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March 15, 2000

The Honorable
U. S. House of Representatives
Washington, D.C. 20515

Attention:

Dear :

This letter is in response to your February 17, 2000, inquiry to Floyd Williams, National Director for Legislative Affairs, on behalf of your constituent, Mr. . Mr. recently purchased land that he rents to farmers. He wants to know why he cannot deduct the cost of acquiring the land, even though he pays taxes on the rental income from the land. He notes that he could deduct the cost of farm machinery.

A taxpayer can deduct the cost of farm machinery under the depreciation provisions of sections 167 and 168 of the Internal Revenue Code. Depreciation is an annual, reasonable allowance for the exhaustion, wear and tear, and obsolescence of certain types of property used in a trade or business or held for the production of income. Depreciation is an accounting concept that treats a designated part of the cost of certain limited-life assets as an expense (return of capital) in determining taxable income. Generally, this expense is deducted over a specified recovery period.

The depreciation allowance applies only to that part of the property that is subject to wear and tear, decay or decline from natural causes, exhaustion, and obsolescence (section 1.167(a)-2 of the Income Tax Regulations). These factors that provide the basis for the depreciation allowance are not present for land. Land has an unlimited useful life. Section 1.167(a)-2 specifically provides that the depreciation allowance does not apply to land. While farm machinery is an example of a limited-life asset for which the depreciation allowance is available, land is not a limited-life asset.

I hope our letter has been responsive to your inquiry. If we can be of further assistance in this matter, please call at (202) 622-3110.

Sincerely,

Paul F. Kugler
Assistant Chief Counsel
(Passthroughs and Special
Industries)