• MACRS property with a recovery period of 20 years or less.
• Water utility property.
• Computer software that is not a Section 197 intangible asset.
• Qualified leasehold improvement property.

Original use. The original use of the property must begin with the taxpayer. This means the purchase of used property does not qualify.

Acquisition and placed in service dates. The property must have been acquired after December 31, 2007 and before January 1, 2010. Qualified property must meet all the following tests:
• There was no binding contract to acquire the property before January 1, 2008.
• If the taxpayer manufactures, constructs or produces the property for the taxpayer’s own use, the manufacturing, construction, or production must begin after December 31, 2007 and before January 1, 2009.

Exception for transportation and long life property. Certain transportation property and property with a recovery period of 10 years or more may qualify for the 50% special depreciation allowance if the property is placed in service prior to January 1, 2011. See IRC Section 168(k)(2)(B) and (C).

Section 280F auto depreciation limits. The first-year depreciation limitations for qualified vehicles placed in service during 2008, is increased by $8,000. See Vehicle Depreciation Limitations—Section 280F, page 10-1, and 2009

Alternative minimum tax. The 50% special depreciation allowance is deductible for both regular tax and AMT. If the 50% special depreciation allowance is used, there is no AMT adjustment required for any depreciation figured on the remaining basis of the property.

Elect out. Taxpayers can elect not to claim the 50% special depreciation allowance.

Nonqualifying property. Property that does not qualify for the 50% special depreciation allowance includes the following:
• Property placed in service and disposed of the same year.
• Property also qualified for the special depreciation allowance.
• Property required to be depreciated under the alternative depreciation system (ADS).
• Property included in a class of property for which the taxpayer elected not to claim the special depreciation allowance.

Form 4562-FY. A Form 4562-FY is now available for use by fiscal year taxpayers whose 2007 return includes part of calendar year 2008, thereby allowing them to take the special depreciation allowance.

Qualified Disaster Property

New Law: New tax law for 2008 sets forth provisions intended to provide relief for victims of Midwest storms, tornados, and flooding, as well as victims of Hurricane Ike. The provisions include a 50% special depreciation allowance for qualified property located in a federally-declared disaster area, increased maximum Section 179 expense from $250,000 to $350,000, and increased Section 179 investment limit from $800,000 to $1,400,000. For detailed information about the provisions, see Emergency Economic Stabilization Act of 2008, Tab 1.

Kansas Disaster Zone Property

New Law: New tax law for 2008 established an area that qualifies for special tax provisions, located in the presidentially-declared Kansas disaster area, relative to the storms and tornados that began on May 4, 2007. The provisions include a 50% special depreciation allowance for qualified property located in the Kansas Disaster Zone (KDZ), increased maximum Section 179 expense from $250,000 to $350,000, and increased Section 179 investment limit from $800,000 to $1,400,000.

For detailed information about the provisions, see Heartland, Habitat, Harvest, and Horticulture Act of 2008, Tab 1.

Gulf Opportunity Zone (GO Zone) Property

The special first-year depreciation allowance of 50% for certain nonresidential real property and residential rental property is allowed if that property is placed in service before January 1, 2011. The restriction that property manufactured, constructed or produced for the taxpayers’ own use begin the manufacture, construction or production before January 1, 2008 has been repealed. [IRC §1400N(d)(3)(B)]. See Notice 2007-36, GO Zone Bonus Depreciation Additional Guidance, for more information.

New York Liberty Zone Property

The special first-year depreciation allowance is still available for certain nonresidential real property and residential rental property placed in service by January 1, 2010. Specific information and requirements are available in IRS Pub. 946, How to Depreciate Property.

Qualified Leasehold Improvements and Restaurant Property

Qualified leasehold improvement property and qualified restaurant property are subject to straight-line depreciation over a 15-year recovery period. This provision applies to property placed in service through December 31, 2009. The provision was scheduled to expire after 2007, but was extended by the Tax Extenders and AMT Relief Act of 2008.

Qualified leasehold improvement property. Qualified leasehold improvement property includes improvements to an interior part of a building that is nonresidential real property, if all the following requirements are met:
• The improvement is made under or according to a lease by the lessee or the lessor of that part of the building.
• That part of the building is to be occupied exclusively by the lessee of that part.
• The improvement is placed in service after three years after the date the building was first placed in service by any person.
• The improvement is Section 1250 property. Section 1250 property includes all real property that is subject to depreciation and is not and never has been Section 1245 property. Section 1250 property includes residential rental property and nonresidential real property.

Qualified leasehold improvements do not include the following:
• Enlargement of the building.
• Any elevator or escalator.
• Any structural component benefiting a common area.
• The internal structural framework of the building.

Qualified restaurant property. Qualified restaurant property is subject to straight-line depreciation over a 15-year recovery period. The provision applies to property placed in service through December 31, 2009. Qualified restaurant property is any improvement to a building if the improvement is placed in service more than three years after the date the building was first placed in service, and more than 50% of the building’s square footage is devoted to the preparation of, and seating for on-premises consumption of, prepared meals.