. For additional guidance and special procedures for changing your accounting method, automatic change procedures, amending your return, and filing Form 3115, see Revenue Procedure 2015-13 on page 419 of Internal Revenue Bulletin 2015-5, available at [IRS.gov/irb/2015-05_IRB#RP-2015-13](https://www.irs.gov/irb/2015-05_IRB#RP-2015-13); Revenue Procedure 2019-43 on page 1107 of Internal Revenue Bulletin 2019-48, available at [IRS.gov/irb/2019-48_IRB#REVPROC-2019-43](https://www.irs.gov/irb/2019-48_IRB#REVPROC-2019-43); Revenue Procedure 2022-14 on page 502 of Internal Revenue Bulletin 2022-7,

available at [IRS.gov/irb/2022-7_IRB#REV-PROC-2022-14](https://www.irs.gov/irb/2022-7_IRB#REV-PROC-2022-14); and Revenue Procedure 2023-34 on page 1207 of Internal Revenue Bulletin 2023-28, available at [IRS.gov/irb/2023-28_IRB#REV-PROC-2023-24](https://www.irs.gov/irb/2023-28_IRB#REV-PROC-2023-24).

Section 481(a) adjustment. If you file Form 3115 and change from an impermissible method to a permissible method of accounting for depreciation, you can make a section 481(a) adjustment for any unclaimed or excess amount of allowable depreciation. The adjustment is the difference between the total depreciation actually deducted for the property and the total amount allowable prior to the year of change. If no depreciation was deducted, the adjustment is the total depreciation allowable prior to the year of change. A negative section 481(a) adjustment results in a decrease in taxable income. It is taken into account in the year of change and is reported on your business tax returns as “other expenses.” A positive section 481(a)

adjustment results in an increase in taxable income. It is generally taken into account over 4 tax years and is reported on your business tax returns as "other income." However, you can elect to use a 1-year adjustment period and report the adjustment in the year of change if the total adjustment is less than \$50,000. Make the election by completing the appropriate line on Form 3115.

If you file a Form 3115 and change from one permissible method to another permissible method, the section 481(a) adjustment is zero.

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2.

Electing the Section 179 Deduction

Introduction

You can elect to recover all or part of the cost of certain qualifying property, up to a limit, by deducting it in the year you place the property in service. This is the section 179 deduction. You can elect the section 179 deduction instead of recovering the cost by taking depreciation deductions.



Estates and trusts cannot elect the section 179 deduction.

This chapter explains what property does and does not qualify for the section 179 deduction, what limits apply to the deduction (including special rules for partnerships and corporations), and how to elect it.

It also explains when and how to recapture the deduction.

Useful Items

You may want to see:

Publication

- ☐ **537** Installment Sales
- ☐ **544** Sales and Other Dispositions of Assets

Form (and Instructions)

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

See *How To Get Tax Help* at the end of this publication for information about getting publications and forms.

What Property Qualifies?

Terms you may need to know (see Glossary):

Adjusted basis

Basis

Class life

Structural components

Tangible property

To qualify for the section 179 deduction, your property must meet all the following requirements.

- It must be eligible property.
- It must be acquired for business use.
- It must have been acquired by purchase.
- It must not be property described later under *What Property Does Not Qualify*.

The following discussions provide information about these requirements and exceptions.

Eligible Property

To qualify for the section 179 deduction, your property must be one of the following types of depreciable property.

1. Tangible personal property.
2. Other tangible property (except buildings and their structural components) used as:
 - a. An integral part of manufacturing, production, or extraction, or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;
 - b. A research facility used in connection with any of the activities in (a) above; or

- c. A facility used in connection with any of the activities in (a) for the bulk storage of fungible commodities.
- 3. Single-purpose agricultural (livestock) or horticultural structures. See chapter 7 of Pub. 225 for definitions and information regarding the use requirements that apply to these structures.
- 4. Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
- 5. Off-the-shelf computer software.
- 6. Qualified section 179 real property (described below).

Tangible personal property. Tangible personal property is any tangible property that is not real property. It includes the following property.

- Machinery and equipment.
- Property contained in or attached to a building (other than structural components), such as refrigerators, grocery store counters, office equipment, printing presses, testing equipment, and signs.
- Gasoline storage tanks and pumps at retail service stations.
- Livestock, including horses, cattle, hogs, sheep, goats, and mink and other fur-bearing animals.
- Portable air conditioners or heaters placed in service by you in tax years beginning after 2015.
- Certain property used predominantly to furnish lodging or in connection with the furnishing of lodging (except as provided in section 50(b)(2)).

The treatment of property as tangible personal property for the section 179 deduction is not controlled by its treatment under local law. For example, property may not be tangible personal property for the deduction even if treated so under local law, and some property (such as fixtures) may be tangible personal property for the deduction even if treated as real property under local law.

Off-the-shelf computer software. Off-the-shelf computer software is qualifying property for purposes of the section 179 deduction. This is computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. It includes any program designed to cause a computer to perform a desired function.

However, a database or similar item is not considered computer software unless it is in

the public domain and is incidental to the operation of otherwise qualifying software.

Qualified section 179 real property. You can elect to treat certain qualified real property you placed in service during the tax year as section 179 property. If this election is made, the term “section 179 property” will include any qualified real property that is:

- Qualified improvement property, as described in section 168(e)(6) of the Internal Revenue Code; and
- Any of the following improvements to nonresidential real property placed in service after the date the nonresidential real property was first placed in service.
 1. Roofs.
 2. Heating, ventilation, and air-conditioning property.
 3. Fire protection and alarm systems.
 4. Security systems.