

2017 DEPRECIATION

Depreciation Methods

There are three depreciation alternatives for farmers. A fourth method, the 200% declining balance MACRS system, is only available for nonfarm property.

1. The 150% declining balance Modified Accelerated Cost Recovery System (MACRS) using the General Depreciation System (GDS) recovery periods (7 years on machinery and equipment).
2. A MACRS straight-line option, which uses the GDS recovery period (7 years on machinery and equipment).
3. An alternative Depreciation System (ADS) uses straight-line depreciation. These lives are generally longer than the GDS recovery period (10 years on machinery and equipment).

Dairy, beef cow, tree fruit and vine producers had to capitalize preproductive costs or utilize only the ADS system for depreciable assets purchased during 1987 & 1988. In 1989 Livestock producers only were exempted from these requirements, and as an offset, all agricultural producers were denied use of 200% MACRS depreciation. Most tree fruit and vine producers elect out of the Uniform Capitalization Rules. This allows them to expense most of the pre-productive expenses, but they are required to use ADS. Otherwise, they must track pre-productive expenses and begin depreciating them when the trees begin economic production.

Half-year and Mid-Quarter Convention

The half-year convention assumes that all assets purchased during the year are purchased in the middle of the year. Therefore, 1/2 the normal first-year depreciation is allowed. If more than 40% of the basis of all qualified property, after direct expensing, other than rental property, is purchased during the last 3 months of the year, a mid-quarter convention applies. The mid-quarter convention depreciation is determined by first figuring the depreciation for a full tax year and multiplying this amount by the following percentages for the quarter of the tax year the property is placed in service. These percentage calculations are built into the MACRS tax tables.

First quarter: 87.5% Second quarter: 62.5% Third quarter: 37.5% Fourth quarter: 12.5%

Like-Kind Exchanges of Machinery Trade-Ins

Similar to the way it was before 2000 if an election is made by the taxpayer, the basis for depreciation of an asset includes the adjusted basis of assets traded-in on the new item. The trade-in's carryover basis is not eligible for direct expensing but it is eligible for bonus depreciation.

First-year Direct Expensing (Section 179)

Up to \$510,000 of personal property capital purchases may be direct expensed in the year placed in service. Large SUVs more than 6,000 pounds Gross Vehicle Weight Rating or not more than 14,000 pounds are limited to \$25,000 in direct expensing. Other limitations apply for direct expensing:

1. For each dollar the aggregate cost of qualifying property placed in service in the year exceeds \$2,030,000 the \$510,000 ceiling is reduced by one dollar. The phase-out of the deduction is complete when \$2,530,000 of qualified property is reached.

2. The amount is also limited to the combined taxable income before the deduction derived from the active conduct of all trades or businesses. Section 1231 gains and losses reported on form 4797 such as sales of breeding livestock and machinery are taxable income as well as wages.
3. The amount disallowed by the business taxable income limitation can be carried forward against future capital purchases.
4. In any year the asset ceases to be used more than 50% in the active conduct of a trade or business, a portion of the expensed amount is recaptured.
5. The determination of whether the mid-quarter convention applies due to purchases made in the fourth quarter of the tax year is made after any direct expense deduction and reduction of depreciable basis for credits.
6. Carryover basis from traded-in property is not eligible for direct expensing, only the extra or boot can be direct expensed.

Bonus Depreciation

For 2017, 50% bonus depreciation is available. To qualify the property must:

- Be property to which MACRS applies with an applicable recovery period of 20 years or less.
- Have original use (new property, not used) commence prior to Jan. 1 of the next tax year.

Property required to be depreciated under the alternate depreciation system, including farmers with fruit trees or vineyards who elected out of the uniform capitalization rules, have not been eligible for this additional depreciation. The December 2015 (Protecting Americans from Tax Hikes Act) may allow bonus to be taken on some vines, fruits and nuts when planted or grafted for 2017 rather than when placed in service. Even if electing out of the uniform capitalization rules, then bonus on the cost of the trees or vines may be taken.

There is no phase-out based on qualified property placed into service like there is for direct expensing. There is also no business income limitation.

Automobiles used 100% for business purposes can take an extra \$8,000 of additional or bonus depreciation and do not take 50% of purchased cost.

This is **REQUIRED** to be taken unless a taxpayer elects out of it. Election out of it can be taken for all property or property by class (3, 5, 7, 10, 15, or 20-year property) but everything within a class must be treated the same.

Bonus depreciation is taken on the carryover basis from traded-in property so 50% of the total cost can be taken. Carryover basis is the amount left on the depreciation schedule of the traded-in item, not the amount allowed by the seller of the new equipment. Machinery sheds and general purpose buildings are eligible for bonus depreciation but not eligible for direct expensing.

Bonus depreciation of 50% in 2017 gradually phases out and becomes 40% in 2018, 30% in 2019 and disappears in 2020.

Farm Property Recovery Periods

<u>Asset</u>	Recovery Period in Years	
	<u>GDS</u>	<u>ADS</u>
Airplane	5	6
Auto (farm share)	5	5
Calculators and copiers	5	6
Cattle (dairy or breeding)	5	7
Citrus groves	10	20
Communication equipment (unless in other classes)	7	10
Computer and peripheral equipment	5	5
Cotton-ginning assets	7	12
Dams (with determinable life)	15	20
EMUS	7	10
Farm buildings (general purpose)	20	25
Fences (agricultural)	7	10
Goats (breeding or milk)	5	5
Grain bin	7	10
Greenhouse (single-purpose structure)	10	15
Hogs (breeding)	3	3
Horses (age when placed in service)		
Breeding and working (12 years or less)	7	10
Breeding and working (more than 12 years)	3	10
Racing horses (more than 2 years)	3	12
Irrigation equipment	7	10
Logging equipment	5	6
Machinery and equipment (farm)	7	10
Manure storage facility	20	25
Mobile Home (permanent utilities and pipes)	20	25
Non-residential real property	39	40
Office equipment (other than calculators, copiers, or typewriters)	7	10
Office fixtures and furniture	7	10
Orchards and fruit trees	10	20
Ostriches	7	10
Paved lots	15	20
Property with no class life (personal property)	7	12
Rental property (residential)	27.5	40
Research property	5	12*
Sheep (breeding)	5	5
Single-purpose agricultural structure	10	15
Single-purpose horticultural structure	10	15
Solar energy and wind energy property	5	---
Tile (drainage)	15	20
Tractor units for use over-the-road	3	4
Trailer for use over-the-road	5	6
Truck (heavy duty, general purpose)	5	6
Truck (light, less than 13,000 lbs.)	5	5
Typewriter	5	6
Vineyard	10	20
Wells	15	20

*No class life specified. Therefore, 12-year default life assigned.