

MACRS Calculator

With this program, the user can calculate a total yearly depreciation schedule for depreciable farm property using Modified Accelerated Cost Recovery System (MACRS).

Required Input

Depreciation Method

Under current tax law, specific depreciation methods are permitted for different classes of property (see Table 1). Those methods include:

- **200% Declining Balance**
The most accelerated method of depreciation, but not available for most farm property
- **150% Declining Balance**
An accelerated method of depreciation that is available for most farm property including farm machinery
- **Straight-line**
Available for most farm property

Adjusted Basis

The basis is the amount paid for farm property minus any Section 179 expenses¹. The basis should also be adjusted for any 179 expense election used for the asset.

Recovery Period

This refers to the number of years that depreciation can be claimed for farm property. This is based on the useful life of farm property as approved by the IRS (see Table 1).

Half-Year or Mid-Quarter Convention

Half-year and mid-quarter conventions relate to the month farm property is placed into service. The mid-quarter convention must be used for all farm property if more than 40% of the farm property purchased in a given year is placed in service during the last 3 months of that year.



¹ If an item is traded in for a replacement, the basis of the old farm property continues to depreciate as if it were still in possession, while the cash outlay for the new property is depreciated as a new item in the depreciation schedule. Do not combine the basis amounts of the trade-in and the cash outlay for the replacement property as one item.

This is the **Main Menu**.

In this example, a tractor purchased in March cost \$100,000. A 7-year recovery period is used (see Table 1), as well as a 150% declining balance with a half-year convention.

Reports Generated

Based on the information provided in the previous example, a depreciation schedule is calculated for the tractor.

Asset Depreciation				
Basis		\$ 100,000.00		
Year	Rate	Depreciation	Remaining Basis	
1	10.71%	\$ 10,714.29	\$ 89,285.71	
2	19.13%	19,132.65	70,153.06	
3	15.03%	15,032.80	55,120.26	
4	12.25%	12,248.95	42,871.32	
5	12.25%	12,248.95	30,622.37	
6	12.25%	12,248.95	18,373.42	
7	12.25%	12,248.95	6,124.48	
8	6.12%	6,124.47	0.00	

This report shows the:

- Amount of depreciation that can be claimed each year

- Remaining basis at the end of each year
- Percentage rate used to calculate depreciation amounts

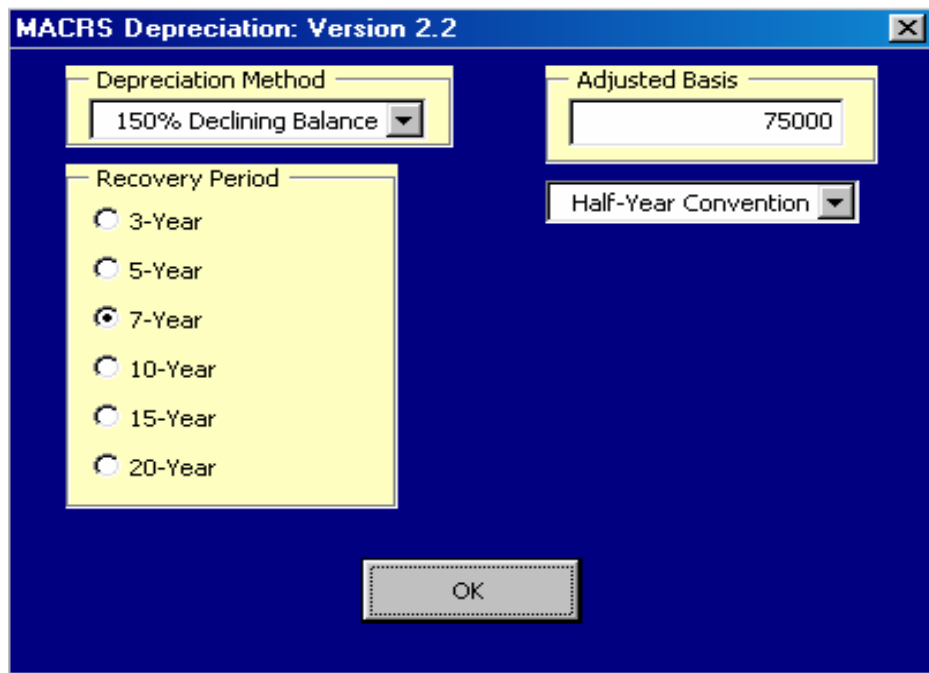
Multiple items can be entered and saved in order to calculate total depreciation for a given year. To do this, click  and enter the information for the new item.

EXAMPLE: Smith Farm

In September 2003, John and Sally Smith purchase a tractor for \$75,000 and a computer for \$2,500. Both items are for business use. For tax purposes, they would like to estimate the depreciation that can be claimed each year, using the 150% declining balance depreciation method. The tractor has a 7-year recovery period and the computer has a 5-year recovery period. (Recovery periods for different types of farm property appear in Table 1 at the end of this document.) The half-year convention is used because the farm property was not purchased in the last three months of the year.

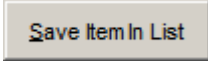
Procedure

First, enter the information for the tractor as shown below. Then click .



The tractor's depreciation schedule is shown below.

Basis		\$	75,000.00	
Year	Rate	Depreciation	Remaining Basis	
1	10.71%	\$ 8,035.71	\$	66,964.29
2	19.13%	14,349.49		52,614.80
3	15.03%	11,274.60		41,340.20
4	12.25%	9,186.71		32,153.49
5	12.25%	9,186.71		22,966.78
6	12.25%	9,186.71		13,780.07
7	12.25%	9,186.71		4,593.36
8	6.12%	4,593.35		0.01

Before moving to the depreciation schedule for the computer, save the tractor information by clicking .

This allows the Smiths to know what the *total* depreciation would be during the next few years.

Enter a description, or name, for each piece of farm property. In this example, enter "Tractor." As shown on the next page, the information for the tractor is moved to the right-hand side of the screen next to the column labeled "Total Depreciation." For now, the total depreciation column is the same as the tractor column. This, however, will change when depreciation information for the computer is added.

Year	\$75,000.00 Total Depreciation	75,000.00 Tractor
1	\$ 8,035.71	\$ 8,035.71
2	14,349.49	14,349.49
3	11,274.60	11,274.60
4	9,186.71	9,186.71
5	9,186.71	9,186.71
6	9,186.71	9,186.71
7	9,186.71	9,186.71
8	4,593.35	4,593.35

To enter the information for the computer click



As before, you are prompted to enter the depreciation method, adjusted basis, and recovery period information. When finished, click



The computer depreciation schedule is shown below.

Asset Depreciation

Basis		\$ 2,500.00		
Year	Rate	Depreciation	Remaining Basis	
1	15.00%	\$ 375.00	\$	2,125.00
2	25.50%	637.50		1,487.50
3	17.85%	446.25		1,041.25
4	16.66%	416.50		624.75
5	16.66%	416.50		208.25
6	8.33%	208.25		(0.00)

The computer's depreciation (5-year recovery period) is spread over 6 years, while the tractor's depreciation (7-year recovery period) is spread over 8 years.

For MACRS, a half-year's depreciation is allowable in the year of purchase, unless the mid-quarter convention applies. For straight-line depreciation, depreciation begins in the month of purchase. To see the total depreciation that can be claimed each year for this example, save the computer information by

Save Item In List

clicking . For this example, label the farm property COMPUTER.

Results

The diagram on the next page shows the computer information saved next to the tractor information. Note that the original basis of each item is found at the top of each column. This makes it useful to calculate the current basis at a set point in time. For example, if John and Sally Smith sold the tractor in year 4, the tractor's basis in year 4 will be the original basis (\$75,000) minus the depreciation claimed in years 1-3 (\$33,659.80). The basis of the tractor in year 4 equals \$41,340.20.

The "Total Depreciation" for each year is the sum of the depreciation for all farm property saved in that year.

		\$77,500.00		75,000.00		2,500.00
Year	Total Depreciation			Tractor		Computer
1	\$ 8,410.71	\$		\$ 8,035.71	\$	375.00
2	14,986.99			14,349.49		637.50
3	11,720.85			11,274.60		446.25
4	9,603.21			9,186.71		416.50
5	9,603.21			9,186.71		416.50
6	9,394.96			9,186.71		208.25
7	9,186.71			9,186.71		
8	4,593.35			4,593.35		

From this information, the Smiths can claim \$8,410.71 of depreciation in 2003, \$14,986.99 in 2004, \$11,720.85 in 2005, and so forth through year 2010.

Table 1: Farm Property Recovery Periods

Source: Internal Revenue Service, Tax Publications, MACRS Table 8-1.

ASSETS	Recovery Period in Years	
	GDS	ADS
Agricultural structures (single purpose)	10	15
Airplanes (including helicopters)	5	6
Automobiles	5	5
Calculator and copiers	5	6
Cattle (dairy or breeding)	5	7
Communication equipment ²	7	10
Computers and peripheral equipment	5	5
Cotton ginning assets	7	12
Drainage facilities	15	20
Farm buildings ³	20	25
Farm machinery and equipment	7	10
Farm machinery and equipment	7	10
Fences (agricultural)	7	10
Goats and sheep (breeding)	5	5
Grain bin	7	10
Hogs (breeding)	3	3
Horses (age when placed in service)		
Breeding and working (12 years or less)	7	10
Breeding and working (more than 12 years)	3	10
Racing horses (more than 2 years)	3	12
Horticultural structures (single purpose)	10	15
Logging machinery and equipment ⁴	5	6
Nonresidential real property	39 ⁵	40
Office equipment (not calculators, copiers or typewriters)	7	10
Office furniture or fixtures	7	10
Residential rental property	27.5	40
Tractor units (over-the-road)	3	4
Trees or vines bearing fruit or nuts	10	20
Truck (heavy duty, unloaded weight 13,000 lbs. or more)	5	6
Truck (weight less than 13,000 lbs.)	5	5
Typewriter	5	6
Water wells	15	20

¹Not including airplanes used in commercial or contract carrying of passengers.²Not including communication equipment listed in other classes.³Not including single purpose agricultural or horticultural structures.⁴Used by logging and sawmill operators for cutting of timber.⁵For property placed in service after May 12, 1993; for property placed in service before May 13, 1993, the recovery period is 31.5 years.