MACRS Conventions

Convention	Eligible Property
Mid-Month	Nonresidential real property. Residential rental property. Railroad grading or tunnel bore.
Mid-Quarter	All property placed in service during a tax year in which more than 40% of total depreciable basis was placed in service during the last three months of the tax year. When determining total depreciable basis for this purpose: • Do not reduce the total depreciable basis of property by the amount of any special depreciation allowance. • Do not include mid-month property, property placed into service and disposed of in the same year, non-MACRS property, or property expensed under Section 179.
Half-Year	Required for all property unless the mid-month or mid-quarter conventions apply.

Conventions establish the point in the tax year when MACRS property is considered to be placed in service or disposed of for the purpose of computing depreciation. Use of conventions is mandatory.

Year placed in service. All depreciable property is considered to be placed in service on the midpoint of the month, quarter, or year, regardless of the actual date it is placed in service during the year.

Convention	Allowable Depreciation in Year Placed in Service
Mid-Month	Multiply full-year depreciation amount by the fraction with numerator equal to the number of months the property was in service and denominator equal to 12. *Note:* The numerator will include a half-month.
Mid-Quarter	Multiply full-year depreciation by the following percentages, depending on quarter placed in service. 1st Quarter....................... 87.5% (= 3.5 ÷ 4) 2nd Quarter...................... 62.5% (= 2.5 ÷ 4) 3rd Quarter .... 37.5% (= 1.5 ÷ 4) 4th Quarter....................... 12.5% (= 0.5 ÷ 4)
Half-Year	Multiply full-year depreciation by 50%.

Year of disposition. All dispositions of depreciable property are considered to have occurred on the midpoint of the month, quarter, or year, regardless of the actual date of disposition during the year.

Convention	Allowable Depreciation in Year of Disposition
Mid-Month	Multiply full-year depreciation amount by the fraction with numerator equal to the number of months the property was in service and denominator equal to 12. *Note:* The numerator will include a half-month.
Mid-Quarter	Multiply full-year depreciation by the following percentages, depending on the quarter of disposition. 1st Quarter........................ 12.5% (= 0.5 ÷ 4) 2nd Quarter....................... 37.5% (= 1.5 ÷ 4) 3rd Quarter .... 62.5% (= 2.5 ÷ 4) 4th Quarter........................ 87.5% (= 3.5 ÷ 4)
Half-Year	Multiply full-year depreciation by 50%.

Example: On June 29, 2011, Steve purchased nonresidential real estate for $200,000 and depreciated the property over 39 years. A full year of depreciation would be $5,128. His depreciation deduction for 2011 was $2,778 ($5,128 × 6.5 ÷ 12). Steve sold the property on March 2, 2014. Steve's depreciation for 2014 is $1,068 ($5,128 × 2.5 ÷ 12).

Did You Know? Mid-quarter and half-year conventions are determined with respect to a fiscal year, as well as a calendar year. For example, if the tax year begins on May 1 and ends on April 30, the mid-quarter dates are June 15, September 15, December 15, and March 15, and the mid-year date is October 31. See *Accounting Periods and Methods,* Tab 8.

Short Tax Year Depreciation

Cross References

- Form 1128, *Application to Adopt, Change, or Retain a Tax Year*
- IRS Pub. 538, *Accounting Periods and Methods*
- IRS Pub. 946, *How to Depreciate Property*
- Rev. Proc. 89-15

Related Topics

- Accounting Periods and Methods, Tab 8
- Depreciation Worksheet, Tab 24, *Deluxe Edition/Small Business Edition*

Short Tax Year

A short tax year is any tax year with less than 12 full months. A short tax year can occur in the first or last year of a partnership, corporation, or estate's existence, or when a taxpayer changes from a fiscal year to a calendar year or vice versa. The MACRS percentage tables cannot be used with a short tax year.

Planning Tip: The Section 179 deduction is not limited by short year depreciation rules. Short year depreciation may be avoided by claiming a Section 179 deduction on property placed in service in a short tax year.

Also see *MACRS Short-Year Depreciation—Short Cut Percentage Method* chart, page 9-22.

Short Tax Year Conventions

Mid-month convention. Under the mid-month convention, property is always treated as placed in service or disposed of on the midpoint of the month it is placed in service or disposed of. This rule is applied regardless of whether a short tax year exists.

Half-year convention. Under the half-year convention, the midpoint of the short tax year is determined by dividing the number of months in the tax year by 2. A short tax year may begin or end with a partial month. Use these rules for counting months and determining midpoints.

- If the short tax year begins on the first day of a month or ends on the last day of a month, treat the partial month as a full month for determining the midpoint. The midpoint of the short year will be the first day or midpoint of a month.
- If the short tax year does not begin on the first day of a month and does not end on the last day of a month, determine the midpoint by dividing the number of days in the tax year by 2. If the result is not the first day or midpoint of a month, treat property as placed in service or disposed of on the nearest preceding midpoint or first day of the month.

Using these rules, property subject to the half-year convention in a short tax year is always treated as being placed in service or disposed of on the first day or midpoint of a month.

Example: Patches Company was incorporated on March 15, 2014, and is a calendar year taxpayer. Since the short tax year ends on the last day of a month (December 31, 2014), the partial month of March is treated as a full month. Therefore, for purposes of computing short-year depreciation, the short tax year is considered to begin on March 1 and is a 10-month tax year ending on December 31.

Patches Company purchases a depreciable asset that falls under the half-year convention. The company treats the asset as being placed in service on the first day of the sixth month of the tax year, or on August 1, 2014.

Mid-quarter convention. In general, property falls under the mid-quarter convention if more than 40% of the depreciable basis of all property placed in service was placed in service during the last three months of the tax year, regardless of the length of the tax year. For example, all depreciable property placed in service during a short tax year of three months or less is subject to the mid-quarter convention. Use these rules to divide the short tax year into quarters and determine midpoints.

- If the short year consists of four or eight full calendar months, then the quarters consist of one month or two full months, respectively. The midpoint of each quarter in the short year is either the midpoint of a month or the first day of a month.
- For any other short tax year, divide the number of days in the short year by 4 to establish the quarters. Divide the number of days in each quarter by 2. If the result is not the first day or midpoint of a month, treat property as placed in service or disposed of on the nearest preceding midpoint or first day of the month.

Using these rules, property subject to the mid-quarter convention in a short tax year is always treated as being placed in service or disposed of on the first day or midpoint of a month.

Example: Britches Company has a short tax year that extends from September 10 to December 31. There are 112 days in Britches Company's short tax year, which computes to four quarters of 28 days each. The midpoint of each quarter falls 14 days after the start of the quarter. Since the first quarter of the short tax year began on September 10, the midpoint of the first quarter is September 24. Since the midpoint does not fall on the first day or midpoint of a month, property placed in service in the first quarter will be considered to have been placed in service on September 15, the nearest preceding midpoint of the month.

Computing Depreciation in a Short Tax Year

Section 179. Even in a short tax year, the full amount of the Section 179 expense is allowed, subject to normal limits.

Property placed in service in a short tax year. MACRS percentage tables cannot be used to compute short-year depreciation. Use the following procedure instead.

1) Determine the short tax year convention for the property and the number of months the property is treated as being in service. This is the midpoint.
2) Calculate full year depreciation by multiplying the depreciable basis by the applicable depreciation rate.
3) Multiply the full year depreciation by a fraction. The numerator is the number of months (including parts of a month) from step 1. The denominator is 12.

The same results may be obtained by using *MACRS Short-Year Depreciation—Short Cut Percentage Method,* page 9-22.

Short-Year Depreciation Formulas (First Year)

$$\text{Depreciable Basis} \times \frac{1}{\text{Recovery period}} \times \begin{matrix}200\%\ (200DB) \\ \text{or} \\ 150\%\ (150DB) \\ \text{or} \\ 100\%\ (S/L)\end{matrix} \times \frac{\text{Midpoint}}{12} = \text{Depreciation}$$

Example #1: Whisper Company has a short tax year beginning on March 15, 2014, and ending on December 31, 2014. On March 16, the company purchased a depreciable asset with a 5-year recovery period for $1,000. No other assets were placed in service during the short tax year; therefore, the asset falls under the half-year convention. The midpoint of the short tax year is August 1. The midpoint of the short tax year will allow five months of depreciation for the year (see Example under *Half-year convention,* page 9-5, for how to determine the midpoint). Whisper Company did not claim the Section 179 deduction for the asset and uses the 200DB depreciation method.

Using the formula shown above, the first-year depreciation computation is as follows:

$1,000 basis × $\frac{1}{5}$ × 200% × $\frac{5}{12}$ = $167 first-year depreciation

Depreciation after a short tax year. MACRS percentage tables cannot be used to compute full-year depreciation for property previously placed in service during a short tax year. Use the following procedure instead.

- For 12-month tax years occurring after an initial short tax year, multiply the adjusted basis of the property at the beginning of each tax year by the applicable depreciation rate. If using 200DB or 150DB, switch to SL in the year the SL method yields a higher deduction.
- For a short tax year occurring after an initial short tax year, multiply the adjusted basis of the property at the beginning of the tax year by the applicable depreciation rate and then by a fraction. The numerator of the fraction is the number of months in the short tax year the property is considered to be in service based on the applicable convention, and the denominator is 12.

The same results may be obtained by using *MACRS Short-Year Depreciation—Short Cut Percentage Method,* page 9-22.

Example #2: Assume the same facts as Example #1, previous column. Depreciation for all years is calculated as follows.

2014	$1,000	basis × $\frac{1}{5}$ × 200% × $\frac{5}{12}$	=	$167
2015	$ 833	basis × $\frac{1}{5}$ × 200%	=	$333
2016	$ 500	basis × $\frac{1}{5}$ × 200%	=	$200
2017	$ 300	basis × $\frac{1}{5}$ × 200%	=	$120

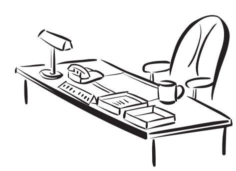
In 2018, the SL method produces a higher depreciation allowance than the 200DB method.

2018	$ 180	basis ÷ (19 mos. ÷ 12 mos.)	=	$114
2019	$ 66	remaining basis recovered	=	$ 66

Section 179 Expense

Cross References

- Form 4562, *Depreciation and Amortization*
- IRS Pub. 946, *How to Depreciate Property*
- IRC §179, *Election to Expense Certain Depreciable Business Assets*



Related Topics

- Depreciation Recapture, page 6-13
- S Corporations, Separately Stated Items, Tab 19, *Deluxe Edition/Small Business Edition*
- Partnerships, Separately Stated Items, Tab 20, *Deluxe Edition/Small Business Edition*

Limits for Tax Years Beginning in 2014

Section 179 limits. In prior years the Section 179 limit was as high as $500,000. The increased limit ~~expired for tax years beginning after 2013. As of the date of pri~~ has been extended through 2014. ~~yet been extended. See Tab 1, *What's New*, for any late-breaking news.~~

- Maximum Section 179 expense: ~~$25,000.~~ $500,000
- Maximum Section 179 expense for SUVs: $25,000. See *Sport utility vehicles,* page 10-6.
- Investment limit: ~~$200,000.~~ $2,000,000