



Instructions for Form 4562

(Rev. June 2009)

Depreciation and Amortization (Including Information on Listed Property)

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

- The June 2009 revision of the 2008 Instructions for Form 4562 reflects changes affecting fiscal tax years beginning in 2008 and ending in 2009, including changes made by the American Recovery and Reinvestment Act of 2009.
- For tax years beginning in 2008, the maximum section 179 expense deduction is \$250,000 (\$285,000 for qualified enterprise zone and renewal community property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$800,000. See the instructions for Part I.
- The higher maximum deduction for certain qualified section 179 Gulf Opportunity Zone (GO Zone) property will not apply to property placed in service after December 31, 2008. See the instructions for line 1.
- You may be able to claim an increased section 179 expense deduction and the special depreciation allowance for qualified property placed in service in the Kansas disaster area. See Pub. 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes.
- You may be able to claim an increased section 179 expense deduction for qualified section 179 disaster assistance property placed in service after December 31, 2007. See the instructions for line 1.
- You may be able to claim a 50% special depreciation allowance for property that is (a) qualified cellulosic biofuel plant property placed in service after October 3, 2008, (b) certain qualified property acquired after December 31, 2007, and placed in service before January 1, 2010, (c) qualified reuse and recycling property placed in service after August 31, 2008, and (d) qualified disaster assistance property placed in service after December 31, 2007. See the instructions for lines 14 and 25 for more information.
- Qualified restaurant property and retail improvement property placed in service after December 31, 2008, will not be treated as qualified property for purposes of the special depreciation allowance. See the instructions for line 14.
- Generally, corporations and a certain automotive partnership may elect to accelerate research and minimum tax credits in lieu of claiming the special

depreciation allowance for certain property under section 168(k). For more information, see the instructions for line 14.

- The special depreciation allowance has been extended for certain qualified GO Zone property. See the instructions for lines 14 and 25 for more details.
- The accelerated depreciation of property on an Indian reservation has been extended to include property placed in service before January 1, 2010. See the instructions for line 19, column (d).
- The treatment of a qualified motorsports entertainment complex property as 7-year property has been extended to include property placed in service before January 1, 2010. See the instructions for line 19, column (a).
- Any race horse (without regard to the age of the horse) placed in service after December 31, 2008, is treated as 3-year property. See the instructions for line 19, column (a).
- Any qualified smart electric meter and qualified smart electric grid system property placed in service after October 3, 2008, is considered 10-year property. See the instructions for line 19, column (a).
- Treatment of qualified leasehold improvement property and qualified restaurant property as 15-year property has been extended to include property placed in service before January 1, 2010. See the instructions for line 19, column (a).
- Certain qualified retail improvement property placed in service after December 31, 2008, will be treated as 15-year property. See the instructions for line 19, column (a).
- Certain machinery or equipment used in a farming business where the original use of the property begins with you after December 31, 2008, will be treated as 5-year property. See the instructions for line 19, column (a).
- You are no longer required to attach a statement to your return to make an election to deduct business start-up and organizational costs paid or incurred after September 8, 2008. See the instructions for line 42 for more information.

- Make the election under section 179 to expense certain property, and
- Provide information on the business/investment use of automobiles and other listed property.

Who Must File

Except as otherwise noted, complete and file Form 4562 if you are claiming any of the following.

- Depreciation for property placed in service during the 2008 tax year.
- A section 179 expense deduction (which may include a carryover from a previous year).
- Depreciation on any vehicle or other listed property (regardless of when it was placed in service).
- A deduction for any vehicle reported on a form other than Schedule C (Form 1040), Profit or Loss From Business, or Schedule C-EZ (Form 1040), Net Profit From Business.
- Any depreciation on a corporate income tax return (other than Form 1120S).
- Amortization of costs that begins during the 2008 tax year.

If you are an employee deducting job-related vehicle expenses using either the standard mileage rate or actual expenses, use Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses, for this purpose.

File a separate Form 4562 for each business or activity on your return for which Form 4562 is required. If you need more space, attach additional sheets. However, complete only one Part I in its entirety when computing your section 179 expense deduction. See the instructions for line 12 on page 4.

Additional Information

For more information about depreciation and amortization (including information on listed property) see the following.

- Pub. 463, Travel, Entertainment, Gift, and Car Expenses.
- Pub. 534, Depreciating Property Placed in Service Before 1987.
- Pub. 535, Business Expenses.
- Pub. 553, Highlights of 2008 Tax Changes.
- Pub. 551, Basis of Assets.
- Pub. 946, How To Depreciate Property.

General Instructions

Purpose of Form

Use Form 4562 to:

- Claim your deduction for depreciation and amortization,

Definitions

Depreciation

Depreciation is the annual deduction that allows you to recover the cost or other basis of your business or investment property over a certain number of years. Depreciation starts when you first use the property in your business or for the production of income. It ends when you either take the property out of service, deduct all your depreciable cost or basis, or no longer use the property in your business or for the production of income.

Generally, you can depreciate:

- Tangible property such as buildings, machinery, vehicles, furniture, and equipment; and
- Intangible property such as patents, copyrights, and computer software.

Exception. You cannot depreciate land.

Section 179 Property

Section 179 property is property that you acquire by purchase for use in the active conduct of your trade or business, and is one of the following.

- Tangible personal property.
- Other tangible property (except buildings and their structural components) used as:
 1. An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;
 2. A research facility used in connection with any of the activities in (1) above; or
 3. A facility used in connection with any of the activities in (1) above for the bulk storage of fungible commodities.
- Single purpose agricultural (livestock) or horticultural structures.
- Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
- Off-the-shelf computer software.

Section 179 property does not include the following.

- Property held for investment (section 212 property).
- Property used mainly outside the United States (except for property described in section 168(g)(4)).
- Property used mainly to furnish lodging or in connection with the furnishing of lodging (except as provided in section 50(b)(2)).
- Property used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in a taxable unrelated trade or business.
- Property used by a governmental unit or foreign person or entity (except for property used under a lease with a term of less than 6 months).
- Air conditioning or heating units.

See the instructions for Part I and Pub. 946.

Amortization

Amortization is similar to the straight line method of depreciation in that an annual deduction is allowed to recover certain costs over a fixed time period. You can amortize such items as the costs of starting a business, goodwill, and certain other intangibles. See the instructions for Part VI.

Listed Property

Listed property generally includes the following.

- Passenger automobiles weighing 6,000 pounds or less. See *Limits for passenger automobiles* on page 12.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, sport utility vehicles, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones (or other similar telecommunications equipment).
- Computers or peripheral equipment.

Exceptions. Listed property does not include:

1. Photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or at the taxpayer's regular business establishment;
2. Any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment; or
3. An ambulance, hearse, or vehicle used for transporting persons or property for compensation or hire.
4. Any truck or van placed in service after July 6, 2003, that is a qualified nonpersonal use vehicle.

For purposes of the exceptions above, a portion of the taxpayer's home is treated as a regular business establishment only if that portion meets the requirements for deducting expenses attributable to the business use of a home. However, for any property listed in (1) above, the regular business establishment of an employee is his or her employer's regular business establishment.

Commuting

Generally, commuting is defined as travel between your home and a work location. However, travel that meets any of the following conditions is not commuting.

- You have at least one regular work location away from your home and the travel is to a temporary work location in the same trade or business, regardless of the distance. Generally, a temporary work location is one where your employment is expected to last 1 year or less. See Pub. 463 for details.


- The travel is to a temporary work location outside the metropolitan area where you live and normally work.
- Your home is your principal place of business for purposes of deducting expenses for business use of your home and the travel is to another work location in the same trade or business, regardless of whether that location is regular or temporary and regardless of distance.

Alternative Minimum Tax (AMT)

Depreciation may be an adjustment for the AMT. However, no adjustment applies in several instances. See Form 4626, *Alternative Minimum Tax—Corporations*; Form 6251, *Alternative Minimum Tax—Individuals*; Schedule I (Form 1041), *Alternative Minimum Tax—Estates and Trusts*; and the related instructions.

Recordkeeping

Except for Part V (relating to listed property), the IRS does not require you to submit detailed information with your return on the depreciation of assets placed in service in previous tax years. However, the information needed to compute your depreciation deduction (basis, method, etc.) must be part of your permanent records.

 **TIP** You may use the depreciation worksheet on page 18 to assist you in maintaining depreciation records. However, the worksheet is designed only for federal income tax purposes. You may need to keep additional records for accounting and state income tax purposes.

Specific Instructions

Part I. Election To Expense Certain Property Under Section 179

Note. An estate or trust cannot make this election.

You can elect to expense part or all of the cost of section 179 property (defined earlier) that you placed in service during the tax year and used predominantly (more than 50%) in your trade or business.

However, for taxpayers other than a corporation, this election does not apply to any section 179 property you purchased and leased to others unless:

- You manufactured or produced the property or
- The term of the lease is less than 50% of the property's class life and, for the first 12 months after the property is transferred to the lessee, the deductions related to the property allowed to you as trade or business expenses (except rents and reimbursed amounts) are more than 15% of the rental income from the property.

Election. You must make the election on Form 4562 filed with either:

- The original return you file for the tax year the property was placed in service (whether or not you file your return on time) or
- An amended return filed within the time prescribed by law for the applicable tax year. The election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each such item to be taken into account. The amended return must also include any resulting adjustments to taxable income.

Revocation. The election (or any specification made in the election) can be revoked without obtaining IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law for the applicable tax year. The amended return must include any resulting adjustments to taxable income or to the tax liability (for example, allowable depreciation in that tax year for the item of section 179 property which the revocation pertains). For more information and examples, see Regulations section 1.179-5.

Once made, the revocation is irrevocable.



If you elect to expense section 179 property, you must reduce the amount on which you figure your depreciation or amortization deduction (including any special depreciation allowance) by the section 179 expense deduction.

Line 1

Generally, the maximum section 179 deduction is \$250,000.

For an enterprise zone business or a renewal community business, the maximum deduction is increased by the smaller of:

- \$35,000 or
- The cost of section 179 property that is also qualified empowerment zone property or qualified renewal property (including such property placed in service by your spouse, even if you are filing a separate return).

For more information, including definitions of qualified empowerment zone property and qualified renewal property, see Pub. 954, Tax Incentives for Distressed Communities.

For certain qualified section 179 GO Zone property in which substantially all of the use is in one or more specified portions of the GO Zone (as defined in section 1400N(d)(6)), the maximum deduction is increased by the smaller of:

- \$100,000 or
- The cost of certain qualified section 179 GO Zone property placed in service before January 1, 2009 (including such property placed in service by your spouse, even if you are filing a separate return). See section 1400N(e) for more information.

For all other section 179 GO Zone property placed in service in tax years

beginning in 2008, the maximum deduction is \$250,000.

For more information, including definitions of qualified GO Zone property and qualified section 179 GO Zone property, see Pub. 946.

For qualified section 179 disaster assistance property placed in service in a federally declared area in which the disaster occurred after December 31, 2007, the maximum deduction is increased by the smaller of:

- \$100,000 or
- The cost of qualified section 179 disaster assistance property placed in service after 2007 (including such property placed in service by your spouse, even if you are filing a separate return).

A list of the federally declared disaster areas is available at the Federal Emergency Management Agency (FEMA) web site at www.fema.gov. For more information, including the definition of qualified section 179 disaster assistance property and the eligible disaster areas, see Pub. 946.



You may be able to take an increased section 179 expense deduction for qualified section 179 Recovery Assistance property placed in service in the Kansas disaster area. For more information, including definitions of qualified Recovery Assistance property and qualified section 179 Recovery Assistance property, see Pub. 4492-A.

If applicable, cross out the preprinted entry on line 1 and enter in the right margin the larger amount.



For purposes of the increased section 179 expense deduction, certain qualified section 179 GO Zone property, qualified section 179 Recovery Assistance property, or qualified section 179 disaster assistance property that is located in an empowerment zone (or a renewal community) is treated as qualified empowerment zone property (or qualified renewable property) only if you elect not to treat the property as qualified section 179 GO Zone property, qualified section 179 Recovery Assistance property, or qualified section 179 disaster assistance property.

Recapture rule. If any qualified empowerment zone property (or qualified renewal property) placed in service during the current year ceases to be used in an empowerment zone (or a renewal community) by an enterprise zone business (or a renewal community business) in a later year, the benefit of the increased section 179 expense deduction must be reported as "other income" on your return. Similar rules apply to qualified Liberty Zone property that ceases to be used in the Liberty Zone, qualified section 179 GO Zone property that ceases to be used in the GO Zone, qualified section 179 Recovery Assistance property that ceases to be used in the Recovery Assistance area, and qualified section 179 disaster assistance property that ceases to

be used in the applicable federally declared disaster area.

Line 2

Enter the cost of all section 179 property placed in service during the tax year. Also include the cost of the following.

- Any listed property from Part V.
- Any property placed in service by your spouse, even if you are filing a separate return.
- 50% of the cost of section 179 property that is also qualified empowerment zone property or qualified renewal property.

Line 3

The amount of section 179 property for which you can make the election is limited to the maximum dollar amount on line 1. In most cases, this amount is reduced if the cost of all section 179 property placed in service during the year is more than \$800,000.

However, if you placed certain qualified section 179 GO Zone property in service during the tax year and substantially all of the use of the property is in one or more specified portions of the GO Zone (as defined in section 1400N(d)(6)), the amount of property for which you can make the election is reduced if the cost of all section 179 property placed in service during the year exceeds \$800,000 increased by the smaller of:

- \$600,000 or
- The cost of certain qualified section 179 GO Zone property placed in service during the tax year.

Note. For all other qualified section 179 GO Zone property placed in service in tax years beginning in 2008, the maximum limitation is \$800,000.

If you placed qualified section 179 disaster assistance property in service in a federally declared disaster area in which the disaster occurred after December 31, 2007, the amount of property for which you can make the election is reduced if the cost of all section 179 property placed in service during the year exceeds \$800,000 increased by the smaller of:

- \$600,000 or
- The cost of qualified section 179 disaster assistance property placed in service after December 31, 2007.

For more information, see Pub. 946.

If applicable, cross out the preprinted entry on line 3 and enter in the right margin the higher amount.

For a partnership (other than an electing large partnership) these limitations apply to the partnership and each partner. For an electing large partnership, the limitations apply only to the partnership. For an S corporation, these limitations apply to the S corporation and each shareholder. For a controlled group, all component members are treated as one taxpayer.

Line 5

If line 5 is zero, you cannot elect to expense any section 179 property. In this case, skip lines 6 through 11, enter zero on line 12, and enter the carryover of any disallowed deduction from 2007 on line 13.

If you are married filing separately, you and your spouse must allocate the dollar limitation for the tax year. To do so, multiply the total limitation that you would otherwise enter on line 5 by 50%, unless you both elect a different allocation. If you both elect a different allocation, multiply the total limitation by the percentage elected. The sum of the percentages you and your spouse elect must equal 100%.

Do not enter on line 5 more than your share of the total dollar limitation.

Line 6

Do not include any listed property on line 6. Enter the elected section 179 cost of listed property in column (i) of line 26.

Column (a) — Description of property.

Enter a brief description of the property you elect to expense (e.g., truck, office furniture, etc.).

Column (b) — Cost (business use only).

Enter the cost of the property. If you acquired the property through a trade-in, do not include any carryover basis of the property traded in. Include only the excess of the cost of the property over the value of the property traded in.

Column (c) — Elected cost. Enter the amount you elect to expense. You do not have to expense the entire cost of the property. You can depreciate the amount you do not expense. See the line 19 and line 20 instructions.

To report your share of a section 179 expense deduction from a partnership or an S corporation, write "from Schedule K-1 (Form 1065)" or "from Schedule K-1 (Form 1120S)" across columns (a) and (b).

Line 10

The carryover of disallowed deduction from 2007 is the amount of section 179 property, if any, you elected to expense in previous years that was not allowed as a deduction because of the business income limitation. If you filed Form 4562 for 2007, enter the amount from line 13 of your 2007 Form 4562.

Line 11

The total cost you can deduct is limited to your taxable income from the active conduct of a trade or business during the year. You are considered to actively conduct a trade or business only if you meaningfully participate in its management or operations. A mere passive investor is not considered to actively conduct a trade or business.

Note. If you have to apply another Code section that has a limitation based on taxable income, see Pub. 946 for rules on how to apply the business income limitation for the section 179 expense deduction.

Individuals. Enter the smaller of line 5 or the total taxable income from any trade or business you actively conducted, computed without regard to any section 179 expense deduction, the deduction for one-half of self-employment taxes under section 164(f), or any net operating loss deduction. Also include all wages, salaries, tips, and other compensation you earned as an employee (from Form 1040, line 7). Do not reduce this amount by unreimbursed employee business expenses. If you are married filing a joint return, combine the total taxable incomes for you and your spouse.

Partnerships. Enter the smaller of line 5 or the partnership's total items of income and expense described in section 702(a) from any trade or business the partnership actively conducted (other than credits, tax-exempt income, the section 179 expense deduction, and guaranteed payments under section 707(c)).

S corporations. Enter the smaller of line 5 or the corporation's total items of income and expense described in section 1366(a) from any trade or business the corporation actively conducted (other than credits, tax-exempt income, the section 179 expense deduction, and the deduction for compensation paid to the corporation's shareholder-employees).

Corporations other than S corporations. Enter the smaller of line 5 or the corporation's taxable income before the section 179 expense deduction, net operating loss deduction, and special deductions (excluding items not derived from a trade or business actively conducted by the corporation).

Line 12

The limitations on lines 5 and 11 apply to the taxpayer, and not to each separate business or activity. Therefore, if you have more than one business or activity, you may allocate your allowable section 179 expense deduction among them.

To do so, write "Summary" at the top of Part I of the separate Form 4562 you are completing for the total amounts from all businesses or activities. Do not complete the rest of that form. On line 12 of the Form 4562 you prepare for each separate business or activity, enter the amount allocated to the business or activity from the "Summary." No other entry is required in Part I of the separate Form 4562 prepared for each business or activity.

Part II. Special Depreciation Allowance and Other Depreciation

Line 14

For qualified property (defined below) placed in service during the tax year, you may be able to take an additional 50% (or 30%, if applicable) special depreciation allowance. The special depreciation

allowance applies only for the first year the property is placed in service. The allowance is an additional deduction you can take after any section 179 expense deduction and before you figure regular depreciation under the modified accelerated cost recovery system (MACRS).

Qualified property. You can take the special depreciation allowance for qualified New York Liberty Zone (Liberty Zone) property (other than qualified Liberty Zone leasehold improvement property), qualified GO Zone property, qualified cellulosic biomass ethanol plant property, qualified Recovery Assistance property, qualified reuse and recycling property placed into service after August 31, 2008, qualified cellulosic biofuel plant property placed in service after October 3, 2008, qualified disaster assistance property, and certain qualified property acquired after December 31, 2007, and placed in service before January 1, 2010.



You may be able to take a special depreciation allowance for qualified Recovery Assistance property you acquired after May 4, 2007, and placed in service in the Kansas disaster area. For more information, see Pub. 4492-A and Notice 2008-67, 2008-32 I.R.B. 307, available at www.irs.gov/irb/2008-32_irb/ar14.html.

Qualified New York Liberty Zone (Liberty Zone) property. Qualified Liberty Zone property is nonresidential real property or residential rental property.

The following rules also apply.

- The 30% special depreciation allowance applies to qualified Liberty Zone property.
- You must have acquired qualified Liberty Zone property by purchase after September 10, 2001. If a binding contract to acquire the property existed before September 11, 2001, the property does not qualify.
- Qualified Liberty Zone property must be placed in service before January 1, 2010.
- The original use of the property within the Liberty Zone must begin with you.
- Substantially all (80% or more) of the use of the property must be in the Liberty Zone in the active conduct of your trade or business.
- For property you sold and leased back or for self-constructed property, special rules apply. See section 1400L(b)(2)(D).

Qualified GO Zone property. Qualified GO Zone property, including specified GO Zone extension property (defined below), is nonresidential real property and residential rental property.

Specified GO Zone extension property is:

1. Nonresidential real property or residential rental property placed in service in specified areas of the GO Zone (as defined in section 1400N(d)(6)(C)) before January 1, 2011, or
2. Any of the following types of property placed in service in a building described above before January 1, 2011.

a. Tangible property depreciated under MACRS with a recovery period of 20 years or less,

b. Water utility property (see 25-year property on page 8),

c. Computer software defined in and depreciated under section 167(f)(1), or

d. Qualified leasehold improvement property.

In addition, substantially all (80% or more) of the use of the property described in (a) through (d) above must be in the building and placed in service no later than 90 days after the building is placed in service.

For information, see section 1400N(d)(6) and Notice 2007-36, 2007-17 I.R.B. 1000 at www.irs.gov/irb/2007-17_IRB/ar12.html.

The following rules also apply.

• The 50% special depreciation allowance applies to specified GO Zone extension property (defined above). For nonresidential real or residential rental property that is specified GO Zone extension property, only the adjusted basis of the property attributable to manufacture, construction, or production before January 1, 2010, is eligible for the special depreciation allowance.

• You must have acquired qualified GO Zone property, including specified GO Zone extension property (defined earlier), by purchase after August 27, 2005. If a binding contract to acquire the property existed before August 28, 2005, the property does not qualify.

• Qualified GO Zone property, other than specified GO Zone extension property (defined earlier), must be placed in service before January 1, 2009.

• The original use of the property within the GO Zone must begin with you after August 27, 2005.

• Substantially all (80% or more) of the use of the property must be in the GO Zone in the active conduct of your trade or business.

• For property you sold and leased back or for self-constructed property, special rules apply. See section 1400N(d)(3).

Qualified cellululosic biomass ethanol plant property and qualified cellululosic biofuel plant property. Qualified cellululosic biomass ethanol plant property is property used solely in the U.S. to produce cellululosic biomass ethanol. Cellulosic biomass ethanol is ethanol produced by hydrolysis of any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis. For example, lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis includes bagasse (from sugar cane), corn stalks, and switchgrass.

Qualified cellululosic biofuel plant property is property used solely in the U.S. to produce cellululosic biofuel. Cellulosic biofuel is any liquid fuel which is produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis. For example, lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis includes

bagasse (from sugar cane), corn stalks, and switchgrass.

The 50% special depreciation allowance applies to qualified cellululosic biomass ethanol plant property and qualified cellululosic biofuel plant property. The property must also meet the following requirements.

• The original use of the property must begin with you after December 20, 2006.

• You must have acquired the property by purchase after December 20, 2006. If a binding contract to acquire the property existed before December 21, 2006, the property does not qualify.

• Qualified cellululosic biomass ethanol property must be placed in service for use in your trade or business or for the production of income before January 1, 2013.

• Qualified cellululosic biofuel plant property must be placed in service for use in your trade or business or for the production of income after October 3, 2008, and before January 1, 2013.

• For property you sold and leased back or for self-constructed property, special rules apply. See section 168(l)(5).

Certain qualified property acquired after December 31, 2007, and placed in service before January 1, 2010. Certain qualified property (defined below) acquired after December 31, 2007, is eligible for a 50% special depreciation allowance. If a binding contract to acquire the property existed before January 1, 2008, the property does not qualify.

Qualified property includes the following.

• Tangible property depreciated under MACRS with a recovery period of 20 years or less.

• Water utility property (see 25-year property on page 8).

• Computer software defined in and depreciated under section 167(f)(1).

• Qualified leasehold improvement property.

Qualified property must also be placed in service before January 1, 2010 (before January 1, 2011, for certain property with a long production period and for certain aircraft). The original use of the property must begin with you after December 31, 2007.

Qualified reuse and recycling property. Certain qualified reuse and recycling property (defined below) placed in service after August 31, 2008, is eligible for a 50% special depreciation allowance.

Qualified reuse and recycling property includes any machinery and equipment (not including buildings or real estate), along with any appurtenance, that is used exclusively to collect, distribute, or recycle qualified reuse and recyclable materials. This includes software necessary to operate such equipment. See section 168(m)(3) for more information.

Qualified reuse and recycling property must also meet all of the following tests.

• The property must be depreciated under MACRS.

• The property must have a useful life of at least 5 years.

• You must have acquired the property by purchase after August 31, 2008. If a binding contract to acquire the property existed before September 1, 2008, the property does not qualify.

• The property must be placed in service after August 31, 2008.

• The original use of the property must begin with you after August 31, 2008.

• For self-constructed property, special rules apply. See section 168(m)(2)(C).

Qualified reuse and recycling property does not include rolling stock or other equipment used to transport reuse and recyclable materials or any property to which section 168(g) or (k) applies.

Qualified disaster assistance property. You may be able to take a 50% special depreciation allowance for qualified disaster assistance property (defined below) placed in service in federally declared disaster areas in which the disaster occurred after December 31, 2007. A list of the federally declared disaster areas is available at the FEMA web site at www.fema.gov.

Qualified disaster assistance property is:

• Tangible property depreciated under MACRS with a recovery period of 20 years or less,

• Computer software defined in and depreciated under section 167(f)(1),

• Water utility property (see 25-year property on page 8),

• Qualified leasehold improvement property,

• Nonresidential real property, or

• Residential rental property.

Qualified disaster assistance property must also meet all of the following rules.

• The property must rehabilitate property damaged, or replace property destroyed or condemned, as a result of the applicable federally declared disaster area.

• The property must be similar in nature to, and located in the same county as, the property being rehabilitated or replaced.

• Substantially all (80% or more) of the use of the property must be in the active conduct of your trade or business in a federally declared disaster area.

• You must have acquired the property by purchase on or after the applicable disaster date. If a binding contract to acquire the property existed before the applicable disaster date, the property does not qualify.

• The original use of the property within the applicable disaster area must begin with you on or after the applicable disaster date.

• The property is placed in service by you on or before the date which is the last day of the third calendar year following the applicable disaster date (the fourth calendar year in the case of nonresidential real property and residential rental property).

• For property you sold and leased back or for self-constructed property special rules apply. See section 168(n)(2)(C).

For more information, see Pub. 946.

Election to accelerate research and minimum tax credits in lieu of special depreciation allowance. Corporations and a certain automotive partnership may elect for their first tax year ending after March 31, 2008, to claim pre-2006 unused research credits or minimum tax credits in lieu of claiming the special depreciation allowance for certain eligible qualified property (as defined in section 168(k)(4)(D)) (the “section 168(k)(4) election”). Generally, this election applies to qualified property acquired after March 31, 2008, and placed in service before January 1, 2010 (before January 1, 2011, for long production period property and noncommercial aircraft).

A section 168(k)(4) election made by a corporation for its first tax year ending after March 31, 2008, continues to apply to extension property (as defined in section 168(k)(4)(H)) unless the corporation makes an election not to apply the section 168(k)(4) election to extension property. Generally, extension property is eligible qualified property acquired after December 31, 2008, and placed in service before January 1, 2010 (before January 1, 2011, for long production period property and noncommercial aircraft). If a corporation did not make a section 168(k)(4) election for its first tax year ending after March 31, 2008, the corporation may elect for its first tax year ending after December 31, 2008, to claim pre-2006 unused research credits or minimum tax credits in lieu of claiming the special depreciation allowance for only extension property. A section 168(k)(4) election made by a certain automotive partnership does not apply to extension property.

If you make an election to accelerate these credits in lieu of claiming the special depreciation allowance for qualified property, you must **not** take the 50% special depreciation allowance for the property and **must** depreciate the basis in the property under MACRS using the straight line method. See *Lines 19a Through 19i* on page 8 for more information.

Once made, the election cannot be revoked without IRS consent.

For more information on making this election, see Form 3800, General Business Credit; Form 8827, Credit for Prior Year Minimum Tax—Corporations; and related instructions. Also, see Rev. Proc. 2008-65, 2008-44 I.R.B. 1082, available at www.irs.gov/irb/2008-44_IRB/ar15.html, and Rev. Proc. 2009-16, 2009-06 I.R.B. 449, available at www.irs.gov/irb/2009-06_IRB/ar10.html. Additional guidance may also be published in later Internal Revenue Bulletins available at www.irs.gov.

Exceptions. Qualified property does not include:

- Listed property used 50% or less in a qualified business use (as defined in the instructions for lines 26 and 27),
- Any property required to be depreciated under the alternative depreciation system

(ADS) (that is, not property for which you elected to use ADS),

- Qualified Liberty Zone leasehold improvement property,
- Property placed in service and disposed of in the same tax year,
- Property converted from business or income-producing use to personal use in the same tax year it is acquired, or
- Property for which you elected not to claim any special depreciation allowance.
- Any qualified restaurant property (as defined in section 168(e)(7)) placed in service after December 31, 2008.
- Any qualified retail improvement property (as defined in section 168(e)(8)) placed in service after December 31, 2008.

Qualified GO Zone property, including specified GO Zone extension property, also does not include:

- Any tax-exempt bond financed property under section 103,
- Any qualified revitalization building for which you have elected to deduct expenditures under section 1400I, or
- Any property described in section 1400N(p)(3).

In addition, qualified cellulosic biomass ethanol and cellulosic biofuel plant property does not include the following:

- Any tax-exempt bond financed property under section 103.
- Any property for which a deduction was taken under section 179C for certain qualified refinery property.

Qualified disaster assistance property does not include:

- Other bonus depreciation property to which section 168(k) or section 1400N(d) applies.
- Any property described in section 1400N(p)(3).
- Any tax-exempt bond financed property under section 103.
- Any qualified revitalization building for which you have elected to deduct expenditures under section 1400I(a).
- Any property to which section 168(g) applies.

See sections 168(k), 168(l), 168(m), 168(n), 1400L(b), and 1400N(d) for additional information. Also, see Pub. 946.

How to figure the allowance. Figure the special depreciation allowance by multiplying the depreciable basis of the property by 50% (or 30%, if applicable).

To figure the depreciable basis, subtract from the business/investment portion of the cost or other basis of the property any credits and deductions allocable to the property. The following are examples of some credits and deductions that reduce the depreciable basis.

- Section 179 expense deduction.
- Deduction for removal of barriers to the disabled and the elderly.
- Disabled access credit.
- Enhanced oil recovery credit.
- Credit for employer-provided childcare facilities and services.

• Basis adjustment to investment credit property under section 50(c). For additional credits and deductions that affect the depreciable basis, see section 1016. Also, see Pub. 946.

Note. If you acquired qualified property through a like-kind exchange or involuntary conversion, the carryover basis and any excess basis of the acquired property is eligible for the special depreciation allowance. See Regulations section 1.168(k)-1(f)(5).



If you take the 30% or 50% special depreciation allowance, you must reduce the amount on which you figure your regular depreciation or amortization deduction by the amount deducted. Also, you will not have any AMT adjustment for the property if the depreciable basis of the property for the AMT is the same as for the regular tax.

Election out. You can elect, for any class of property, to not deduct any special depreciation allowance for all such property in such class placed in service during the tax year.

To make an election, attach a statement to your timely filed return (including extensions) indicating the class of property for which you are making the election and that, for such class you are not to claim any special depreciation allowance.

The election must be made separately by each person owning qualified property (for example, by the partnership, by the S corporation, or by the common parent of a consolidated group).

If you timely filed your return without making an election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Write “Filed pursuant to section 301.9100-2” on the amended return.

Once made, the election cannot be revoked without IRS consent.

Note. If you elect not to have any special depreciation allowance apply, the property may be subject to an AMT adjustment for depreciation.

Recapture. When you dispose of property for which you claimed a special depreciation allowance, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the special depreciation allowance you deducted. If qualified GO Zone property ceases to be qualified GO Zone property, if qualified Recovery Assistance property ceases to be qualified Recovery Assistance property, if qualified cellulosic biomass ethanol plant property ceases to be qualified cellulosic biomass ethanol plant property, if qualified cellulosic biofuel plant property ceases to be qualified cellulosic biofuel plant property, or if qualified disaster assistance property ceases to be qualified disaster assistance property in any year after the year you claim the special depreciation allowance, the excess benefit you received

from claiming the special depreciation allowance must be recaptured as ordinary income. For information on depreciation recapture, see Pub. 946. Also, see Notice 2008-25, 2008-9 I.R.B. 484, available at www.irs.gov/irb/2008-9_IRB/ar10.html for additional guidance on recapture of qualified GO Zone property.

Line 15

Report on this line depreciation for property that you elect to depreciate under the unit-of-production method or any other method not based on a term of years (other than the retirement-replacement-betterment method).

Attach a separate sheet showing:

- A description of the property and the depreciation method you elect that excludes the property from MACRS or the Accelerated Cost Recovery System (ACRS); and
- The depreciable basis (cost or other basis reduced, if applicable, by salvage value, any section 179 expense deduction, deduction for removal of barriers to the disabled and the elderly, disabled access credit, enhanced oil recovery credit, credit for employer-provided childcare facilities and services, any special depreciation allowance, and any other applicable deduction or credit).

For additional credits and deductions that may affect the depreciable basis, see section 1016. Also, see section 50(c) to determine the basis adjustment for investment credit property.

Line 16

Enter the total depreciation you are claiming for the following types of property (except listed property and property subject to a section 168(f)(1) election).

- ACRS property (pre-1987 rules). See Pub. 534.
- Property placed in service before 1981.
- Certain public utility property which does not meet certain normalization requirements.
- Certain property acquired from related persons.
- Property acquired in certain nonrecognition transactions.
- Certain sound recordings, movies, and videotapes.
- Property depreciated under the income forecast method. The use of the income forecast method is limited to motion picture films, videotapes, sound recordings, copyrights, books, and patents.

If you use the income forecast method for any property placed in service after September 13, 1995, you may owe interest or be entitled to a refund for the 3rd and 10th tax years beginning after the tax year the property was placed in service. For details, see Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method.

For property placed in service in the current tax year, you can either include certain participations and residuals in the adjusted basis of the property or deduct these amounts when paid. See section 167(g)(7). You cannot use this method to depreciate any amortizable section 197 intangible. See page 14 of the instructions for more details on section 197 intangibles.

You can elect to amortize all applicable expenses paid or incurred in the current year in creating or acquiring musical compositions or copyrights to musical compositions placed in service during the tax year. If you make the election, amortize the expenses ratably over a 5-year period beginning with the month the property is placed in service. See section 167(g)(8). This election does not apply to the following:

1. Expenses that are qualified creative expenses under section 263A(h);
2. Property to which a simplified procedure established under section 263A(j) applies;
3. Property that is an amortizable section 197 intangible; or
4. Expenses that would not be allowable as a deduction.
 - Intangible property, other than section 197 intangibles, including:

1. Computer software. Use the straight line method over 36 months. A longer period may apply to software leased under a lease agreement entered into after March 12, 2004, to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership). See section 167(f)(1)(C).



If you elect the section 179 expense deduction or take the special depreciation allowance for qualified computer software, you must reduce the amount on which you figure your regular depreciation deduction by the amount deducted.

2. Any right to receive tangible property or services under a contract or granted by a governmental unit (not acquired as part of a business).
3. Any interest in a patent or copyright not acquired as part of a business.
4. Residential mortgage servicing rights. Use the straight line method over 108 months.
5. Other intangible assets with a limited useful life that cannot be estimated with reasonable accuracy. Generally, use the straight line method over 15 years. See Regulations section 1.167(a)-3(b) for details and exceptions.



Prior years' depreciation, plus current year's depreciation, can never exceed the depreciable basis of the property.

Part III. MACRS Depreciation

The term "Modified Accelerated Cost Recovery System" (MACRS) includes the

General Depreciation System and the Alternative Depreciation System. Generally, MACRS is used to depreciate any tangible property placed in service after 1986. However, MACRS does not apply to films, videotapes, and sound recordings. For more details and exceptions, see Pub. 946.

Section A

Line 17

For tangible property placed in service in tax years beginning before 2007 and depreciated under MACRS, enter the deductions for the current year. To figure the deductions, see the instructions for line 19, column (g).

Line 18

To simplify the computation of MACRS depreciation, you can elect to group assets into one or more general asset accounts. The assets in each general asset account are depreciated as a single asset.

Each general asset account must include only assets that were placed in service during the same tax year with the same asset class (if any), depreciation method, recovery period, and convention. However, an asset cannot be included in a general asset account if the asset is used both for personal purposes and business/investment purposes.

When an asset in an account is disposed of, the amount realized generally must be recognized as ordinary income. The unadjusted depreciable basis and depreciation reserve of the general asset account are not affected as a result of a disposition.

Special rules apply to passenger automobiles, assets generating foreign source income, assets converted to personal use, certain asset dispositions, and like-kind exchanges or involuntary conversions of property in a general asset account. For more details, see Regulations section 1.168(i)-1.

To make the election, check the box on line 18. You must make the election on your return filed no later than the due date (including extensions) for the tax year in which the assets included in the general asset account were placed in service. Once made, the election is irrevocable and applies to the tax year for which the election is made and all later tax years.

For more information on depreciating property in a general asset account, see Pub. 946.

Section B

Property acquired in a like-kind exchange or involuntary conversion.

Generally, you must depreciate the carryover basis of property you acquire in a like-kind exchange or involuntary conversion during the current tax year over the remaining recovery period of the property exchanged or involuntarily converted. Use

the same depreciation method and convention that was used for the exchanged or involuntarily converted property. Treat any excess basis as newly placed in service property. Figure depreciation separately for the carryover basis and the excess basis, if any.

These rules apply only to acquired property with the same or a shorter recovery period or the same or a more accelerated depreciation method than the property exchanged or involuntarily converted. For additional rules, see Regulations section 1.168(i)-6(c) and Pub. 946.

Election out. Instead of using the above rules, you can elect, for depreciation purposes, to treat the adjusted basis of the exchanged property as if it was disposed of at the time of the exchange or involuntary conversion. Generally, treat the carryover basis and excess basis, if any, for the acquired property as if placed in service on the date you acquired it. The depreciable basis of the new property is the adjusted basis of the exchanged or involuntarily converted property plus any additional amount paid for it. See Regulations section 1.168(i)-6(i).

To make the election, figure the depreciation deduction for the new property in Part III. For listed property, use Part V. Attach a statement indicating "Election made under section 1.168-6(i)" for each property involved in the exchange or involuntary conversion. The election must be made separately by each person acquiring replacement property (for example, by the partnership, by the S corporation, or by the common parent of a consolidated group). The election must be made on your timely filed return (including extensions). Once made, the election cannot be revoked without IRS consent.



If you trade in a vehicle used for employee business use, complete Form 2106, Part II, Section D, instead of Form 4562, to "elect out" of Regulations section 1.168(i)-6. If you do not "elect out," you must use Form 4562 instead of Form 2106. See the Instructions for Form 2106.

Lines 19a Through 19i

Use lines 19a through 19i only for assets placed in service during the tax year beginning in 2008 and depreciated under the General Depreciation System (GDS), except for automobiles and other listed property (which are reported in Part V).

Column (a) — Classification of property. Sort the property you acquired and placed in service during the tax year beginning in 2008 according to its classification (3-year property, 5-year property, etc.) as shown in column (a) of lines 19a through 19i. The classifications for some property are shown below. For property not shown, see *Determining the classification* below.

3-year property includes:

- A race horse that is more than 2 years old at the time it is placed in service before January 1, 2009.

Note. Any race horse placed in service after December 31, 2008, and before January 1, 2014, is treated as 3-year property (regardless of the age of the race horse).

- Any horse (other than a race horse) that is more than 12 years old at the time it is placed in service.
- Any qualified rent-to-own property (as defined in section 168(i)(14)).

5-year property includes:

- Automobiles.
- Light general purpose trucks.
- Typewriters, calculators, copiers, and duplicating equipment.
- Any semi-conductor manufacturing equipment.
- Any computer or peripheral equipment.
- Any section 1245 property used in connection with research and experimentation.
- Certain energy property specified in section 168(e)(3)(B)(vi).
- Appliances, carpets, furniture, etc., used in a rental real estate activity.
- Any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business (as defined in section 263A(e)(4)) where the original use begins with the taxpayer after December 31, 2008, and is placed in service before January 1, 2010.

7-year property includes:

- Office furniture and equipment.
- Railroad track.
- Any motorsports entertainment complex (as defined in section 168(i)(15)).
- Any natural gas gathering line (as defined in section 168(i)(17)) placed in service after April 11, 2005, the original use of which begins with you after April 11, 2005, and is not under self-construction or subject to a binding contract in existence before April 12, 2005. Also, no AMT adjustment is required.
- Any property that does not have a class life and is not otherwise classified.

10-year property includes:

- Vessels, barges, tugs, and similar water transportation equipment.
- Any single purpose agricultural or horticultural structure (see section 168(i)(13)).
- Any tree or vine bearing fruit or nuts.
- Any qualified smart electric meter property placed in service after October 3, 2008.
- Any qualified smart electric grid system property placed in service after October 3, 2008.

15-year property includes:

- Any municipal wastewater treatment plant.
- Any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.

- Any section 1250 property that is a retail motor fuels outlet (whether or not food or other convenience items are sold there).
- Any qualified leasehold improvement property.
- Any qualified restaurant property.
- Initial clearing and grading land improvements for gas utility property.
- Certain electric transmission property specified in section 168(e)(3)(E)(vii) placed in service after April 11, 2005, the original use of which begins with you after April 11, 2005, and is not under self-construction or subject to a binding contract in existence before April 12, 2005.
- Any natural gas distribution line placed in service after April 11, 2005, the original use of which begins with you after April 11, 2005, and is not under self-construction or subject to a binding contract in existence before April 12, 2005.
- Any qualified retail improvement property (as defined in section 168(e)(8)) placed in service after December 31, 2008.

20-year property includes:

- Farm buildings (other than single purpose agricultural or horticultural structures).
- Municipal sewers not classified as 25-year property.
- Initial clearing and grading land improvements for electric utility transmission and distribution plants.

25-year property is water utility property, which is:

- Property that is an integral part of the gathering, treatment, or commercial distribution of water that, without regard to this classification, would be 20-year property.
- Municipal sewers. This classification does not apply to property placed in service under a binding contract in effect at all times since June 9, 1996.

Residential rental property is a building in which 80% or more of the total rent is from dwelling units.

Nonresidential real property is any real property that is neither residential rental property nor property with a class life of less than 27.5 years.

50-year property includes any improvements necessary to construct or improve a roadbed or right-of-way for railroad track that qualifies as a railroad grading or tunnel bore under section 168(e)(4).

There is no separate line to report 50-year property. Therefore, attach a statement showing the same information as required in columns (a) through (g). Include the deduction in the line 22 "Total" and write "See attachment" in the bottom margin of the form.

Determining the classification. If your depreciable property is not listed above, determine the classification as follows.

1. Find the property's class life. See the Table of Class Lives and Recovery Periods in Pub. 946.

2. Use the following table to find the classification in column (b) that corresponds to the class life of the property in column (a).

(a) Class life (in years) (See Pub. 946)	(b) Classification
4 or less	3-year property
More than 4 but less than 10	5-year property
10 or more but less than 16	7-year property
16 or more but less than 20	10-year property
20 or more but less than 25	15-year property
25 or more	20-year property

Column (b) — Month and year placed in service. For lines 19h and 19i, enter the month and year you placed the property in service. If you converted property held for personal use to use in a trade or business or for the production of income, treat the property as being placed in service on the conversion date.

Column (c) — Basis for depreciation (business/investment use only). To find the basis for depreciation, multiply the cost or other basis of the property by the percentage of business/investment use. From that result, subtract any credits and deductions allocable to the property. The following are examples of some credits and deductions that reduce the basis for depreciation.

- Section 179 expense deduction.
- Deduction under section 179C for certain qualified refinery property.
- Deduction under section 179D for certain energy efficient commercial building property.
- Deduction for removal of barriers to the disabled and the elderly.
- Disabled access credit.
- Enhanced oil recovery credit.
- Credit for alternative fuel vehicle refueling property.
- Credit for employer-provided childcare facilities and services.
- Any special depreciation allowance included on line 14.
- Any basis adjustment for investment credit property. See section 50(c).

For additional credits and deductions that affect the depreciable basis, see section 1016 and Pub. 946.

Column (d) — Recovery period. Determine the recovery period from the following table. See Pub. 946 for more information on the recovery period for MACRS property.

Recovery Period for Most Property	
Classification	Recovery period
3-year property	3 yrs.
5-year property	5 yrs.
7-year property	7 yrs.
10-year property	10 yrs.
15-year property	15 yrs.
20-year property	20 yrs.
25-year property	25 yrs.
Residential rental property	27.5 yrs.
Nonresidential real property	39 yrs.
Railroad gradings and tunnel bores	50 yrs.

Indian reservation property. For qualified Indian reservation property placed in service during the tax year, the following shorter recovery periods apply.

Recovery Period for Qualified Indian Reservation Property	
Property class	Recovery period
3-year property	2 yrs.
5-year property	3 yrs.
7-year property	4 yrs.
10-year property	6 yrs.
15-year property	9 yrs.
20-year property	12 yrs.
Nonresidential real property	22 yrs.

For example, figure depreciation on 5-year property acquired during the tax year that is qualified Indian reservation property in the same manner as depreciation is figured for 3-year property that is not qualified Indian reservation property. Report the depreciation on line 19b, entering “3 yrs.” as the recovery period in column (d).

For more information, including the definition of qualified property, see Pub. 946.

Column (e) — Convention. The applicable convention determines the portion of the tax year for which depreciation is allowable during a year property is either placed in service or disposed of. There are three types of conventions. To select the correct convention, you must know the type of property and when you placed the property in service.

Half-year convention. This convention applies to all property reported on lines 19a through 19g, unless the mid-quarter convention applies. It does not apply to residential rental property, nonresidential real property, and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any tax year as placed in service (or disposed of) on the midpoint of that tax year. Enter “HY” in column (e).

Mid-quarter convention. If the total depreciable bases (before any special depreciation allowance) of MACRS property

placed in service during the last 3 months of your tax year exceed 40% of the total depreciable bases of MACRS property placed in service during the entire tax year, the mid-quarter, instead of the half-year, convention generally applies.

In determining whether the mid-quarter convention applies, do not take into account the following.

- Property that is being depreciated under a method other than MACRS.
- Any residential rental property, nonresidential real property, or railroad gradings and tunnel bores.
- Property that is placed in service and disposed of within the same tax year.

The mid-quarter convention treats all property placed in service (or disposed of) during any quarter as placed in service (or disposed of) on the midpoint of that quarter. However, no depreciation is allowed under this convention for property that is placed in service and disposed of within the same tax year. Enter “MQ” in column (e).

Mid-month convention. This convention applies only to residential rental property (line 19h), nonresidential real property (line 19i), and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any month as placed in service (or disposed of) on the midpoint of that month. Enter “MM” in column (e).

Column (f) — Method. Applicable depreciation methods are prescribed for each classification of property as follows. However, you can make an irrevocable election to use the straight line method for all property within a classification that is placed in service during the tax year. Enter “200 DB” for 200% declining balance, “150 DB” for 150% declining balance, or “S/L” for straight line.

Note. If you elected to accelerate pre-2006 unused research and minimum tax credits in lieu of special depreciation allowance for eligible property (as discussed on page 6), you must depreciate the basis in the property using the straight line method. Enter “S/L” in this column for the applicable property classification. If you are depreciating other property in the same classification as the property for which this election was made and using a different method, enter “Various” in this column.

• **3-, 5-, 7-, and 10-year property.** Generally, the applicable method is the 200% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate.

Note. The straight line method is the only applicable method for trees and vines bearing fruit or nuts. The 150% declining balance method is the only applicable method for any qualified smart electric meter or any qualified smart electric grid system property placed in service after October 3, 2008.

For 3-, 5-, 7-, or 10-year property eligible for the 200% declining balance method, you

can make an irrevocable election to use the 150% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate. The election applies to all property within the classification for which it is made and that was placed in service during the tax year. You will not have an AMT adjustment for any property included under this election.

• **15- and 20-year property (not including qualified leasehold improvement, qualified restaurant property, or qualified retail improvement property), and property used in a farming business.** The applicable method is the 150% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate.

• **Water utility property, residential rental property, nonresidential real property, qualified leasehold improvement property, qualified restaurant property, qualified retail improvement property placed in service after December 31, 2008, or any railroad grading or tunnel bore.** The only applicable method is the straight line method.

• **Water utility property, residential rental property, nonresidential real property, qualified leasehold improvement property, qualified restaurant property, qualified retail improvement property placed in service after December 31, 2008, or any railroad grading or tunnel bore.** The only applicable method is the straight line method.

Column (g) — Depreciation deduction.

To figure the depreciation deduction, you may use optional Tables A through E, which begin on page 16. Multiply column (c) by the applicable rate from the appropriate table. See Pub. 946 for complete tables. If you disposed of the property during the current tax year, multiply the result by the applicable decimal amount from the tables in Step 3 below. Or, you may compute the deduction yourself by completing the following steps.

Step 1. Determine the depreciation rate as follows.

• If you are using the 200% or 150% declining balance method in column (f), divide the declining balance rate (use 2.00 for 200 DB or 1.50 for 150 DB) by the number of years in the recovery period in column (d). For example, for property depreciated using the 200 DB method over a recovery period of 5 years, divide 2.00 by 5 for a rate of 40%. You must switch to the straight line rate in the first year that the straight line rate exceeds the declining balance rate.

• If you are using the straight line method, divide 1.00 by the remaining number of years in the recovery period as of the beginning of the tax year (but not less than one). For example, if there are 6½ years remaining in the recovery period as of the beginning of the year, divide 1.00 by 6.5 for a rate of 15.38%.

Step 2. Multiply the percentage rate determined in Step 1 by the property's unrecovered basis (basis for depreciation (as defined in column (c)) reduced by all prior years' depreciation).

Step 3. For property placed in service or disposed of during the current tax year, multiply the result from Step 2 by the applicable decimal amount from the tables

below (based on the convention shown in column (e)).

Half-year (HY) convention 0.5

Mid-quarter (MQ) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st quarter	0.875	0.125
2nd quarter	0.625	0.375
3rd quarter	0.375	0.625
4th quarter	0.125	0.875

Mid-month (MM) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st month	0.9583	0.0417
2nd month	0.8750	0.1250
3rd month	0.7917	0.2083
4th month	0.7083	0.2917
5th month	0.6250	0.3750
6th month	0.5417	0.4583
7th month	0.4583	0.5417
8th month	0.3750	0.6250
9th month	0.2917	0.7083
10th month	0.2083	0.7917
11th month	0.1250	0.8750
12th month	0.0417	0.9583

Short tax years. See Pub. 946 for rules on how to compute the depreciation deduction for property placed in service in a short tax year.

Section C

Lines 20a Through 20c

Complete lines 20a through 20c for assets, other than automobiles and other listed property, placed in service only during the tax year beginning in 2008 and depreciated under the Alternative Depreciation System (ADS). Report on line 17 MACRS depreciation on assets placed in service in prior years.

Under ADS, use the applicable depreciation method, the applicable recovery period, and the applicable convention to compute depreciation.

The following types of property must be depreciated under ADS.

- Tangible property used predominantly outside the United States.
- Tax-exempt use property.
- Tax-exempt bond financed property.
- Imported property covered by an executive order of the President of the United States.
- Property used predominantly in a farming business and placed in service during any tax year in which you made an election under section 263A(d)(3) not to have the uniform capitalization rules of section 263A apply.

Instead of depreciating property under GDS (line 19), you can make an irrevocable

election for any classification of property for any tax year to use ADS. For residential rental and nonresidential real property, you can make this election separately for each property. You may make this election by completing line 20 of Form 4562.

Column (a) — Classification of property. Use the following rules to determine the classification of the property under ADS.

Under ADS, the depreciation deduction for most property is based on the property's class life. See section 168(g)(3) for special rules for determining the class life for certain property. See Pub. 946 for information on recovery periods for ADS and the Table of Class Lives and Recovery Periods.

Use line 20a for all property depreciated under ADS, except property that does not have a class life, residential rental and nonresidential real property, water utility property, and railroad gradings and tunnel bores. Use line 20b for property that does not have a class life. Use line 20c for residential rental and nonresidential real property.

Water utility property and railroad gradings and tunnel bores. These assets are 50-year property under ADS. There is no separate line to report 50-year property. Therefore, attach a statement showing the same information required in columns (a) through (g). Include the deduction in the line 22 "Total" and write "See attachment" in the bottom margin of the form.

Column (b) — Month and year placed in service. For 40-year property, enter the month and year placed in service or converted to use in a trade or business or for the production of income.

Column (c) — Basis for depreciation (business/investment use only). See the instructions for line 19, column (c).

Column (d) — Recovery period. On line 20a, enter the property's class life.

Column (e) — Convention. Under ADS, the applicable conventions are the same as those used under GDS. See the instructions for line 19, column (e).

Column (g) — Depreciation deduction. Figure the depreciation deduction in the same manner as under GDS, except use the straight line method over the ADS recovery period and use the applicable convention.

MACRS recapture. If you later dispose of property you depreciated using MACRS, any gain on the disposition is generally recaptured (included in income) as ordinary income up to the amount of the depreciation previously allowed or allowable for the property. Depreciation, for this purpose, includes any of the following deductions taken during the 2008 tax year.

- Any section 179 expense deduction claimed on the property,
- Any special depreciation allowance available for the property (unless you elected not to claim it),
- Any deduction under section 179B for capital costs incurred in complying with

Environmental Protection Agency sulfur regulations,

- Any deduction under section 179C for certain qualified refinery property, and
- Any deduction under section 179D for certain energy efficient commercial building property.

There is no recapture for residential rental and nonresidential real property, unless that property is qualified property for which you claimed a special depreciation allowance (discussed earlier). For more information on depreciation recapture, see Pub. 946.

Part IV. Summary

Line 22

A partnership (other than an electing large partnership) or S corporation does not include any section 179 expense deduction (line 12) on this line. Instead, any section 179 expense deduction is passed through separately to the partners and shareholders on the appropriate line of their Schedules K-1.

Line 23

If you are subject to the uniform capitalization rules of section 263A, enter the increase in basis from costs you must capitalize. For a detailed discussion of who is subject to these rules, which costs must be capitalized, and allocation of costs among activities, see Regulations section 1.263A-1.

Part V. Listed Property

If you claim the standard mileage rate, actual vehicle expenses (including depreciation), or depreciation on other listed property, you must provide the information requested in Part V, regardless of the tax year the property was placed in service. However, if you file Form 2106 or 2106-EZ, report this information on that form and not in Part V. Also, if you file Schedule C (Form 1040) or Schedule C-EZ (Form 1040) and are claiming the standard mileage rate or actual vehicle expenses (except depreciation), and you are not required to file Form 4562 for any other reason, report vehicle information in Part IV of Schedule C or in Part III of Schedule C-EZ and not on Form 4562.

Section A



The section 179 expense deduction should be computed before calculating any special depreciation allowance and/or regular depreciation deduction. See the instructions for line 26, column (i).

Listed property used 50% or less in a qualified business use (as defined in the instructions for lines 26 and 27 below) does not qualify for the section 179 expense deduction or special depreciation allowance.

Line 25

If you placed in service certain qualified property after December 31, 2007, certain specified GO Zone extension property, qualified Recovery Assistance property, or qualified disaster assistance property during the tax year, you may be able to deduct an additional special depreciation allowance. See the instructions for line 14 for the definition of qualified property and how to figure the deduction. This special depreciation allowance is included in the overall limit on depreciation and section 179 expense deduction for passenger automobiles. See the tables, beginning on page 12, for limitations on passenger vehicles and trucks and vans. Enter on line 25 your total special depreciation allowance for all qualified listed property.

Lines 26 and 27

Use line 26 to figure depreciation for property used more than 50% in a qualified business use. Use line 27 to figure the depreciation for property used 50% or less in a qualified business use. Also see *Limits for passenger automobiles* on page 12.



If you acquired the property through a trade-in, special rules apply for determining the basis, recovery period, depreciation method, and convention. For more details, see Property acquired in a like-kind exchange or involuntary conversion on page 7. Also, see Regulations section 1.168(i)-6(d)(3).

Qualified business use. To determine whether to use line 26 or line 27 to report your listed property, you must first determine the percentage of qualified business use for each property. Generally, a qualified business use is any use in your trade or business. However, it does not include any of the following.

- Investment use.
- Leasing the property to a 5% owner or related person.
- The use of the property as compensation for services performed by a 5% owner or related person.
- The use of the property as compensation for services performed by any person (who is not a 5% owner or related person), unless an amount is included in that person's income for the use of the property and, if required, income tax was withheld on that amount.

Excluding these uses above from the numerator, determine your percentage of qualified business use similar to the method used to figure the business/investment use percentage in column (c). Your percentage of qualified business use may be smaller than the business/investment use percentage.

For more information, including the definition of a 5% owner and related person and exceptions, see Pub. 946.

Listed property recapture. If you used listed property more than 50% in a qualified business use in the year you placed the

property in service, and used it 50% or less in a later year, you may have to include as income part of the depreciation deducted in prior years. Use Form 4797, Sales of Business Property, to figure the recapture amount.

Column (a) — Type of property. List on a property-by-property basis all your listed property in the following order.

1. Automobiles and other vehicles.
2. Other listed property (computers and peripheral equipment, etc.).

In column (a), list the make and model of automobiles, and give a general description of other listed property.

If you have more than five vehicles used 100% for business/investment purposes, you may group them by tax year. Otherwise, list each vehicle separately.

Column (b) — Date placed in service.

Enter the date the property was placed in service. If property held for personal use is converted to business/investment use, treat the property as placed in service on the date of conversion.

Column (c) — Business/investment use percentage. Enter the percentage of business/investment use. For automobiles and other vehicles, determine this percentage by dividing the number of miles the vehicle is driven for trade or business purposes or for the production of income during the year (not to include any commuting mileage) by the total number of miles the vehicle is driven for all purposes. Treat vehicles used by employees as being used 100% for business/investment purposes if the value of personal use is included in the employees' gross income, or the employees reimburse the employer for the personal use.

Employers who report the amount of personal use of the vehicle in the employee's gross income, and withhold the appropriate taxes, should enter "100%" for the percentage of business/investment use. For more information, see Pub. 463.

For other listed property (such as computers or video equipment), allocate the use based on the most appropriate unit of time the property is actually used (rather than merely being available for use).

If during the tax year you convert property used solely for personal purposes to business/investment use (or vice versa), figure the percentage of business/investment use only for the number of months you use the property in your business or for the production of income. Multiply that percentage by the number of months you use the property in your business or for the production of income, and divide the result by 12.

Column (d) — Cost or other basis. Enter the property's actual cost (including sales tax) or other basis (unadjusted for prior years' depreciation). If you traded in old property, see *Property acquired in a like-kind exchange or involuntary conversion* on page 7.

For a vehicle, reduce your basis by any qualified electric vehicle credit you claimed for property placed in service before January 1, 2007, or by any alternative motor vehicle credit allowed.

If you converted the property from personal use to business/investment use, your basis for depreciation is the smaller of the property's adjusted basis or its fair market value on the date of conversion.

Column (e) — Basis for depreciation (business/investment use only). Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense deduction, any special depreciation allowance, any credit for employer-provided childcare facilities and services, and half of any investment credit taken before 1986 (unless you claimed the reduced credit). For automobiles and other listed property placed in service after 1985 (i.e., transition property), reduce the depreciable basis by the entire investment credit.

Column (f) — Recovery period. Enter the recovery period. For property placed in service after 1986 and used more than 50% in a qualified business use, use the table in the instructions for line 19, column (d). For property placed in service after 1986 and used 50% or less in a qualified business use, depreciate the property using the straight line method over its ADS recovery period. The ADS recovery period is 5 years for automobiles and computers.

Column (g) — Method/convention. Enter the method and convention used to figure your depreciation deduction. See the instructions for line 19, columns (e) and (f). Write "200 DB," "150 DB," or "S/L," for the depreciation method, and "HY," "MM," or "MQ," for half-year, mid-month, or mid-quarter conventions, respectively. For property placed in service before 1987, write "PRE" if you used the prescribed percentages under ACRS. If you elected an alternate percentage or if you are required to depreciate the property using the straight line method, enter "S/L."

Column (h) — Depreciation deduction. See *Limits for passenger automobiles*, below, before entering an amount in column (h).

For property used more than 50% in a qualified business use (line 26) and placed in service after 1986, figure column (h) by following the instructions for line 19, column (g). If placed in service before 1987, multiply column (e) by the applicable percentage given in Pub. 534 for ACRS property. If the recovery period for an automobile ended before your tax year beginning in 2008, enter your unrecovered basis, if any, in column (h).

For property used 50% or less in a qualified business use (line 27) and placed in service after 1986, figure column (h) by dividing the amount in column (e) by the

amount in column (f). Use the same conventions as discussed in the instructions for line 19, column (e). The amount in column (h) cannot exceed the property's unrecovered basis. If the recovery period for an automobile ended before your tax year beginning in 2008, enter your unrecovered basis, if any, in column (h).

For property placed in service before 1987 that was disposed of during the year, enter zero.

Limits for passenger automobiles. The depreciation deduction, including section 179 expense deduction, for passenger automobiles is limited. For any passenger automobile (including an electric passenger automobile) you list on line 26 or line 27, the total of columns (h) and (i) on line 26 or 27 and column (h) on line 25 for that automobile cannot exceed the applicable limit shown in *Table 1*, 2, 3, or 4. If the business/investment use percentage in column (c) for the automobile is less than 100%, you must reduce the applicable limit to an amount equal to the limit multiplied by that percentage. For example, for an automobile (other than a truck or van) placed in service in 2008 (for which you elect not to claim any special depreciation allowance) that is used 60% for business/investment, the limit is \$1,776 (\$2,960 x 60%).

Definitions. For purposes of the limits for passenger automobiles, the following apply.

- Passenger automobiles are 4-wheeled vehicles manufactured primarily for use on public roads that are rated at 6,000 pounds unloaded gross vehicle weight or less (for a truck or van, gross vehicle weight is substituted for unloaded gross vehicle weight).
- Electric passenger automobiles are vehicles produced by an original equipment manufacturer and designed to run primarily on electricity, placed in service after August 5, 1997, and before January 1, 2007.

Exception. The following vehicles are not considered passenger automobiles.

- An ambulance, hearse, or combination ambulance-hearse used in your trade or business.
- A vehicle used in your trade or business of transporting persons or property for compensation or hire.
- Any truck or van placed in service after July 6, 2003, that is a qualified nonpersonal use vehicle. A truck or van is a qualified nonpersonal use vehicle only if it has been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes. For example, a van that has only a front bench for seating, in which permanent shelving has been installed, that constantly carries merchandise or equipment, and that has been specially painted with advertising or

the company's name, is a vehicle not likely to be used more than a de minimis amount for personal purposes.

Exception for leasehold property.

The business use requirement and the limits for passenger automobiles generally do not apply to passenger automobiles leased or held by anyone regularly engaged in the business of leasing passenger automobiles.

For a detailed discussion on passenger automobiles, including leased automobiles, see Pub. 463.

Table 1 — Limits for Passenger Automobiles Placed in Service Before 2004 (excluding electric passenger automobiles placed in service after August 5, 1997)

IF you placed your automobile in service:	THEN the limit on your depreciation and section 179 expense deduction is:
June 19—Dec. 31, 1984	\$6,000
Jan. 1—Apr. 2, 1985	\$6,200
Apr. 3, 1985—Dec. 31, 1986	\$4,800
Jan. 1, 1987—Dec. 31, 1990	\$1,475
Jan. 1, 1991—Dec. 31, 1992	\$1,575
Jan. 1, 1993—Dec. 31, 1994	\$1,675
Jan. 1, 1995—Dec. 31, 2003	\$1,775

Table 2 — Limits for Passenger Automobiles Placed in Service After 2003 (excluding trucks and vans placed in service after 2002 and electric passenger automobiles placed in service before January 1, 2007)

IF you placed your automobile in service:	AND the number of tax years in which this automobile has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Jan. 1, 2004 — Dec. 31, 2005	4 or more	\$1,675
Jan. 1 — Dec. 31, 2006	3	\$2,850
	4	\$1,775
Jan. 1 — Dec. 31, 2007	2	\$4,900
	3	\$2,850
Jan. 1, 2008— Dec. 31, 2009	1	\$2,960*
	2	\$4,800

* If you take the special depreciation allowance for qualified passenger automobiles placed in service in 2008 or 2009, the limit is \$10,960.

Table 3—Limits for Trucks and Vans Placed in Service After 2002

IF you placed your truck or van in service:	AND the number of tax years in which this truck or van has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Jan. 1 — Dec. 31, 2003	4 or more	\$1,975
Jan. 1, 2004 — Dec. 31, 2005	4 or more	\$1,875
Jan. 1 — Dec. 31, 2006	3	\$3,150
	4	\$1,875
Jan. 1 — Dec. 31, 2007	2	\$5,200
	3	\$3,050
Jan. 1 — Dec. 31, 2008	1	\$3,160 ¹
	2	\$5,100
Jan. 1 — Dec. 31, 2009	1	\$3,060 ²
	2	\$4,900

¹ If you take the special depreciation allowance for qualified trucks and vans placed in service in 2008, the limit is \$11,160.
² If you take the special depreciation allowance for qualified trucks and vans placed in service in 2009, the limit is \$11,060.

Table 4—Limits for Electric Passenger Automobiles Placed in Service After August 5, 1997, and Before January 1, 2007

IF you placed your electric automobile in service:	AND the number of tax years in which this automobile has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Aug. 6, 1997 — Dec. 31, 1998	4 or more	\$5,425
Jan. 1, 1999 — Dec. 31, 2002	4 or more	\$5,325
Jan. 1 — Dec. 31, 2003	4 or more	\$5,225
Jan. 1, 2004 — Dec. 31, 2005	4 or more	\$5,125
Jan. 1 — Dec. 31, 2006	3	\$8,650
	4	\$5,225

Column (i) — Elected section 179 cost. Enter the amount you elect to expense for section 179 property used more than 50% in a qualified business use (subject to the limits for passenger automobiles). Refer to the instructions for Part I to determine if the property qualifies under section 179.

You cannot elect to expense more than \$25,000 of the cost of any sport utility vehicle (SUV) and certain other vehicles placed in service during the tax year. This rule applies to any 4-wheeled vehicle primarily designed or used to carry

passengers over public streets, roads, or highways, that is rated at more than 6,000 pounds gross vehicle weight and not more than 14,000 pounds gross vehicle weight. However, the \$25,000 limit does not apply to any vehicle:

- Designed to seat more than nine persons behind the driver's seat,
- Equipped with a cargo area (either open or enclosed by a cap) of at least six feet in interior length that is not readily accessible directly from the passenger compartment, or
- That has an integral enclosure fully enclosing the driver compartment and load carrying device, does not have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

Recapture of section 179 expense deduction. If you used listed property more than 50% in a qualified business use in the year you placed the property in service and used it 50% or less in a later year, you may have to recapture in the later year part of the section 179 expense deduction. Use Form 4797 to figure the recapture amount.

Section B

Except as noted below, you must complete lines 30 through 36 for each vehicle identified in Section A. Employees must provide their employers with the information requested on lines 30 through 36 for each automobile or vehicle provided for their use.

Exception. Employers are not required to complete lines 30 through 36 for vehicles used by employees who are not more than 5% owners or related persons and for which the question on line 37, 38, 39, 40, or 41 is answered "Yes."

Section C

Employers providing vehicles to their employees satisfy the employer's substantiation requirements under section 274(d) by maintaining a written policy statement that:

- Prohibits personal use including commuting or
- Prohibits personal use except for commuting.

An employee does not need to keep a separate set of records for any vehicle that satisfies these written policy statement rules.

For both written policy statements, there must be evidence that would enable the IRS to determine whether use of the vehicle meets the conditions stated below.

Line 37

A policy statement that prohibits personal use (including commuting) must meet all of the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business.
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere (e.g., for

maintenance or because of a mechanical failure).

- No employee using the vehicle lives at the employer's business premises.
- No employee may use the vehicle for personal purposes, other than de minimis personal use (e.g., a stop for lunch between two business deliveries).
- Except for de minimis use, the employer reasonably believes that no employee uses the vehicle for any personal purpose.

Line 38

A policy statement that prohibits personal use (except for commuting) is not available if the commuting employee is an officer, director, or 1% or more owner. This policy must meet all of the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business, and it is used in the employer's trade or business.
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle.
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (e.g., a stop for a personal errand between a business delivery and the employee's home).
- Except for de minimis use, the employer reasonably believes that the employee does not use the vehicle for any personal purpose other than commuting.
- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

Line 40

An employer that provides more than five vehicles to its employees who are not 5% owners or related persons need not complete Section B for such vehicles. Instead, the employer must obtain the information from its employees and retain the information received.

Line 41

An automobile meets the requirements for qualified demonstration use if the employer maintains a written policy statement that:

- Prohibits its use by individuals other than full-time automobile salespersons,
- Prohibits its use for personal vacation trips,
- Prohibits storage of personal possessions in the automobile, and
- Limits the total mileage outside the salesperson's normal working hours.

Part VI. Amortization

Each year you can deduct part of certain capital costs over a fixed period.



If you amortize property, the part you amortize does not qualify for the section 179 expense deduction or for depreciation.

Attach any information the Code and regulations may require to make a valid election. See the applicable Code section, regulations, and Pub. 535 for more information.

Line 42


Complete line 42 only for those costs you amortize for which the amortization period begins during your tax year beginning in 2008.

Column (a) — Description of costs.

Describe the costs you are amortizing. You can amortize the following.

Geological and geophysical expenditures (section 167(h)). You must amortize geological and geophysical expenses paid or incurred in connection with the exploration or development of oil and gas within the U.S. ratably over a 24-month period. For major integrated oil company (as defined in section 167(h)(5)), the costs paid or incurred after May 17, 2006, and before December 20, 2007, must be amortized ratably over a 5-year period (a 7-year period for costs paid or incurred after December 19, 2007), beginning on the mid-point of the tax year in which the expenses were paid or incurred. See section 167(h).

Pollution control facilities (section 169). You can elect to amortize the cost of a certified pollution control facility over a 60-month period (84 months for certain atmospheric pollution control facilities placed in service after April 11, 2005). See section 169 and the related regulations for details and information required in making the election. See Pub. 535 for more information.

 You can deduct a special depreciation allowance on a certified pollution control facility that is qualified property. However, you must reduce the amount on which you figure your amortization deduction by any special depreciation allowance allowed or allowable, whichever is greater.

Also, a corporation must reduce its amortizable basis of a pollution control facility by 20% before figuring the amortization deduction.

Certain bond premiums (section 171).

For individuals reporting amortization of bond premium for bonds acquired before October 23, 1986, do not report the deduction here. See the instructions for Schedule A (Form 1040), line 28.

For taxpayers (other than corporations) claiming a deduction for amortization of bond premium for bonds acquired after October 22, 1986, but before January 1, 1988, the deduction is treated as interest expense and is subject to the investment interest limitations. Use Form 4952, Investment Interest Expense Deduction, to compute the allowable deduction.

For taxable bonds acquired after 1987, you can elect to amortize the bond premium over the life of the bond. See section 171 and Regulations section 1.171-4 for more

information. Individuals, also see Pub. 550, Investment Income and Expenses.

Research and experimental expenditures (section 174). You can elect to either amortize your research and experimental costs, deduct them as current business expenses, or write them off over a 10-year period. If you elect to amortize these costs, deduct them in equal amounts over 60 months or more. For more information, see Pub. 535.

The cost of acquiring a lease (section 178). Amortize these costs over the term of the lease. For more information, see Pub. 535.

Qualified forestation and reforestation costs (section 194). You can elect to deduct a limited amount of qualifying reforestation costs paid or incurred during the tax year for each qualified timber property. You can elect to amortize the qualifying costs that are not deducted currently over an 84-month period. There is no limit on the amount of your amortization deduction for reforestation costs paid or incurred during the tax year.

If you are otherwise required to file Form T (Timber), Forest Activities Schedule, you can make the election to amortize qualifying reforestation costs by completing Part IV of the form. See the instructions for Form T for more information.

See Pub. 535 for more information on amortizing reforestation costs. Partnerships and S corporations, also see the instructions for line 44.

Qualified revitalization expenditures (section 1400I). These amounts are certain capital expenditures that relate to a qualified revitalization building located in an area designated as a renewal community. The amount of qualified revitalization expenditures cannot exceed the commercial revitalization expenditure amount allocated to the qualified revitalization building by the commercial revitalization agency for the state in which the building is located.

You can elect to either: (a) deduct one-half of the expenditures for the year the building is placed in service; or (b) amortize all such expenditures ratably over the 120-month period beginning with the month the building is placed in service. Report any deductions on the applicable "Other Deductions" or "Other Expenses" line of your return. This deduction is treated as depreciation for purposes of basis adjustments and ordinary income recapture upon disposition.

Optional write-off of certain tax preferences over the period specified in section 59(e). You can elect to amortize certain tax preference items over an optional period. If you make this election, there is no AMT adjustment for these expenditures. The applicable expenditures and the optional recovery periods are as follows:

- Circulation expenditures (section 173) — 3 years,


- Intangible drilling and development costs (section 263(c)) — 60 months, and
- Research and experimental expenditures (section 174(a)), mining exploration and development costs (sections 616(a) and 617(a)) — 10 years.

For information on making the election, see Regulations section 1.59-1. Also see Pub. 535.

Certain section 197 intangibles. The following costs must be amortized over 15 years (180 months) starting with the later of (a) the month the intangibles were acquired or (b) the month the trade or business or activity engaged in for the production of income begins:

- Goodwill;
- Going concern value;
- Workforce in place;
- Business books and records, operating systems, or any other information base;
- A patent, copyright, formula, process, design, pattern, know-how, format, or similar item;
- A customer-based intangible (e.g., composition of market or market share);
- A supplier-based intangible;
- A license, permit, or other right granted by a governmental unit;
- A covenant not to compete entered into in connection with the acquisition of a business; and
- A franchise, trademark, or trade name (including renewals).

A longer period may apply to section 197 intangibles leased under a lease agreement entered into after March 12, 2004, to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership). See section 197(f)(10).

 A section 197 intangible is treated as depreciable property used in your trade or business. When you dispose of a section 197 intangible, any gain on the disposition, up to the amount of allowable amortization, is recaptured as ordinary income. If multiple section 197 intangibles are disposed of in a single transaction or a series of related transactions, calculate the recapture as if all of the section 197 intangibles were a single asset. This rule does not apply to section 197 intangibles disposed of for which the fair market value exceeds the adjusted basis.

For more details on section 197 intangibles, see Pub. 535.

Start-up and organizational costs.

You can elect to amortize the following costs for setting up your business.

- Business start-up costs (section 195).
- Organizational costs for a corporation (section 248).
- Organizational costs for a partnership (section 709).

For business start-up and organizational costs paid or incurred after September 8, 2008, you can deduct a limited amount of start-up or organizational costs for the year that your business begins. You are not required to attach a statement to make this election. Once made, the election is

irrevocable. Any cost not deducted currently must be amortized ratably over a 180-month period. The amortization period starts with the month you begin business operations. See Temporary Regulations sections 1.195-1T and 1.248-1T.

For business start-up and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, you can elect to deduct a limited amount of start-up and organizational costs. If the election is made, you must attach any statement required by Regulations sections 1.195-1(b) and 1.248-1(c). Any costs not deducted currently can be amortized ratably over a 180-month period, beginning with the month you begin business.

Note. You can apply the provisions of Temporary Regulations sections 1.195-1T and 1.248-1T to all expenses paid or incurred after October 22, 2004, provided the period of limitations on assessment has not expired for the year of the election. Otherwise, the provisions under Regulations sections 1.195-1(b) and 1.248-1(c) will apply.

For business start-up and organizational costs paid or incurred before October 23, 2004, you can elect an amortization period of 60 months or more.

Attach any statements required by the appropriate section and related regulations to Form 4562 by the due date, including extensions, of your return for the year in which the active trade or business begins. If you have both start-up and organizational costs, attach a separate statement for each type of cost. If you timely filed your return without making the election, you can still make the election on an amended return filed within 6 months of the due date, excluding extensions, of the return. Write "Filed pursuant to section 301.9100-2" on the amended return. See Pub. 535 for more details.

Creative property costs. These are costs paid or incurred to acquire and develop screenplays, scripts, story outlines, motion picture production rights to books and plays, and other similar properties for purposes of potential future film

development, production, and exploitation. You may be able to amortize creative property costs for properties not set for production within 3 years of the first capitalized transaction. These costs are amortized ratably over a 15-year period under the rules of Rev. Proc. 2004-36, 2004-24 I.R.B. 1063.

Column (b) — Date amortization begins. Enter the date the amortization period begins under the applicable Code section.

Column (c) — Amortizable amount. Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d) — Code section. Enter the Code section under which you amortize the costs. For examples, see the Code sections referenced in the instructions for line 42, column (a), above.

Column (f) — Amortization for this year. Compute the amortization deduction by:

1. Dividing the amount in column (c) by the number of months over which the costs are to be amortized and multiplying the result by the number of months in the amortization period included in your tax year beginning in 2008 or
2. Multiplying the amount in column (c) by the percentage in column (e).

Line 43

If you are reporting the amortization of costs that began before your 2008 tax year and you are not required to file Form 4562 for any other reason, do not file Form 4562. Report the amortization directly on the "Other Deductions" or "Other Expenses" line of your return.

Line 44

Report the total amortization, including the allowable portion of forestation or reforestation amortization, on the applicable "Other Deductions" or "Other Expenses" line of your return. For more details, including limitations that apply, see Pub. 535. Partnerships (other than electing large partnerships) and S corporations, report the amortizable basis of any forestation or

reforestation expenses for which amortization is elected and the year in which the amortization begins as a separately stated item on Schedules K and K-1 (Form 1065 or 1120S). See the instructions for Schedule K (Form 1065 or 1120S) for more details on how to report.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping, 38 hr., 29 min.;

Learning about the law or the form, 4 hr., 16 min.;

Preparing and sending the form to the IRS, 5 hr., 5 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

Table A—General Depreciation System

Method: 200% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:			
	3 years	5 years	7 years	10 years
1	33.33%	20.00%	14.29%	10.00%
2	44.45%	32.00%	24.49%	18.00%
3	14.81%	19.20%	17.49%	14.40%
4	7.41%	11.52%	12.49%	11.52%
5		11.52%	8.93%	9.22%
6		5.76%	8.92%	7.37%
7			8.93%	6.55%
8			4.46%	6.55%
9				6.56%
10				6.55%
11				3.28%

Table B—General and Alternative Depreciation System

Method: 150% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:					
	5 years	7 years	10 years	12 years	15 years	20 years
1	15.00%	10.71%	7.50%	6.25%	5.00%	3.750%
2	25.50%	19.13%	13.88%	11.72%	9.50%	7.219%
3	17.85%	15.03%	11.79%	10.25%	8.55%	6.677%
4	16.66%	12.25%	10.02%	8.97%	7.70%	6.177%
5	16.66%	12.25%	8.74%	7.85%	6.93%	5.713%
6	8.33%	12.25%	8.74%	7.33%	6.23%	5.285%
7		12.25%	8.74%	7.33%	5.90%	4.888%
8		6.13%	8.74%	7.33%	5.90%	4.522%
9			8.74%	7.33%	5.91%	4.462%
10			8.74%	7.33%	5.90%	4.461%
11			4.37%	7.32%	5.91%	4.462%
12				7.33%	5.90%	4.461%
13				3.66%	5.91%	4.462%
14					5.90%	4.461%
15					5.91%	4.462%
16					2.95%	4.461%
17						4.462%
18						4.461%
19						4.462%
20						4.461%
21						4.462%

Table C—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 27.5 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2-9	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
10,12,14,16,18,20, 22	3.637%	3.637%	3.637%	3.637%	3.637%	3.637%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
11,13,15,17,19,21, 23	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.637%	3.637%	3.637%	3.637%	3.637%	3.637%

Table D—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 31.5 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
13,15,17,19,21, 23, 25	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%
14,16,18, 20,22, 24, 26	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%

Table E—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 39 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
2-39	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%

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