

DEPRECIATION FOLLOWING CHANGES IN USE

The amendment to the Regulations under Section 168 deals with how MACRS property is depreciated when the taxpayer changes its use without disposing of it. This amendment does not change the treatment of “listed property” such as automobiles and computers under Section 280F, including situations requiring that “excess depreciation” is included in income when listed property is converted to personal use. The amendment can produce complicated calculations, particularly when the change of use results in a different recovery period. The amendment addresses several types of changes:

Personal to Business Use

Property converted to business or income-producing use is treated as placed in service by taxpayer on the date of conversion.

Business to Personal Use

Business or income-producing property converted to personal use is treated as a disposition of the property. The taxpayer will not recognize gain or loss (including depreciation recapture) on conversion. Taxpayer will recognize gain or loss when the property is sold or transferred. The taxpayer only receives depreciation for the portion of the year the property was used for business or income-producing activity.

Change in Business Use that Affects Recovery Period

If the property will have a shorter recovery period (faster depreciation) after the change, the taxpayer can elect to continue to use the same method, or treat the remaining adjusted basis as placed in service as of the beginning of the taxable year the change occurs. If the property would have a longer recovery period, starting in the year the use changes, depreciation is determined as if the property was originally placed in service with the longer recovery period. The “re-placing” in service of the asset does not qualify for bonus depreciation or Section 179 expensing.