

Depreciation & Sale of Assets



*Presented for
Latino Tax Professionals Association*

*By
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He has been self-employed for over 30 years, started his tax preparation business in Santa Ana, California and relocated to Texas in 2001. He served as Treasurer, 2nd Vice President, and President of the Texas Society of Enrolled Agents.

Ricardo has testified before the Texas House of Representatives defending our profession.

Ricardo has a bachelor's degree from the University of the Incarnate Word in Finance. He is in demand as a tax practice speaker, he is a popular speaker at the Regional Practitioner's Meetings where he teaches for the IRS, and a popular discussion leader at NTPI. Ricardo is also a life member of Delta Mu Delta, an international honor society that recognizes academic excellence in business administration programs.

Objectives of This Seminar

- Overview of Depreciation
- Allowed or Allowable
- When Does Depreciation Begin?
- What if You Sell the Asset?
- What if You Sell Your Business?
- Repair or Improvement?
- Amortization

What is Depreciation

- Income Tax Deduction
- Recover Cost
- Wear and Tear

- Buildings
- Machinery
- Vehicles
- Equipment
- Non Tangibles
- Land



- Must Own Property
- Capital Improvements
- Own or Lease
- Income-Producing Activity
- Useful Life over 1 Year
- Placed in Service
- Sold in Same Year
- Methods of Depreciation

Determine Basis

Cost

Sales Tax

Freight

Installation

Permanent Improvements

Acquisition Costs

Deduct Casualty and Theft

Determine Basis

Example:

Purchase Price	\$160,000
Land	<15,000>
Basis	\$145,000
New Roof	7,500
Escrow Costs	3,400
Adjusted Basis	\$155,900

Determine Basis cont.

Example:

Adjusted Basis	\$155,900
Remove Pool	<10,000>
Removal Expense	2,000
New Adj. Basis	\$147,900

Conventions

The mid-month MM

- Nonresidential Real Property
- Residential Real Property
- Railroad Grading
- Tunnel Bore
- Mid Point of Month
- Placed in Service or Disposed of

Conventions

The Mid-Quarter MQ

- >40% Total in Last Quarter
- All Property Treated the Same
- Mid Point of Quarter
- Excludes MM Property
- End of Year Tax Planning
- Placed in Service or Disposed of

Conventions

The Half-Year HY

Neither MM or MQ

Code Section 179

Personal Use

Special Allowances

Placed in Service or Disposed of

Depreciation Method

MACRS Recovery Methods

GDS 200% Declining
Balance

150% Declining Balance

Straight Line

ADS Straight Line

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Table 4-1. **Depreciation Methods**

Note. The declining balance method is abbreviated as DB and the straight line method is abbreviated as SL.		
Method	Type of Property	Benefit
GDS using 200% DB	<ul style="list-style-type: none"> • Nonfarm 3-, 5-, 7-, and 10-year property 	<ul style="list-style-type: none"> • Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction
GDS using 150% DB	<ul style="list-style-type: none"> • All farm property (except real property) • All 15- and 20-year property (except qualified leasehold improvement property and qualified restaurant property placed in service before January 1, 2014) • Nonfarm 3-, 5-, 7-, and 10-year property 	<ul style="list-style-type: none"> • Provides a greater deduction during the earlier recovery years • Changes to SL when that method provides an equal or greater deduction¹
GDS using SL	<ul style="list-style-type: none"> • Nonresidential real property • Qualified leasehold improvement property placed in service before January 1, 2014 • Qualified restaurant property placed in service before January 1, 2014 • Residential rental property • Trees or vines bearing fruit or nuts • Water utility property • All 3-, 5-, 7-, 10-, 15-, and 20-year property² • Property for which you elected section 168(k) (4) 	<ul style="list-style-type: none"> • Provides for equal yearly deductions (except for the first and last years)
ADS using SL	<ul style="list-style-type: none"> • Listed property used 50% or less for business • Property used predominantly outside the U.S. 	<ul style="list-style-type: none"> • Provides for equal yearly deductions

Examples of Class Life

- **3 years** Heavy Trucks
- **5 years** Computers
- **7 years** Office Furniture
- **7 years** Machinery
- **15 years** Agricultural Structures
- **15 years** Leasehold Improvements
- **27.5 years** Residential Rentals
- **39 years** Commercial Rentals

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Table B-1. Table of Class Lives and Recovery Periods

Asset class	Description of assets included	Recovery Periods (in years)		
		Class Life (in years)	GDS (MACRS)	ADS
<i>SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:</i>				
00.11	Office Furniture, Fixtures, and Equipment: Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes.	10	7	10
00.12	Information Systems: Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Information systems are defined as: 1) Computers: A computer is a programmable electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention. It usually consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. Excluded from this category are adding machines, electronic desk calculators, etc., and other equipment described in class 00.13. 2) Peripheral equipment consists of the auxiliary machines which are designed to be placed under control of the central processing unit. Nonlimiting examples are: Card readers, card punches, magnetic tape feeds, high speed printers, optical character readers, tape cassettes, mass storage units, paper tape equipment, keypunches, data entry devices, teleprinters, terminals, tape drives, disc drives, disc files, disc packs, visual image projector tubes, card sorters, plotters, and collators. Peripheral equipment may be used on-line or off-line. Does not include equipment that is an integral part of other capital equipment that is included in other classes of economic activity, i.e., computers used primarily for process or production control, switching, channeling, and automating distributive trades and services such as point of sale (POS) computer systems. Also, does not include equipment of a kind used primarily for amusement or entertainment of the user.	6	5	5
00.13	Data Handling Equipment; except Computers: Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.	6	5	6
00.21	Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines)	6	5	6
00.22	Automobiles, Taxis	3	5	5
00.23	Buses	9	5	9

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**Table A-8. Straight Line Method
Half-Year Convention**

Year	Recovery periods in years												
	2.5	3	3.5	4	5	6	6.5	7	7.5	8	8.5	9	9.5
1	20.0%	16.67%	14.29%	12.5%	10.0%	8.33%	7.69%	7.14%	6.67%	6.25%	5.88%	5.56%	5.26%
2	40.0	33.33	28.57	25.0	20.0	16.67	15.39	14.29	13.33	12.50	11.77	11.11	10.53
3	40.0	33.33	28.57	25.0	20.0	16.67	15.38	14.29	13.33	12.50	11.76	11.11	10.53
4		16.67	28.57	25.0	20.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
5				12.5	20.0	16.66	15.38	14.29	13.34	12.50	11.76	11.11	10.52
6					10.0	16.67	15.39	14.28	13.33	12.50	11.77	11.11	10.53
7						8.33	15.38	14.29	13.34	12.50	11.76	11.11	10.52
8								7.14	13.33	12.50	11.77	11.11	10.53
9										6.25	11.76	11.11	10.52
10												5.56	10.53

Table A-8. (Continued)

Year	Recovery periods in years												
	10	10.5	11	11.5	12	12.5	13	13.5	14	15	16	16.5	17
1	5.0%	4.76%	4.55%	4.35%	4.17%	4.0%	3.85%	3.70%	3.57%	3.33%	3.13%	3.03%	2.94%
2	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
3	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
4	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
5	10.0	9.52	9.09	8.70	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
6	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
7	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
8	10.0	9.53	9.09	8.69	8.33	8.0	7.69	7.41	7.15	6.66	6.25	6.06	5.88
9	10.0	9.52	9.09	8.70	8.34	8.0	7.69	7.41	7.14	6.67	6.25	6.06	5.88
10	10.0	9.53	9.09	8.69	8.33	8.0	7.70	7.40	7.15	6.66	6.25	6.06	5.88

Example

Office Furniture

\$10,000

Placed in Service 08/11/2016

Business Use Only

No IRC 179

No Special Depreciation Allowance

Example

MACRS	GDS
Property class	7 Year
Date placed in service	8/11/16
Recovery period	7 Year
Method and convention	200%/DB/HY
Year 1	14.29%
Year 2	24.49%
Year 3	17.49%
Year 4	12.49%
Year 5	8.93%
Year 6	8.92%
Year 7	8.93%
Year 8	4.46%

- “Listed Property”
 - Automobiles
 - Computers
- Section 179 Expense
 - Must Be Eligible Property
 - 2017 Tangible Property \$510,000
 - 2017 Total \$2,030,000 purchased

Qualified Real Property

- Qualified leasehold improvement property
- Qualified restaurant property, or
- Qualified retail improvement property

- 2016 Pub 946 Pages 16 & 17

Recapture Section 179

Example

Section 179 deduction claimed (2014)		\$5,000
Minus: Allowable Depreciation using Table A-1		
2014	\$1,666.50	
2015	2,222.50	
2016 ($\$740.50 \times 40\%$)	296.20	\$4,185.20
2016 Recapture Amount		\$814.80

Taxpayer must include \$814.80 in 2016 Income

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Sale of Assets

Basis of Assets

Recapture Depreciation

Capital Gains

Exchanges

Involuntary Conversion

Retired

Personal Use

Sale of Business

- Form 8594
- Purchaser and Seller
- Group of Assets
- Trade or Business
- Fair Market Value
- Basis
- File With Original Return

Partial Form 8594

Form **8594**
(Rev. December 2012)
Department of the Treasury
Internal Revenue Service

Asset Acquisition Statement Under Section 1060

OMB No. 1545-1021

Attachment
Sequence No. **169**

▶ Attach to your income tax return.

▶ Information about Form 8594 and its separate instructions is at www.irs.gov/form8594

Name as shown on return

Identifying number as shown on return

Check the box that identifies you:

Purchaser Seller

Part I General Information

1 Name of other party to the transaction

Other party's identifying number

Address (number, street, and room or suite no.)

City or town, state, and ZIP code

2 Date of sale

3 Total sales price (consideration)

Repair v Capital Improvement

Increase Value?

Make It More Useful?

Lengthens Its Life?

Example:

Roof – partial or complete?

Tractor Engine – Lengthens Its Life?

Rental Appliances – More Useful?

Allowed or Allowable

- Allowed – Actual Deduction
- Allowable – Entitled to Deduct
- Reduce Basis by Allowable
- Recapture as Ordinary Income
- IRC 1245 and 1250

Reporting Depreciation

Form 4562

Overview	Publication 946
A Car	Publication 463
Residential	
Rental Property	Publication 527
Home Office	Publication 587
Farm Property	Publication 225

Questions?

