MACRS

Tab 2 Topics

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 Sec. 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 2-10.

Assets are classified under MACRS. The classification generally determines the depreciation method, convention, and recovery period. See *MACRS Property Classification (2018 and Later Years)* 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* on Page 2-1 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 Sec. 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 (including farm property, except real property, placed in service after December 31, 2017).	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.
15-year and 20-year property.	150% declining balance over GDS recovery period.	N/A		
• Nonresidential real property. • Residential rental property. • Qualified improvement property.[3] • 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.
[3] For property placed in service after December 31, 2017, the Tax Cuts and Jobs Act (TCJA) eliminated the separate definitions of qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. See *Leasehold Improvements* on Page 7-9 and *TCJA qualified improvement property (QIP)* on Page 7-9.

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 Sec. 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 2-10).
6) Any farming business property with a recovery period of 10 years or more, if the farming business elects not to apply the TCJA limitation on business interest expense [IRC Sec. 168(g)(1)(G)]. See *Farm Property* on Page 2-10 and *Limitation on business interest expense* on Page 2-16.
7) Any non-residential real property, residential rental property, and qualified improvement property placed in service by a real property trade or business that elects not to apply the TCJA limitation on business interest expense [IRC Sec. 168(g)(8)]. See *Limitation on business interest expense* on Page 2-16.
8) 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
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
Natural gas distribution lines	35 years
Qualified improvement property	20 or 40 years[2]
Nonresidential real property	40 years
Residential rental property	30 years
Section 1245 real property not listed in Rev. Proc. 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 Rev. Proc. 87-56 (reproduced at Tab 12).
[2] For property placed in service after December 31, 2017, the TCJA eliminated the separate definitions of qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. See *Leasehold Improvements* on Page 7-9 and *TCJA qualified improvement property (QIP)* on Page 7-9.

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 IRC Sec. 168(e). That classification determines the GDS recovery period. See *MACRS Property Classification (2018 and Later Years)* on Page 2-3.

Rev. Proc. 87-56 Recovery Periods

Rev. Proc. 87-56 (reproduced at Tab 12) lists the recovery periods for many assets not specified in *MACRS Property Classification (2018 and Later Years)* on Page 2-3. It also lists the recovery periods for assets used in specific activities.

Rev. Proc. 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 IRC Sec. 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 IRC Sec. 168 or in Rev. Proc. 87-56. However, for the assets listed in the Rev. Proc., 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. Rev. Proc. 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 Pub. 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 Pub. 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

Continued on Page 2-5

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. • Any race horse, regardless of age 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% Declining balance	3 years	Half-year or mid-quarter
5-year property	• 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. • Machinery or equipment used in a farming business.[4] • Appliances, carpets, furniture, etc., used in a residential rental real estate activity. • 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). • Any horse not eligible for a three-year recovery period.[2] • Motorsports entertainment complex placed in service after October 22, 2004 and before 2021. • 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% Declining balance	7 years	Half-year or mid-quarter
10-year property	• 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.[5] • 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). • Retail motor fuels outlet (see Tab 7). • Any municipal wastewater treatment plant. • Qualified improvement property.[7] • 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.	150% Declining balance	15 years	Half-year or mid-quarter
20-year property	• 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]	• 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, 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 eliminated the separate definitions of qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. See *Leasehold Improvements* on Page 7-9 and *TCJA qualified improvement property (QIP)* on Page 7-9. **Note:** The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided a technical correction to retroactively assign qualified improvement property (QIP) a 15-year recovery period (20-year for ADS) [IRC Sec. 168(e)(3)(E)(vii)]. QIP placed in service after 2017 can qualify for bonus depreciation. See *Special Depreciation Percentages* on Page 2-15.
[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. • 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	• 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	• Office furniture and fixtures (such as desks, files, and safes). • Agricultural machinery or equipment.[5] • Any horse not eligible for a three-year recovery period.[2] • Motorsports entertainment complex placed in service after October 22, 2004. • 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	• 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	• 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).[8] • Qualified restaurant property (see Tab 7).[8] • Qualified retail improvement property (see Tab 7).[8] • 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	• 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[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. • 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.