State Conformity to Federal Special Depreciation and Section 179 Expense Deduction

(as of 12/31/16)

The following table reflects the conformity of the various states, to these two federal provisions, as of December 31, 2016.
Refer to each state's department of revenue website for additional information and for any new changes in state law.

	Personal Income Tax		Corporate Income Tax	
State	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during 2016.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • $2,010,000 investment limit. • Applies to certain real property* and off-the-shelf computer software.	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during 2016.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • $2,010,000 investment limit. • Applies to certain real property* and off-the-shelf computer software.
Alabama	Yes	Yes	Yes	Yes
Alaska	No personal income tax.	No personal income tax.	Yes. Except for oil and gas companies who are not eligible for special depreciation.	Yes. Except for oil and gas companies who are not eligible Section 179 expense.
Arizona	No. Allows special depreciation of 55% of the federal amount. The remaining federal bonus depreciation is added to basis and deducted using the regular federal depreciation method.	Yes	No. Allows special depreciation of 55% of the federal amount. The remaining federal bonus depreciation is added to basis and deducted using the regular federal depreciation method.	Yes
Arkansas	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.
California	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit. Does not include real property and off-the-shelf computer software.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit. Does not include real property and off-the-shelf computer software.
Colorado	Yes	Yes	Yes	Yes
Connecticut	Yes	Yes	No	Yes
Delaware	Yes	Yes	Yes	Yes
District of Columbia	No	No. Allows Section 179 expense up to $25,000 maximum deduction **($40,000 for Qualified High Technology Company).**	No	No. Allows Section 179 expense up to $25,000 maximum deduction **($40,000 for Qualified High Technology Company).**
Florida	No personal income tax.	No personal income tax.	No. All special depreciation is added back. 1/7 of the addback amount is subtracted in the current and following six years.	**Yes. Section 179 deduction claimed after January 1, 2015, is not subject to the addback provisions (continue 1/7 of the original addback amount for Section 179 deduction in excess of $128,000 for property placed in service before January 1, 2015).**
Georgia	No	Yes. But does not allow the Section 179 deduction for certain real property.	No	Yes. But does not allow the Section 179 deduction for certain real property.
Hawaii	No	No. Allows Section 179 expense up to $25,000 maximum. Not allowed for off-the-shelf computer software.	No	No. Allows Section 179 expense up to $25,000 maximum. Not allowed for off-the-shelf computer software.
Idaho	No	Yes	No	Yes
Illinois	No	Yes	No	Yes
Indiana	No	No. Allows Section 179 expense up to $25,000 maximum deduction.	No	No. Allows Section 179 expense up to $25,000 maximum deduction.

State Conformity to Federal Special Depreciation and Section 179 Expense Deduction *(as of 12/31/16)*

The following table reflects the conformity of the various states, to these two federal provisions, as of December 31, **2016**.
Refer to each state's department of revenue website for additional information and for any new changes in state law.

	Personal Income Tax		Corporate Income Tax	
State	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during **2016**.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • **$2,010,000** investment limit. • Applies to certain real property* and off-the-shelf computer software.	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during **2016**.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • **$2,010,000** investment limit. • Applies to certain real property* and off-the-shelf computer software.
Iowa	No	**No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.** ***Note:*** **Iowa has generally conformed to federal limits, but did not adopt increased limits for 2016.**	No	**No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.** ***Note:*** **Iowa has generally conformed to federal limits, but did not adopt increased limits for 2016.**
Kansas	Yes	Yes	Yes	Yes
Kentucky	No	No. Allows Section 179 expense up to $25,000 maximum deduction **and $200,000 investment limit.**	No	No. Allows Section 179 expense up to $25,000 maximum deduction **and $200,000 investment limit.**
Louisiana	Yes	Yes	Yes	Yes
Maine	No	Yes	No	Yes
Maryland	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.
Massachusetts	No	Yes	No	Yes
Michigan	Yes	Yes	No	Yes
Minnesota	No. Must add back 80% of bonus depreciation and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 80% of Section 179 expense in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 80% of bonus depreciation and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 80% of Section 179 expense in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax years.
Mississippi	No	Yes	No	Yes
Missouri	Yes	Yes	Yes	Yes
Montana	Yes	Yes	Yes	Yes
Nebraska	Yes	Yes	Yes	Yes
Nevada	No personal income tax.	No personal income tax.	No corporate income tax.	No corporate income tax.
New Hampshire	No. Only interest and dividends taxed.	No. Only interest and dividends taxed.	No	No. Allows Section 179 expense up to $25,000 maximum deduction. **($100,000 beginning January 1, 2017)**
New Jersey	No	No. Allows Section 179 expense up to $25,000 maximum deduction.	No	No. Allows Section 179 expense up to $25,000 maximum deduction.
New Mexico	Yes	Yes	Yes	Yes
New York	No. Except for qualified Resurgence Zone Property and qualified New York Liberty Zone property.	Yes. However, the Section 179 expense deduction is not allowed for SUVs **over 6,000 pounds**, except for eligible farmers.	No. Except for qualified Resurgence Zone Property and qualified New York Liberty Zone Property.	Yes. However, the Section 179 expense deduction is not allowed for SUVs **over 6,000 pounds**, except for eligible farmers.
North Carolina	No. Must add back 85% of the amount allowed as special depreciation and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 85% of the Section 179 expense deduction in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 85% of the amount allowed as special depreciation and subtract 1/5 of the addback amount in each of the next five tax years.	No. Must add back 85% of the Section 179 expense deduction in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax years.
North Dakota	Yes	Yes	Yes	Yes

State Conformity to Federal Special Depreciation and Section 179 Expense Deduction

(as of 12/31/16)

The following table reflects the conformity of the various states, to these two federal provisions, as of December 31, **2016**.
Refer to each state's department of revenue website for additional information and for any new changes in state law.

	Personal Income Tax		Corporate Income Tax	
State	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during **2016**.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • **$2,010,000** investment limit. • Applies to certain real property* and off-the-shelf computer software.	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during **2016**.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • **$2,010,000** investment limit. • Applies to certain real property* and off-the-shelf computer software.
Ohio	No. Must add back 5/6 of special depreciation claimed and subtract 1/5 of the addback amount in each of the next five years, exceptions apply.	No. Must add back 5/6 of the Section 179 expense deduction in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax, years exceptions apply.	No. Must add back 5/6 of special depreciation claimed and subtract 1/5 of the addback amount in each of the next five years, exceptions apply.	No. Must add back 5/6 of the Section 179 expense deduction in excess of $25,000 and subtract 1/5 of the addback amount in each of the next five tax years, exceptions apply.
Oklahoma	Yes	Yes	Yes	Yes
Oregon	Yes	Yes	Yes	Yes
Pennsylvania	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.	No	Yes, **for C corporations only. S corporation Section 179 expense limited to $25,000 maximum deduction and $200,000 investment limit.**
Rhode Island	No	Yes	No	Yes
South Carolina	No	Yes	No	Yes
South Dakota	No personal income tax.	No personal income tax.	No corporate income tax.	No corporate income tax.
Tennessee	No. Only interest and dividends taxed.	No. Only interest and dividends taxed.	No	Yes
Texas	No personal income tax.	No personal income tax.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.
Utah	Yes	Yes	Yes	Yes
Vermont	No	Yes	No	Yes
Virginia	No	Yes	No	Yes
Washington	No personal income tax.	No personal income tax.	No corporate income tax.	No corporate income tax.
West Virginia	Yes	Yes	Yes	Yes
Wisconsin	No	Yes	No	Yes
Wyoming	No personal income tax.	No personal income tax.	No corporate income tax.	No corporate income tax.

* Real property eligible for the Section 179 expense deduction includes qualified leasehold improvements, qualified restaurant property, and qualified retail space improvement property.

~ End ~

Quarter	*Months*
First	January, February, March
Second	April, May, June
Third	July, August, September
Fourth	October, November, December

Did You Know? For purposes of determining whether the mid-quarter convention applies, the depreciable basis of property placed in service during the tax year reflects the reduction for amounts expensed under Section 179, but does not reflect the reduction in basis for any special depreciation allowance claimed.

Half-year convention. The half-year convention is used if neither the mid-quarter or mid-month convention applies. Under the half-year convention, all property placed in service or disposed of during a tax year is treated as placed in service or disposed of at the midpoint of the year. This means that one-half year (six months) of depreciation is allowed for the year the property is placed in service or disposed of.

If the half-year convention applies, a taxpayer deducts a half-year of depreciation for the first year and the last year that the property is depreciated. The taxpayer deducts a full year of depreciation for any other year during the recovery period.

Convention and depreciation deduction amount. The timing of when an asset is placed in service matters when planning on how much a taxpayer wishes to deduct for depreciation purposes. An item of property placed in service using the half-year convention may yield a higher depreciation deduction than property placed in service during the last quarter of the year and which must use the mid-quarter convention.

Example: LEM Inc., purchases one depreciable asset during 2016, a $5,000 used machine that is five-year property under MACRS. No Section 179 election is made. If LEM places the asset in service during the first three quarters of its tax year, the first year depreciation allowance is $1,000 (200%DB using the half-year convention: $5,000 × 20%). However, if LEM places the asset in service during its 4th quarter, the depreciation deduction is reduced to $250 (200% DB using the mid-quarter convention: $5,000 × 5%) because the $5,000 machine basis is more than 40% of the total basis for the year.

MACRS Depreciation Methods

MACRS provides three depreciation methods under GDS and one depreciation method under ADS. The three MACRS depreciation methods under GDS recovery periods include the 200% declining balance method (200DB), the 150% declining balance method (150DB), and the straight-line method (SL). The MACRS depreciation method under an ADS recovery period is the straight-line method (SL).

Declining balance methods. The 200DB and 150DB methods accelerate depreciation at the beginning of the recovery period and switch to straight-line in the year SL produces a larger deduction.

Straight-line method (SL). The SL method applies the same depreciation rate each year of the recovery period, with prorating adjustments for the year the asset is placed in service and the year the asset is disposed of or depreciation is complete. This method allows a taxpayer to deduct the same amount of depreciation each year over the useful life of the property. To figure the deduction, the adjusted basis, salvage value, if any, and estimated useful life of the property are determined. The salvage value is subtracted from the adjusted basis. The balance is the total depreciation to be taken over the useful life of the property. This amount is divided by the number of years in the useful life to determine the yearly depreciation deduction.

Example: In April 2016, Frankie bought a patent for $5,100. He depreciates the patent under the straight line method, using a 17-year useful life. He divides the $5,100 basis by 17 years to get his $300 yearly depreciation deduction. He only used the patent for nine months during 2016, so he multiplies $300 by 9/12 to get his deduction of $225 for 2016. In 2017, Frankie can deduct $300 for the full year.

Comparison of MACRS Depreciation Methods

Method	Type of Property	Benefit
GDS using 200DB	• Nonfarm 3-, 5-, 7-, and 10-year property. • Method not allowed for AMT purposes.	• Provides greater deduction during earlier recovery years. • Changes to SL when SL provides an equal or greater deduction.
GDS using 150DB	• All farm property (except real property). • All 15- and 20-year property (except qualified leasehold improvement, qualified retail improvement, and qualified restaurant property). • May be elected for any property eligible for 200DB. • Must be used for AMT purposes unless SL is elected.	• Provides greater deduction during earlier recovery years. • Changes to SL when SL provides an equal or greater deduction.
GDS using SL	• Nonresidential real property. • Residential rental property. • Qualified leasehold improvement, qualified retail improvement, and qualified restaurant property placed in service after 2008 ~~and before 2015~~. • Trees or vines bearing fruit or nuts. • Water utility property. • May be elected for any property eligible for 200DB or 150DB.	• Provides equal yearly deductions (except for prorated first and last years). • Shorter recovery periods than ADS SL.
ADS using SL	• Listed property used 50% or less for business. • Imported property or property used predominantly outside the U.S. • Property used by tax-exempt organizations or financed by tax-exempt bonds. • Farm property when electing not to use UNICAP rules. • May be elected for any property.	• Provides equal yearly deductions (except for prorated first and last years). • Longer recovery periods than GDS SL.

Figuring Depreciation

Cross References

• IRS Pub. 946, *How to Depreciate Property*
• IRC §167, *Depreciation*

Related Topics

• Repairs and Improvements, page 1-6
• MACRS Depreciation Tables, Tab 4

To figure the depreciation deduction under MACRS, a taxpayer must determine the depreciation system, the property class, the placed in service date, the basis amount, the recovery period, the applicable convention, and the depreciation method that applies to the property.

Statement 1

Part II, Line 14a (see page 11-9)

The taxpayer is proposing to change the method of depreciation for business use of the building and furniture and equipment.

Part II, Line 14b (see page 11-9)

The taxpayer placed the building and furniture and equipment in service during the year ended December 31, 2013, but in error did not depreciate these items.

Part II, Line 14c (see page 11-9)

The taxpayer is requesting an automatic change under Revenue Procedure 2016-29, Section 6.01 to properly depreciate the business use of the building as nonresidential real property with a 39-year recovery period and the business use of the furniture and equipment under the 200% declining balance method with a seven-year recovery period. See Statement 3 for the calculation of the proposed IRC section 481(a) depreciation adjustment. Taxpayer is electing out of the special depreciation allowance for the property.

Part II, Line 14d (see page 11-9)

The taxpayer uses the cash method of accounting.

Statement 2

Part II, Line 15 (see page 11-9)

The taxpayer is the sole proprietor of a bait and tackle shop which has retail sales of all fishing related items. The business activity code is 451110.

Statement 3

Part IV, Line 26 (see page 11-10)

Under the taxpayer's present method of accounting for depreciation, no depreciation deductions have been claimed. Depreciation should have been correctly calculated as follows:

Regular Tax

							Depreciation Expense			
	Cost	Business Use %	Basis for Depreciation	Recovery Period	Convention	Method	2012	2013	2014	Total
Building	$200,000									
Less: Land Value	(50,000)									
	150,000	100%	$150,000	39 yrs	MM	S/L	$3,692	$3,846	$3,846	$11,384
Furniture & equipment	10,000	100%	10,000	7 yrs	HY	200% DB	1,429	2,449	1,749	5,627
									Corrected amount of depreciation	$17,011
									Depreciation actually deducted	0
									IRC section 481(a) adjustment to Schedule C, Form 1040	$17,011

Alternative Minimum Tax

							Depreciation Expense			
	Cost	Business Use %	Basis for Depreciation	Recovery Period	Convention	Method	2012	2013	2014	Total
Building	$200,000									
Less: Land Value	(50,000)									
	150,000	100%	$150,000	39 yrs	MM	S/L	$3,692	$3,846	$3,846	$11,384
Furniture & equipment	10,000	100%	10,000	10 yrs	HY	150% DB	750	1,388	1,179	3,317
									Corrected amount of AMT depreciation	$14,701
									Depreciation actually deducted	0
									Understatement of AMT depreciation	14,701
									Regular tax IRC section 481(a) adjustment	(17,011)
									AMT IRC section 481(a) adjustment to Form 6251	$ 2,310