

William E. Bryant, CPA, CVA

Federal Depreciation Rates

Table of Contents: [click on blue links or page down]

[Section 179 Expense Limit](#)

[MACRS Rates--Half-Year Convention](#)

MACRS Rates--Mid-Quarter Convention

For property placed in service in the:

- [First Quarter](#)
- [Second Quarter](#)
- [Third Quarter](#)
- [Fourth Quarter](#)

[Residential Property--27.5 years](#)

[Nonresidential Property--39 years](#)

[Comprehensive Examples](#)

[Table of Depreciation Method & Lives](#)



Maximum Section 179 Expense Deduction

<u>Tax Year</u>	<u>Amount</u>
1996	\$17,500
1997	18,000
1998	18,500
1999	19,000
2000	20,000
2001 or 2002	24,000
2003 and later	25,000

Table 1:
MACRS Rates--Half-Year Convention

<u>Year</u>	Recovery Period				
	<u>3 years</u>	<u>5 years</u>	<u>7 years</u>	<u>10 years</u>	<u>15 years</u>
1	33.33%	20.00%	14.29%	10.00%	5.00%
2	44.45%	32.00%	24.49%	18.00%	9.50%
3	14.81%	19.20%	17.49%	14.40%	8.55%
4	7.41%	11.52%	12.49%	11.52%	7.70%
5		11.52%	8.93%	9.22%	6.93%
6		5.76%	8.92%	7.37%	6.23%
7			8.93%	6.55%	5.90%
8			4.46%	6.55%	5.90%
9				6.56%	5.91%
10				6.55%	5.90%
11				3.28%	5.91%
12					5.90%
13					5.91%
14					5.90%
15					5.91%
16					2.95%

Caution--Please see the examples below.

Table 2:
MACRS Rates--Mid-Quarter Convention--First Quarter

<u>Year</u>	Recovery Period				
	<u>3 years</u>	<u>5 years</u>	<u>7 years</u>	<u>10 years</u>	<u>15 years</u>
1	58.33%	35.00%	25.00%	17.50%	8.75%
2	27.78%	26.00%	21.43%	16.50%	9.13%
3	12.35%	15.60%	15.31%	13.20%	8.21%
4	1.54%	11.01%	10.93%	10.56%	7.39%
5		11.01%	8.75%	8.45%	6.65%
6		1.38%	8.74%	6.76%	5.99%
7			8.75%	6.55%	5.90%
8			1.09%	6.55%	5.91%
9				6.56%	5.90%
10				6.55%	5.91%
11				0.82%	5.90%
12					5.91%
13					5.90%
14					5.91%
15					5.90%
16					0.74%

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Table 3:
MACRS Rates--Mid-Quarter Convention--Second Quarter

<u>Year</u>	Recovery Period				
	<u>3 years</u>	<u>5 years</u>	<u>7 years</u>	<u>10 years</u>	<u>15 years</u>
1	41.67%	25.00%	17.85%	12.50%	6.25%
2	38.89%	30.00%	23.47%	17.50%	9.38%
3	14.14%	18.00%	16.76%	14.00%	8.44%
4	5.30%	11.37%	11.97%	11.20%	7.59%
5		11.37%	8.87%	8.96%	6.83%
6		4.26%	8.87%	7.17%	6.15%
7			8.87%	6.55%	5.91%
8			3.33%	6.55%	5.90%
9				6.56%	5.91%
10				6.55%	5.90%
11				2.46%	5.91%
12					5.90%
13					5.91%
14					5.90%
15					5.91%
16					2.21%

Table 4:
MACRS Rates--Mid-Quarter Convention--Third Quarter

<u>Year</u>	Recovery Period				
	<u>3 years</u>	<u>5 years</u>	<u>7 years</u>	<u>10 years</u>	<u>15 years</u>
1	25.00%	15.00%	10.71%	7.50%	3.75%
2	50.00%	34.00%	25.51%	18.50%	9.63%
3	16.67%	20.40%	18.22%	14.80%	8.66%
4	8.33%	12.24%	13.02%	11.84%	7.80%
5		11.30%	9.30%	9.47%	7.02%
6		7.06%	8.85%	7.58%	6.31%
7			8.86%	6.55%	5.90%
8			5.53%	6.55%	5.91%
9				6.56%	5.90%
10				6.55%	5.90%
11				4.10%	5.91%
12					5.90%
13					5.91%
14					5.90%
15					5.91%
16					3.69%

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Table 5:
MACRS Rates--Mid-Quarter Convention--Fourth Quarter

<u>Year</u>	<u>Recovery Period</u>				
	<u>3 years</u>	<u>5 years</u>	<u>7 years</u>	<u>10 years</u>	<u>15 years</u>
1	8.33%	5.00%	3.57%	2.50%	1.25%
2	61.11%	38.00%	27.55%	19.50%	9.88%
3	20.37%	22.80%	19.68%	15.60%	8.89%
4	10.19%	13.68%	14.06%	12.48%	8.00%
5		10.94%	10.04%	9.98%	7.20%
6		9.58%	8.73%	7.99%	6.48%
7			8.73%	6.55%	5.90%
8			7.64%	6.55%	5.90%
9				6.56%	5.90%
10				6.55%	5.91%
11				5.74%	5.90%
12					5.91%
13					5.90%
14					5.91%
15					5.90%
16					5.17%

Table 6:
Residential Property--27.5 Years

<u>Month Placed in Service</u>	<u>Recovery Period</u>							
	<u>1</u>	<u>2-9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13-27</u>	<u>28</u>	<u>29</u>
1	3.485%	3.636%	3.637%	3.636%	3.637%	*	1.970%	--
2	3.182%	3.636%	3.637%	3.636%	3.637%	*	2.273%	--
3	2.879%	3.636%	3.637%	3.636%	3.637%	*	2.576%	--
4	2.576%	3.636%	3.637%	3.636%	3.637%	*	2.879%	--
5	2.273%	3.636%	3.637%	3.636%	3.637%	*	3.182%	--
6	1.970%	3.636%	3.637%	3.636%	3.637%	*	3.485%	--
7	1.667%	3.636%	3.637%	3.636%	3.637%	*	3.636%	0.152%
8	1.364%	3.636%	3.637%	3.636%	3.637%	*	3.636%	0.455%
9	1.061%	3.636%	3.637%	3.636%	3.637%	*	3.636%	0.758%
10	0.758%	3.636%	3.637%	3.636%	3.637%	*	3.636%	1.061%
11	0.455%	3.636%	3.637%	3.636%	3.637%	*	3.636%	1.364%
12	0.152%	3.636%	3.637%	3.636%	3.637%	*	3.636%	1.667%

*In years 13-27, the rate alternates between 3.636% and 3.637%.

Residential property is property rented out for nontransient living purposes.

Table 7:
Nonresidential Property--39 Years

Recovery Period

<u>Month Placed in Service</u>	<u>1</u>	<u>Year 2-39</u>	<u>40</u>
1	2.461%	2.564%	0.107%
2	2.247%	2.564%	0.321%
3	2.033%	2.564%	0.535%
4	1.819%	2.564%	0.749%
5	1.605%	2.564%	0.963%
6	1.391%	2.564%	1.177%
7	1.177%	2.564%	1.391%
8	0.963%	2.564%	1.605%
9	0.749%	2.564%	1.819%
10	0.535%	2.564%	2.033%
11	0.321%	2.564%	2.247%
12	0.107%	2.564%	2.461%

Nonresidential property includes all property not used for dwelling purposes. That includes offices, stores, warehouses, hotels and motels, etc. It also includes the portion of a home used for business.

[Next Page for Comprehensive Examples]

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Comprehensive Examples

Generally, any property placed in service during the course of a year receives a half-year's depreciation under the half-year convention (see table above). However, a special rule applies if you place in service more than 40% of the total basis of property for the year in the last quarter of your fiscal year. That's to avoid waiting until the end of the year to buy the property, yet secure a deduction for the whole year. When calculating the total basis of property placed in service, exclude any on which you took the Section 179 expense election. For real estate, a mid-month convention is used.

Assume in all the examples below that Madison is a calendar-year corporation and that it's been in business for more than a year.

Example 1--Madison Inc. purchases just two assets in 1998, a computer costing \$10,000 on January 15th, and a \$5,000 lathe on December 15th. The total dollar amount placed in service is \$15,000, \$5,000 of which was put in service in the last quarter. Since only 33% of the total was placed in service in the last quarter ($\$5,000/\$15,000$), the mid-quarter convention rule does not apply. The table to use is MACRS--Half-Year Convention. The computer has a 5-year life. The rate to use for the first year is 20%. Thus, the depreciation is \$2,000 (20% of \$10,000). Assume the lathe is 7-year property. The rate is 14.29% and the depreciation for the first year is \$714.50 (14.29% of \$5,000). For 1999, use the same table, but move down to year 2. The rate for the computer is 32% and the depreciation \$3,200 (32% of \$10,000). The rate for the lathe is 24.49% and the depreciation \$1,224.50 (24.49% of \$5,000). Use the same approach for later years.

Example 2--Assume the facts are the same as in the example above, but the lathe costs \$7,500. Now the mid-quarter convention applies since the total placed in service during the year is \$17,500 and the amount in the last quarter is 42.8% ($\$7,500/\$17,500$). You've got to apply the mid-quarter tables to each asset. Use the table corresponding to the quarter the asset was placed in service. The computer was bought in the first quarter. Using Table 2, Mid-Quarter Convention--First Quarter, the rate is 35%; the depreciation for 1997 is \$3,500 (35% of \$10,000). The lathe was purchased in the fourth quarter so use Table 5, Mid-Quarter Convention--Fourth Quarter (rate is 3.57%). The depreciation for 1997 is \$267.75. Use the same tables for 1998, but move down the list to year 2. Thus, for the computer, use 26%. The depreciation for 1999 is \$2,600 (26% of \$10,000). For the lathe the rate is 27.55%; the depreciation is \$2,066.25 (27.55% of \$7,500).

Example 3--Assume the facts are the same as in example 2 above, but Madison decides to expense the lathe, using the section 179 expense election. The lathe is no longer counted as an asset placed in service during the year. Madison can now use the mid-year convention for the computer.

[Comprehensive Examples continued on next page]

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Example 4--In April, 1998 Fred buys a small apartment building that has four tenants. The property cost \$125,000, \$100,000 of which is allocated to the building. The property is residential real property, so Fred has to use Table 6. Since the property is placed in service in April (the 4th month), the depreciation rate for the first year is 2.576%. Thus, the first year's depreciation is \$2,576. The rate for the second year is 3.636%, so depreciation for 1999 is \$3,636.

Example 5--In July, 1998 Sue buys a small office building. Of the total purchase price, \$400,000 is allocated to the building. Since the property is placed in service in July, the depreciation rate for the first year is 1.177% (Table 7, nonresidential property). Thus, the first year's depreciation is \$4,708 (1.177% of \$400,000). The rate for the second year is 2.564%, so depreciation for 1999 is \$10,256.

[Review the following page - Table of Depreciation Methods & Lives]

[Return to William E. Bryant Home Page](#)

DEPRECIATION METHODS AND LIVES FOR REGULAR TAX AND AMT PURPOSES

Recovery Period for Assets Placed in Services After 1986

(See Rev. Proc. 87-56, 88-22 for a More Complete List)

DESCRIPTION	(AMT AFTER 1998) MACRS LIFE	MACRS METHOD	FARM METHOD	(PRE-1997) AMT LIFE	AMT METHOD	QUALIFY EXPENSE
OFFICE EQUIPMENT:						
Personal Property No Class Life	7	200DB	150DB	12	150DB	YES
Computers/Peripherals	5	200DB	150DB	5	150DB	YES
Typewriters/Calculators/Copiers	5	200DB	150DB	6	150DB	YES
Office Furniture & Equipment	7	200DB	150DB	10	150DB	YES
Fax Machines/Cell Phones/Phone System	7	200DB	150DB	10	150DB	YES
SOFTWARE: (Rev. Proc. 2000-50)						
Less than One Year	1	EXPENSE	EXPENSE	N/A	N/A	N/A
Off the Shelf Commercial (Separate)	3	S/L	S/L	N/A	N/A	NO
Bought with Computer (Not Separate)	5	200DB	150DB	5	150DB	YES
TRANSPORTATION:						
Over the Road Tractors	3	200DB	150DB	4	150DB	YES
Cars/Light Trucks	5	200DB	150DB	5	150DB	YES
Heavy Trucks (13,000 lbs or more)	5	200DB	150DB	6	150DB	YES
Planes/Helicopters	5	200DB	150DB	6	150DB	YES
Buses	5	200DB	150DB	9	150DB	YES
Over the Road Trailers	5	200DB	150DB	6	150DB	YES
Water Transportation Equipment	10	200DB	150DB	18	150DB	YES
REAL PROPERTY & IMPROVEMENTS:						
Carpet/Furn/Fix/Apl in Rental Property	5	200DB	150DB	9	150DB	YES
Carpets and Drapes	7	200DB	150DB	10	150DB	NO
Security Systems/Signs	7	200DB	150DB	10	150DB	NO
Shelves, Appliances	7	200DB	150DB	10	150DB	YES
Sidewalks, Road, Landscaping	15	150DB	150DB	20	150DB	NO
Bridges/Fences	15	150DB	150DB	20	150DB	NO
Manufactured Homes	27.5 / 39	S/L	S/L	40	S/L	NO
Residential Real Property	27.5	S/L	S/L	40	S/L	NO
Nonresidential Real Property	39	S/L	S/L	40	S/L	NO
Leasehold Improvements	39	S/L	S/L	40	S/L	NO
EQUIPMENT:						
Asset Unique to Wholesale/Retail Trade	5	200DB	150DB	9	150DB	YES
Construction	5	200DB	150DB	6	150DB	YES
Oil Drilling	5	200DB	150DB	6	150DB	YES
Most Other Equipment	7	200DB	150DB	10	150DB	YES
AGRICULTURE:						
Work Horses over Age 12	3	200DB	150DB	10	150DB	YES
Race Horses over Age 2	3	200DB	150DB	12	150DB	YES
All Other Horses	7	200DB	150DB	10	150DB	YES
Breeding Hogs	3	200DB	150DB	3	150DB	YES
Breeding Dairy Cattle	5	200DB	150DB	7	150DB	YES
Breeding Sheep/Goats	5	200DB	150DB	5	150DB	YES
Machinery/Equipment/Fences/Grain Bins	7	200DB	150DB	10	150DB	YES
Single Purpose Buildings (After 1988)	10	200DB	150DB	15	150DB	YES
Fruit and Nut Trees/Vines	10	S/L	S/L	20	S/L	NO
Drain Tiles/Culverts	15	150DB	150DB	20	150DB	NO
Other Farm Buildings	20	150DB	150DB	25	150DB	NO

MACRS uses 1/4 year of depreciation in year of purchase/disposition for all assets except real property unless more than 40% of assets were bought in the last quarter in which case the mid-quarter convention is used. Real property is depreciated using the mid-month rule. Optional recovery methods allow the use of S/L over MACRS or AMT lives, or the 150% DB method over AMT life. Assets expensed under Section 179 do not apply towards the 40% rule. Section 179 is limited to active business income. The MACRS life is the AMT life starting in 1999.