

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.
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.

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 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.

First-year Direct Expensing (Section 179)

In 2008 up to \$250,000 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 section 179 direct expensing:

1. For each dollar the aggregate cost of qualifying property placed in service in the year exceeds \$800,000, the \$250,000 ceiling is reduced by one dollar. The phaseout of the deduction is complete when \$1,050,000 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.

Bonus Depreciation

For 2008 only, the 50% bonus depreciation is back. 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 after Dec. 31, 2007 and prior to Jan. 1, 2009

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, are not eligible for this additional depreciation.

There is no phaseout 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 the 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.

2009 Depreciation

- Next year the additional first year bonus depreciation is not available.
- Direct expensing is projected to be approximately \$132,000.
- Most original use (new) farm machinery and equipment placed into service that would normally be depreciated over 7 years will be depreciated over 5 years. ADS life will remain at 10 years.

Farm Property Recovery Periods

<u>Asset</u>	<u>Recovery Period in Years</u>	
	<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
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.