

Form 4562 Depreciation and Amortization

Mr. Rosso follows the instructions and lists the information called for in Parts I through IV. He also completes Part V on page 2 to provide information on listed property used in his farming business. The two vehicles used in his business are listed property. The truck, sold in July and shown on Form 4797, was placed in service in 2001 and fully depreciated in 2006, therefore no depreciation is allowed for 2011.

Depreciation record. He records information on his depreciable property in a book that he can use to figure his depreciation allowance for several years. The Depreciation Worksheet he uses is an expanded version of the depreciation worksheet included with Form 4562 instructions.

Basis for depreciation. He bought his farm on January 8, 1988. Timber on the farm was immature and had no fair market value (FMV). He immediately allocated the total purchase price of the farm among the land, house, barn, and silo (no other capital improvements were included in the price of the farm). He made the allocation on the purchase date in proportion to (but not in excess of) the FMVs of the assets and in the required asset order.

He entered on his depreciation record the part of the purchase price for the depreciable barn and silo, giving him the basis for figuring his depreciation allowance. The barn and silo were fully depreciated in 2010. He cannot depreciate the house (because there is no separate office in the home) and land, he keeps a separate record showing their bases (for use in the future).

Methods of depreciation. He chose the Modified Accelerated Cost Recovery System (MACRS) using 150% declining balance and the applicable half-year convention for all assets.

Depreciable property. One of his purchased dairy cows (#42) was killed by lightning in July 2011. Another purchased cow (#60) and a bull were sold in 2011. The cows and bull were depreciated under MACRS, using a half-year convention. Therefore, he claims a half-year's depreciation for each item disposed of in 2011.

He cannot claim depreciation on other breeding and dairy cows he raised since his basis in the cows is zero for income tax purposes.

The Depreciation Worksheet contains an itemized list of Mr. Rosso's assets for which he is deducting depreciation in 2011. He must list each item separately to keep track of its basis. The pickup truck is listed property in the 5-year property class.

New assets. Mr. Rosso added three assets to his farming business in 2011.

1. In January, he completed and placed in service a dairy facility designed specifically for the production of milk and to house, feed, and care for dairy cattle (single purpose livestock structure). The construction of the dairy facility began in 2010. The building is depreciated separately from the milking equipment it houses. The cost of the building is \$28,250 and it is 10-year property under MACRS.

2. The cost of the new equipment is \$72,000 and it is 7-year property under MACRS.
3. In February, he made improvements to his machine shed for a total cost of \$650. The improvements are depreciated as if they were a separate building with a 20-year recovery period.

Line items. Form 4562 is completed by referring to the Depreciation Worksheet.

Line 2. Mr. Rosso enters \$100,250 on line 2. This is the total cost of all section 179 property placed in service in 2011. The dairy facility and equipment qualify as section 179 property. However, the machine shed improvement does not qualify because it is not a single purpose agricultural or horticultural structure.

Line 6. He enters the description of the property (dairy equipment) he is electing to expense under section 179. His cost basis for the section 179 deduction is limited to the cash he paid for the dairy equipment. He enters his cost basis of \$72,000 for the dairy equipment in column (b). He then elects the tentative deduction (up to the total cost) of \$19,450 (it is not always advantageous to claim the maximum section 179 deduction allowed) for the dairy equipment in column (c). However, this amount is subject to the business income limit on line 11. The total cost of his section 179 property (\$100,250) did not exceed the investment limit, \$2,000,000, and he is therefore eligible for the maximum dollar limit, \$500,000. The remaining balance, \$52,550, is depreciated on line 19c.

Lines 11 and 12. His taxable income from his farming business, excluding the section 179 deduction and the self-employment tax deduction, but including Section 1231 Gains and Losses and Form 1040 W-2 Wages, are less than line 5. He enters \$108,101 on line 11 and he enters \$19,450 on line 12.


Line 14. He leaves this line blank. Mr. Rosso has chosen to “Elect Out” of the Special Depreciation Allowance for the new assets placed in service during 2011. He has attached an election under IRC Section 168(k)(2)(iii) not to claim the additional depreciation deduction for the specific classes of property for the year that for which he does not want to use the Additional First Year Depreciation.

Line 17. He enters \$5,303. This is his MACRS depreciation for assets placed in service from prior years through 2010.

Line 19. All property placed in service in 2011 in each class is combined and entered in Part III. The abbreviation HY used in column (e) stands for the half-year convention. The 150 DB in column (f) refers to the 150% declining balance method under MACRS.

Line 21. He enters his depreciation deduction for listed property, \$1,179, on line 21. This is the total shown on line 28 of the form. He has one depreciable asset (the pickup truck purchased in 2008) that is listed property. The other truck, which he sold this year, was fully depreciated.

Line 22. He enters the total depreciation on line 22 and carries the total, \$33,705, to Schedule F (Form 1040), line 14.

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Other items. He completes Sections A and B of Part V to provide the information required for listed property. He does not complete Section C because he does not provide vehicles for his employees' use.

He follows the practice of writing down the odometer readings on his vehicles at the end of each year and when he places the vehicles in service and disposes of them. He uses these records to answer the questions on lines 24a and 24b of Section A and lines 30 through 36 of Section B.

He has no amortization, so he does not use Part VI of Form 4562.



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