



## Depreciation

Depreciation is usually used to describe the loss of value in an asset due to normal wear and tear such as using it, how old it is, being outdated technologically, depletion, etc.

Depreciation is a tax deduction that allows individuals or companies to recover the costs of certain property.

Most types of tangible property (except land) are depreciable. Some of those tangible things could be equipment, buildings, furniture, machinery, and vehicles. Even some intangible things can be depreciable. Some intangible things are patents, copyrights, and computer software.

In order for a taxpayer to qualify to take the depreciation deduction, the property has to follow all of these requirements:

- The taxpayer has to own the property they are claiming depreciation on. The taxpayer may also claim depreciation on capital improvements they make on property they lease.
- The taxpayer must use the property in some sort of income receiving activity. If the property is used for both business and personal uses then they can only claim the portion that they use for the business.
- It must be determined that the property has a useful life of more than one year.

If a taxpayer qualifies according to the requirements listed above, but:

- Puts the property in service and disposes of it in the same year.
- The equipment you are trying to depreciate is used to build capital improvements, unless you add the allowable depreciation to the equipment during the time of the construction to the basis of the capital improvements.
- Certain term interest applies to the property.

**THEN YOU CAN NOT DEPRECIATE YOUR PROPERTY.**

Depreciation begins as soon as the taxpayer places their property in service for the use of a trade or business or for an income producing activity. The property can no longer be depreciated when you have fully recovered the cost of the property or if other terms are stated or when you decide to retire it from service, which ever happens first.

If the taxpayer does use the depreciation deduction, there are certain things that have to be identified in order to be certain that the proper amount of depreciation is calculated. They are:

- The depreciation method must be used for the property.
- The class life of the asset has to be used.
- If the property is considered "listed property".
- If the taxpayer is going to expense any portion of the property.
- If the taxpayer will qualify for any "bonus" first year depreciation amount.
- The depreciable basis of the asset (property).