

Depreciation: Class Life^{*}

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Introduction

Most farm business assets are depreciated using the Modified Accelerated Cost Recovery System (MACRS) for business and investment property placed in service after 1986. As the name implies, this is an accelerated system to recover the cost, meaning there will be larger depreciation deductions in earlier years and smaller ones in later years¹. There are also options to use straight line depreciation, which uses an equal amount of depreciation each year. To figure out which depreciation system to use and how an asset is depreciated, the “life” of the asset must be determined.

Class Life

According to the IRS rules, the “life” of the asset is not how long a producer plans to use it, but instead depends on its IRS asset category. There are a few options, depending on the depreciation system, so the producer needs to know both the MACRS “class” and the “asset depreciation range” (ADR) midpoint “life”. The MACRS class life depends on the “asset depreciation range” midpoint life of the property. The table below lists the relationship between the two.

Assets are placed in one of the eight MACRS classes, **regardless** of the practical or real useful life of the property in the taxpayer’s business. Following the table is a description of each of the MACRS classes including which types of assets are included in each.

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¹ There are special rules for autos and other listed property as well as other considerations. See the list of related depreciation fact sheets at the end of this fact sheet.

MACRS Class Life and ADR Midpoint Life

MACRS Class	ADR Midpoint Life
3 year	4 years or less
5 year	More than 4 years but less than 10
7 year	10 years or more but less than 16
10 year	16 years or more but less than 20
15 year	20 years or more but less than 25
20 year	25 years or more other than I.R.C. §1250 property with an ADR life of 27½ years or more
27½ year	Residential rental property
39 year (31½ if acquired before 5/13/93)	Nonresidential real property

3 Year Property

- Tangible business property with an ADR class life of 4 years or less is 3 year property. This includes “over-the-road” tractors (called tractor trailer trucks) and hogs held for breeding purposes. It does not include cattle, goats, or sheep held for dairy or breeding purposes because the ADR class life of these animals is greater than 4 years.
- Tangible business property is considered 3 year property if it is used in connection with research and experimentation. (Very few farmers will have this type of property in connection with farming.)
- Race horses more than 2 years old when placed in service and all other horses more than 12 years old when placed in service are considered 3 year property. (Race horses aged 2 years or less if placed in service before January 1, 2009, or after December 31, 2013, are 7 year property.)

5 Year Property

- All purchased dairy and breeding livestock (except hogs and horses included in the 3 or 7 year classes, respectively)
- Automobiles, light trucks (under 13,000 lbs unladen), and heavy-duty trucks (not tractor trailer trucks)
- Computers and peripheral equipment, typewriters, copiers, and adding machines
- Logging machinery and equipment
- New (meaning “brand NEW”) farm machinery and equipment (for 2009 ONLY)

7 Year Property

- All farm machinery and equipment (Except NEW farm machinery and equipment in 2009 ONLY – see 5 year property above)
- Silos, grain storage bins, fences, and paved barnyards
- Breeding horses or workhorses (12 years old or younger)
- Race horses under 2 years of age placed in service before January 1, 2009, or after December 31, 2013
- Office furniture
- Anaerobic (methane) digesters

10-Year Property

- Single-purpose livestock and horticultural structures (7 year property if placed in service before 1989)
- Orchards, groves and vineyards (15 year property if placed in service before 1989)

15-Year Property

- Depreciable land improvements, such as sidewalks, roads, bridges, water wells, drainage facilities, and fences other than farm fences, which are in the 7 year class (does not include land improvements that are explicitly included in any other class, or buildings or structural components)
- Orchards, groves, and vineyards when they reach the production stage if they were placed in service before 1989

MACRS Classes 20 Years and Higher

- Twenty-year property includes farm buildings such as general-purpose barns, machine sheds, and many storage buildings.
- Property that is 27½ year includes residential rental property that is rented out. (Property that is used for employees and not rented to them is 20 year property.)
- Property that is 39 year (31½ if acquired before May 13, 1993) includes nonresidential real property.

Examples of the types of farm assets included in each MACRS class are presented in the table below.

MACRS consists of two depreciation systems: the General Depreciation System (GDS) and the Alternative Depreciation System (ADS). Generally, these systems provide different methods and recovery periods to use in figuring depreciation deductions. Farmers and ranchers are required to use 150% Declining Balance depreciation methods. Generally we use the GDS rather than the ADS option for agriculture operations with 150% Declining Balance rates. The 150% Declining balance has smaller amounts of depreciation each year and more years the asset is depreciated over than the 200% Declining Balance rates. Since GDS is the general MACRS system, sometimes this system is referred to as MACRS and ADS is referred to as MACRS ADS.

MACRS, and MACRS ADS Recovery Periods for Common Farm Assets

Asset	MACRS	ADS
Airplane	5	6
Auto (farm share)	5	5
Calculators, copiers, and typewriters	5	6
Cattle (dairy or breeding)	5	7
Communication equipment	7	10
Computer and peripheral equipment	5	5
Farm buildings (general-purpose)	20	25
Farm equipment and machinery	7 ^a	10
Fences (agricultural)	7	10
Goats (breeding or milk)	5	5
Grain bin	7	10
Greenhouse (single-purpose structure)	10 ^b	15
Hogs (breeding)	3	3
Horses (nonrace, younger than 12 years of age)	7	10
Horses (nonrace, 12 years of age or older)	3	10
Logging equipment	5	6
Machinery (farm)	7 ^a	10
Methane (Anaerobic) Digester	7	10
Office equipment (other than calculators, copiers, or typewriters) & furniture	7	10
Orchards	10 ^c	20
Paved lots	15	20
Property with no class life	7	12
Rental property (nonresidential real estate)	39 ^d	40
Rental property (residential)	27½	40
Research property	5	12 ^e
Sheep (breeding)	5	5
Single-purpose livestock structure (housing, feeding, storage, and milking facilities)	10 ^b	15
Single-purpose horticultural structure	10 ^b	15
Solar property	5	12 ^e
Storage (apple, onion, potato)	20	25
Tile (drainage)	15	20
Tractor units for use over the road	3	4
Trailer for use over the road	5	6
Truck (heavy-duty, general-purpose)	5	6
Truck (light, less than 13,000 lbs)	5	5
Vineyard	10 ^c	20
Water well	15	20
Wind-energy property	5	12 ^e

^aIf new equipment placed in service after 2008 and before 2011, recovery period is 5 years. ADS life continues at 10 years.

^bIf placed in service before 1989, recovery period is 7 years.

^cIf placed in service before 1989, recovery period is 15 years.

^dIf placed in service before May 13, 1993, recovery period is 31½ years.

^eNo class life specified; therefore, 12 year life assigned.

IRS Publications

To access IRS Publications go to www.irs.gov and click on “Forms and Publications”. Then click on “Publication number” under “Download forms and publications by:”. Type the publication number in the find box to search for the publication. Publication may be viewed online by double clicking on the publication or downloaded.

IRS Publication 946: How to Depreciate Property. This publication specifically covers depreciation with great detail.

IRS Publication 225, Farmer’s Tax Guide. This publication addresses many of the issues for depreciation including separate sections for: Depreciation, Chapter 7; Basis of Assets, Chapter 6; and Dispositions of Property Used in Farming, Chapter 9.

Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

Fact sheets that might be of particular interest include:

- Depreciation: An Introduction
- Depreciation: Cost Recovery Methods and Options
- Depreciation: Special Rules on Pickups, SUVs, Other Autos and Listed Property
- Depreciation: Election to Expense Qualifying Assets (Section 179 Deduction)
- Depreciation: Bonus or Additional First-Year Depreciation (AFYD)
- Depreciation: Other Topics
- Depreciation: Alternative Minimum Tax Considerations
- Depreciating Your Home Office

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