TelFarm

2025 EXPENSING DEPRECIABLE PROPERTY

Depreciation Methods

Farmers may use four methods of depreciation.
*The 200% declining balance MACRS system is available for farm property in 3, 5, 7 or 10 year MACRS class.
* The 150% declining balance Modified Accelerated Cost Recovery System (MACRS) using the General Depreciation System (GDS) recovery periods.
* A MACRS straight-line option, which uses the GDS recovery period.
* An Alternative Depreciation System (ADS) uses straight-line depreciation. These lives are generally longer than the GDS recovery period.

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, 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

These are not allowed for tax purposes. Trade-Ins must be treated as a sale of the item given up and the full purchase price of the personal property received may then be depreciated. This will often create recapture of depreciation if sold for more than the depreciable basis left on the item that is given up.

First-year Direct Expensing (Section 179)

Up to $2,500,000 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 $31,300 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 $4,000,000 the $2,500,000 ceiling is reduced by one dollar. The phase-out of the deduction is complete when $6,500,000 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

As of 2025, 100% bonus depreciation is permanently available for eligible assets acquired and placed in service after January 19, 2025. For 2025 40% bonus may also be elected. To qualify the property must:
- Be property to which MACRS applies with an applicable recovery period of 20 years or less.
- Can be either new or used property.

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, were not eligible for this additional depreciation until a few years ago. Bonus may be taken on some vines, fruits and nuts when planted or grafted for 2025 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. Farmers not required to use UNICAP and have revoked a previous election may now be eligible to use bonus depreciation. Trees and vines producing fruit or nuts are still limited to straight line depreciation although it may be for the ten years rather than the longer 20 years.

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 which means that bonus may create a net operating loss.

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

Bonus depreciation 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 AFTER direct expensing.

Farm Property Recovery Periods

Asset	Recovery Period in Years GDS	ADS
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 & equipment (new; no grain bins nor fences)	5	10
Machinery & equipment (used or grain bins or fences)	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, or copiers)	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	30
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	?	12*
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
Vineyard	10	20
Wells	15	20

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