



Instructions for Form 4562

Depreciation and Amortization (Including Information on Listed Property)

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Changes To Note

- You may be able to claim an additional 50% special depreciation allowance for property acquired after May 5, 2003. See the instructions for line 14 on page 3 (for listed property, see the instructions for line 25 on page 6).
- The limit on depreciation and section 179 expense deduction for passenger automobiles has increased for those automobiles that qualify for the 50% special depreciation allowance. See page 8.
- Certain trucks and vans placed in service in 2003 (that are not qualified nonpersonal use vehicles) have a higher depreciation limit than other passenger automobiles. Also, trucks and vans placed in service after July 6, 2003, that are qualified nonpersonal use vehicles are not treated as passenger automobiles. See **Limits for passenger automobiles** on page 7.
- For tax years beginning in 2003, the maximum section 179 expense deduction has been increased to \$100,000 (\$135,000 for qualified enterprise zone, renewal community, and Liberty Zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$400,000. See page 2 of the instructions.
- The definition of section 179 property has been expanded to include off-the-shelf computer software placed in service in tax years beginning after December 31, 2002.
- For tax years beginning in 2003, you can revoke an election to expense section 179 property without IRS consent. See page 2 of the instructions.

Purpose of Form

Use Form 4562 to:

- Claim your deduction for depreciation and amortization,
- Make the election under section 179 to expense certain property, and
- Provide information on the business/investment use of automobiles and other listed property.

Who Must File

Except as otherwise noted, complete and file Form 4562 if you are claiming any of the following.

- Depreciation for property placed in service during the 2003 tax year.
- A section 179 expense deduction (which may include a carryover from a previous year).
- Depreciation on any vehicle or other listed property (regardless of when it was placed in service).

- A deduction for any vehicle reported on a form other than **Schedule C (Form 1040)**, Profit or Loss From Business, or **Schedule C-EZ (Form 1040)**, Net Profit From Business.

- Any depreciation on a corporate income tax return (other than Form 1120S).
- Amortization of costs that begins during the 2003 tax year.

However, **do not** file Form 4562 to report depreciation and information on the use of vehicles if you are an employee deducting job-related vehicle expenses using either the standard mileage rate or actual expenses. Instead, use **Form 2106**, Employee Business Expenses, or **Form 2106-EZ**, Unreimbursed Employee Business Expenses, for this purpose.

Note: File a *separate* Form 4562 for each business or activity on your return for which Form 4562 is required. If you need more space, attach additional sheets. However, complete only one Part I in its entirety when computing your section 179 expense deduction. See the instructions for line 12 on page 3.

Additional Information

For more information about depreciation and amortization (including information on listed property) see the following.

- Pub. 463**, Travel, Entertainment, Gift, and Car Expenses.
- Pub. 534**, Depreciating Property Placed in Service Before 1987.
- Pub. 535**, Business Expenses.
- Pub. 551**, Basis of Assets.
- Pub. 946**, How To Depreciate Property.

Definitions

Depreciation

Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. However, land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income.

Section 179 Property

Section 179 property is property described in section 1245(a)(3) that you acquired by purchase for use in the active conduct of your trade or business, and is either:

- Tangible property that can be depreciated under the Modified Accelerated Cost Recovery System (MACRS) (see page 4) or

- Off-the-shelf computer software to which the depreciation rules of section 167 applies.

Section 179 property does **not** include the following.

- Property held for investment (section 212 property).
- Property used mainly outside the United States (except for property described in section 168(g)(4)).
- Property used mainly to furnish lodging or in connection with the furnishing of lodging (except as provided in section 50(b)(2)).
- Property used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in a taxable unrelated trade or business.
- Property used by a governmental unit or foreign person or entity (except for property used under a lease with a term of less than 6 months).
- Air conditioning or heating units.

For more details, see section 179(d) and Pub. 946.

Amortization

Amortization is similar to the straight line method of depreciation in that an annual deduction is allowed to recover certain costs over a fixed time period. You can amortize such items as the costs of starting a business, goodwill, and certain other intangibles. See the instructions for Part VI on page 9.

Listed Property

Listed property generally includes:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones (or other similar telecommunications equipment).
- Computers or peripheral equipment.

Exception. Listed property **does not** include:

- Photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or at the taxpayer's regular business establishment;
- Any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment; or

3. An ambulance, hearse, or vehicle used for transporting persons or property for hire.

For purposes of the exceptions above, a portion of the taxpayer's home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses attributable to the business use of a home. However, for any property listed in 1 on page 1, the regular business establishment of an employee is his or her employer's regular business establishment.

Commuting

Generally, commuting is travel between your home and a work location. However, travel that meets **any** of the following conditions is not commuting.

- You have at least one regular work location away from your home and the travel is to a temporary work location in the same trade or business, regardless of the distance. Generally, a temporary work location is one where your employment is expected to last 1 year or less. See Pub. 463 for details.
- The travel is to a temporary work location outside the metropolitan area where you live and normally work.
- Your home is your principal place of business for purposes of deducting expenses for business use of your home and the travel is to another work location in the same trade or business, regardless of whether that location is regular or temporary and regardless of distance.

Alternative Minimum Tax (AMT)

Depreciation may be an adjustment for the AMT. However, no adjustment applies for qualified property for which you claim a special depreciation allowance (if the depreciable basis of the qualified property for the AMT is the same as for the regular tax). For details, see **Form 4626**, Alternative Minimum Tax—Corporations; **Form 6251**, Alternative Minimum Tax—Individuals; or Schedule I of **Form 1041**, U.S. Income Tax Return for Estates and Trusts.

Recordkeeping

Except for Part V (relating to listed property), the IRS does not require you to submit detailed information with your return on the depreciation of assets placed in service in previous tax years. However, the information needed to compute your depreciation deduction (basis, method, etc.) must be part of your permanent records.

Because Form 4562 does not provide for permanent recordkeeping, you may use the depreciation worksheet on page 12 to assist you in maintaining depreciation records. However, the worksheet is designed only for Federal income tax purposes. You may need to keep additional records for accounting and state income tax purposes.

Specific Instructions

Identifying number. Individuals, enter your social security number. All others, enter your employer identification number (EIN).

Part I—Election To Expense Certain Tangible Property Under Section 179

Note: *An estate or trust cannot make this election.*

You may elect to expense part or all of the cost of section 179 property (defined on page 1) that you placed in service during the tax year and used predominantly (more than 50%) in your trade or business. However, for taxpayers other than a corporation, this election does not apply to any section 179 property you purchased and leased to others **unless:**

- You manufactured or produced the property or
- The term of the lease is less than 50% of the property's class life and, for the first 12 months after the property is transferred to the lessee, the deductions related to the property allowed to you **solely** under section 162 (except rents and reimbursed amounts) are more than 15% of the rental income from the property.



If you elect to expense section 179 property, you must reduce the amount on which you figure your depreciation or amortization deduction (including any special depreciation allowance) by the section 179 expense deduction.

You must make the election with either:

- The original return you file for the tax year the property was placed in service (whether or not you file your return on time) or
- An amended return filed no later than the due date (including extensions) for your return for the tax year the property was placed in service.

Note: *If you timely filed your return without making the election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2" on the amended return.*

An election made for tax years beginning in 2003 (and the selection of the property you elected to expense) can be revoked by filing an amended return. Once made, the revocation is irrevocable.

Limitations. The amount of section 179 property for which you may make the election is limited to the maximum dollar amount on line 1. In most cases, this amount is reduced if the cost of all section 179 property placed in service during the year is more than \$400,000. The total cost of section 179 property for which the election may be made is figured on line 5. The amount of your section 179 expense deduction for 2003 cannot exceed your business income (line 11).

For a partnership (other than an electing large partnership, as defined in section 775) these limitations apply to the partnership and each partner. For an electing large partnership, the limitations apply **only** to the partnership. For an S corporation, these limitations apply to the S corporation and each shareholder. For a controlled group, all component members are treated as one taxpayer.

For more details on the section 179 expense deduction, see Pub. 946.

Line 1

For an enterprise zone business or a renewal community business, the maximum section 179 expense deduction of \$100,000 is increased by the **smaller** of:

- \$35,000 or
 - The cost of section 179 property that is also qualified zone property or qualified renewal property (including such property placed in service by your spouse, even if you are filing a separate return).
- For qualified New York Liberty Zone (Liberty Zone) property, the maximum section 179 expense deduction is increased by the **smaller** of:
- \$35,000 or
 - The cost of section 179 property that is also qualified Liberty Zone property (including such property placed in service by your spouse, even if you are filing a separate return).

If applicable, cross out the preprinted entry on line 1 and enter in the margin the larger amount. For the definitions of enterprise zone business and qualified zone property, see sections 1397C and 1397D. For the definitions of renewal community business and qualified renewal property, see sections 1400G and 1400J(b). For the definition of qualified Liberty Zone property, see section 1400L(b)(2).

Recapture rule. If any qualified zone property (or qualified renewal property) placed in service during the current year ceases to be used in an empowerment zone (or a renewal community) by an enterprise zone business (or a renewal community business) in a later year, the benefit of the increased section 179 expense deduction must be reported as "other income" on your return. Similar rules apply to qualified Liberty Zone property that ceases to be used in the Liberty Zone.

Line 2

Enter the cost of all section 179 property placed in service during the tax year. Include amounts from any listed property from Part V. Also include any section 179 property placed in service by your spouse, even if you are filing a separate return.

Include on this line only 50% of the cost of section 179 property that is also qualified zone property, qualified renewal property, or qualified Liberty Zone property.

Line 5

If line 5 is zero, you cannot elect to expense any section 179 property. In this case, skip lines 6 through 11, enter zero on line 12, and enter the carryover of any disallowed deduction from 2002 on line 13.

If you are married filing separately, you and your spouse must allocate the dollar limitation for the tax year. To do so, multiply the total limitation that you would otherwise enter on line 5 by 50%, unless you both elect a different allocation. If you both elect a different allocation, multiply the total limitation by the percentage elected. The sum of the percentages you and your spouse elect must equal 100%.

Important: *Do not enter on line 5 more than your share of the total dollar limitation.*

Line 6

Important: *Do not include any listed property on line 6. Enter the elected section*

179 cost of listed property in column (i) of line 26.

Column (a). Enter a brief description of the property for which you are making the election (e.g., truck, office furniture, etc.).

Column (b). Enter the cost of the property. If you acquired the property through a trade-in, **do not** include any undepreciated basis of the assets you traded in (include only the excess of the cost of the property over the value of the property traded in).

Column (c). Enter the amount you elect to expense. You do not have to expense the entire cost of the property. You can depreciate the amount you do not expense. See the line 19 and line 20 instructions.

To report your share of a section 179 expense deduction from a partnership or an S corporation, write "from Schedule K-1 (Form 1065)" or "from Schedule K-1 (Form 1120S)" across columns (a) and (b).

Line 10

The carryover of disallowed deduction from 2002 is the amount of section 179 property, if any, you elected to expense in previous years that was not allowed as a deduction because of the business income limitation. If you filed Form 4562 for 2002, enter the amount from line 13 of your 2002 Form 4562.

Line 11

The section 179 expense deduction is limited by the "business income" limitation under section 179(b)(3).

For purposes of the rules that follow:

- If you have to apply another Code section that has a limitation based on taxable income, see Regulations section 1.179-2(c)(5) for rules on how to apply the business income limitation under section 179.
- You are considered to **actively conduct** a trade or business only if you meaningfully participate in its management or operations. A mere passive investor is not considered to actively conduct a trade or business.

Individuals. Enter the smaller of line 5 or the aggregate taxable income from any trade or business you actively conducted, computed without regard to any section 179 expense deduction, the deduction for one-half of self-employment taxes under section 164(f), or any net operating loss deduction. Include in aggregate taxable income the wages, salaries, tips, and other compensation you earned as an employee (not reduced by unreimbursed employee business expenses). If you are married filing a joint return, combine the aggregate taxable incomes for you and your spouse.

Partnerships. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in section 702(a) from any trade or business the partnership actively conducted (other than credits, tax-exempt income, the section 179 expense deduction, and guaranteed payments under section 707(c)).

S corporations. Enter the smaller of line 5 or the aggregate of the corporation's items of income and expense described in section 1366(a) from any trade or business the corporation actively conducted (other than credits, tax-exempt income, the section 179 expense deduction, and the deduction for compensation paid to the corporation's shareholder-employees).

Corporations other than S corporations.

Enter the smaller of line 5 or the corporation's taxable income before the section 179 expense deduction, net operating loss deduction, and special deductions (excluding items not derived from a trade or business actively conducted by the corporation).

Line 12

The limitations on lines 5 and 11 apply to the taxpayer, and not to each separate business or activity. Therefore, if you have more than one business or activity, you may allocate your allowable section 179 expense deduction among them.

To do so, write "Summary" at the top of Part I of the separate Form 4562 you are completing for the aggregate amounts from all businesses or activities. **Do not** complete the rest of that form. On line 12 of the Form 4562 you prepare for each separate business or activity, enter the amount allocated to the business or activity from the "Summary." No other entry is required in Part I of the separate Form 4562 prepared for each business or activity.

Part II—Special Depreciation Allowance and Other Depreciation

Line 14

Enter on line 14 your total special depreciation allowance for all qualified property (other than listed property).

For qualified property (defined below) placed in service after May 5, 2003, an additional **50% special depreciation allowance** applies for the first year the property is placed in service. You must have acquired the property after May 5, 2003. If a binding contract to acquire the property existed before May 6, 2003, the property does not qualify. Figure the 50% special allowance by multiplying the depreciable basis (see below) of the property by 50%.

For qualified property (defined below) placed in service during the tax year (for which the 50% special allowance does not apply), an additional **30% special depreciation allowance** applies for the first year the property is placed in service. You must have acquired the property after September 10, 2001. If a binding contract to acquire the property existed before September 11, 2001, the property does not qualify. Figure the 30% special allowance by multiplying the depreciable basis of the property by 30%.

To figure the **depreciable basis**, subtract from the business/investment portion of the cost or other basis of the property the total of the following amounts allocable to the property.

- Section 179 expense deduction.
- Deduction for removal of barriers to the disabled and the elderly.
- Disabled access credit.
- Enhanced oil recovery credit.
- Credit for employer-provided childcare facilities and services.
- Basis adjustment to investment credit property under section 50(c).

Note: If you acquired the property through a trade-in, see Temporary Regulations section 1.168(k)-1T(f)(5).

For purposes of the 30% or 50% special allowances, **qualified property** is:

- Tangible property depreciated under MACRS with a recovery period of 20 years or less,
- Water utility property (see **25-year property** on page 5),
- Computer software defined in and depreciated under section 167(f)(1), and
- Qualified leasehold improvement property (defined in section 168(k)(3) and Temporary Regulations section 1.168(k)-1T(c)).

For purposes of the additional 30% special allowance, qualified property is also qualified Liberty Zone property (defined in section 1400L(b)(2)), other than qualified Liberty Zone leasehold improvement property, not otherwise treated as qualified property.

Qualified property also must meet the following rules.

- The original use of the property (except for qualified Liberty Zone property) must begin with you. For qualified Liberty Zone property, only the original use of the property within the Liberty Zone must begin with you.

- For property you sold and leased back or for self-constructed property, see Temporary Regulations section 1.168(k)-1T(b).

Qualified property **does not** include:

- Listed property used 50% or less in a qualified business use (defined on page 6).
- Any property **required** to be depreciated under the alternative depreciation system (ADS) of section 168(g) (that is, not property for which you elected to use ADS).
- Qualified Liberty Zone leasehold improvement property (defined in section 1400L(c)(2)).



If you take the 30% or 50% special allowance, you must reduce the amount on which you figure your regular depreciation or amortization deduction by the amount deducted. Also, you will not have any AMT adjustment for the property if the depreciable basis of the property for the AMT is the same as for the regular tax.

Election out. For qualified property acquired before May 6, 2003, you may elect, for any class of property, not to deduct the 30% special allowance for all such property in such class placed in service during the tax year. For qualified property acquired after May 5, 2003, you may elect, for any class of property, to either **(a)** deduct the 30% special allowance, instead of the 50% special allowance, for all such property in such class placed in service during the tax year or **(b)** not to claim any special allowance for all such property in such class placed in service during the tax year. If you elect not to have any special allowance apply, the property may be subject to an AMT adjustment for depreciation.

To make an election, attach a statement to your timely filed return (including extensions) indicating the class of property for which you are making the election and that, for such class: **(a)** you are electing not to claim the 30% special allowance for qualified property acquired before May 6, 2003; **(b)** you are electing to claim the 30% special allowance instead of the 50% special allowance for qualified property acquired after May 5, 2003; or **(c)** you are electing not to claim any special allowance for qualified property acquired after May 5,

2003. The election must be made separately by each person owning qualified property (for example, by the partnership, by the S corporation, or by the common parent of a consolidated group).

Example. ABC Partnership's fiscal year began July 1, 2003 and ended June 30, 2004. On July 14, ABC acquired and placed in service new 5-year property. The property is qualified property eligible for the 50% special allowance. If ABC wants to elect the 30% special allowance, instead of the 50% special allowance for all 5-year property placed in service during the year after May 5, 2003, ABC must attach to its timely filed return for the year a statement making the election. If ABC wants to elect out of both the 30% and 50% special allowances for such property, it must attach to its timely filed return for the year a statement making the election.

Note: *If you timely filed your return without making an election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2 on the amended return."*

Once made, the election may not be revoked without IRS consent.

Line 15

Report on this line depreciation for property that you elect, under section 168(f)(1), to depreciate under the unit-of-production method or any other method not based on a term of years (other than the retirement-replacement-betterment method).

Attach a separate sheet showing:

- A description of the property and the depreciation method you elect that excludes the property from MACRS or the Accelerated Cost Recovery System (ACRS) and
- The depreciable basis (cost or other basis reduced, if applicable, by salvage value, any section 179 expense deduction, deduction for removal of barriers to the disabled and the elderly, disabled access credit, enhanced oil recovery credit, credit for employer-provided childcare facilities and services, and any special depreciation allowance).

See section 50(c) to determine the basis adjustment for investment credit property.

Line 16

Enter the total depreciation you are claiming for the following types of property (except listed property and property subject to a section 168(f)(1) election).

- ACRS property (pre-1987 rules). See Pub. 534.
- Property placed in service before 1981.
- Certain public utility property which does not meet certain normalization requirements.
- Certain property acquired from related persons.
- Property acquired in certain nonrecognition transactions.
- Certain sound recordings, movies, and videotapes.
- Property depreciated under the income forecast method. The use of the income forecast method is limited to motion picture films, videotapes, sound recordings, copyrights, books, and patents. You cannot use this method to depreciate any amortizable section 197 intangible. See the

instructions for line 42 on page 9 for more details on section 197 intangibles.

Note: *If you use the income forecast method for any property placed in service after September 13, 1995, you may owe interest or be entitled to a refund for the 3rd and 10th tax years beginning after the tax year the property was placed in service. For details, see Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method.*

- Intangible property, other than section 197 intangibles, including:
 1. Computer software. Use the straight line method over 36 months. If you elect the section 179 expense deduction or take the 30% or 50% special allowance for computer software, you must reduce the amount on which you figure your regular depreciation deduction by the amount deducted.
 2. Any right to receive tangible property or services under a contract or granted by a governmental unit (not acquired as part of a business).
 3. Any interest in a patent or copyright not acquired as part of a business.
 4. Residential mortgage servicing rights. Use the straight line method over 108 months.

See section 167(f) for more details.

Prior years' depreciation, plus current year's depreciation, can never exceed the depreciable basis of the property.

The basis and amounts claimed for depreciation should be part of your permanent books and records. **No attachment is necessary.**

Part III—MACRS Depreciation

The term "Modified Accelerated Cost Recovery System" (MACRS) includes the General Depreciation System and the Alternative Depreciation System. Generally, MACRS is used to depreciate any tangible property placed in service after 1986. However, MACRS does not apply to films, videotapes, and sound recordings. See section 168(f) for other exceptions. For more details on MACRS, see Pub. 946.

Section A

Line 17

For tangible property placed in service in tax years beginning before 2003 and depreciated under MACRS, enter the deductions for the current year. To figure the deductions, see the instructions for line 19, column (g).

Line 18

To simplify the computation of MACRS depreciation, you may elect to group assets into one or more general asset accounts under section 168(i)(4). The assets in each general asset account are depreciated under MACRS as a single asset.

Each account must include only assets that were placed in service during the same tax year with the same asset class (if any), depreciation method, recovery period, and convention. However, an asset cannot be included in a general asset account if the asset is used both for personal purposes and business/investment purposes.

When an asset in an account is disposed of, the amount realized generally must be recognized as ordinary income. The unadjusted depreciable basis and depreciation reserve of the general asset account are not affected as a result of a disposition.

Special rules apply to passenger automobiles, assets generating foreign source income, assets converted to personal use, and certain asset dispositions. For more details, see Regulations section 1.168(i)-1.

To make the election, check the box on line 18. You must make the election on your return filed no later than the due date (including extensions) for the tax year in which the assets included in the general asset account were placed in service. Once made, the election is irrevocable and applies to the tax year for which the election is made and all later tax years.

Section B

Lines 19a Through 19i

Use lines 19a through 19i only for assets placed in service during the tax year beginning in 2003 and depreciated under the General Depreciation System (GDS), except for automobiles and other listed property (which are reported in Part V).

Column (a). Determine which property you acquired and placed in service during the tax year beginning in 2003. Then, sort that property according to its classification (3-year property, 5-year property, etc.) as shown in column (a) of lines 19a through 19i. The classifications for some property are shown below. For property not shown, see **Determining the classification** on page 5.

3-year property includes:

- A race horse that is more than 2 years old at the time it is placed in service.
- Any horse (other than a race horse) that is more than 12 years old at the time it is placed in service.
- Any qualified rent-to-own property (as defined in section 168(i)(14)).

5-year property includes:

- Automobiles.
- Light general purpose trucks.
- Typewriters, calculators, copiers, and duplicating equipment.
- Any semi-conductor manufacturing equipment.
- Any computer or peripheral equipment.
- Any section 1245 property used in connection with research and experimentation.
- Certain energy property specified in section 168(e)(3)(B)(vi).
- Appliances, carpets, furniture, etc., used in a rental real estate activity.
- Any qualified Liberty Zone leasehold improvement property.

7-year property includes:

- Office furniture and equipment.
- Railroad track.
- Any property that does not have a class life and is not otherwise classified.

10-year property includes:

- Vessels, barges, tugs, and similar water transportation equipment.
- Any single purpose agricultural or horticultural structure (see section 168(i)(13)).

- Any tree or vine bearing fruit or nuts.

15-year property includes:

- Any municipal wastewater treatment plant.
- Any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.

- Any section 1250 property that is a retail motor fuels outlet (whether or not food or other convenience items are sold there).

20-year property includes:

- Farm buildings (other than single purpose agricultural or horticultural structures).
- Municipal sewers not classified as 25-year property.

25-year property is water utility property, which is:

- Property that is an integral part of the gathering, treatment, or commercial distribution of water that, without regard to this classification, would be 20-year property.
- Municipal sewers. This classification does not apply to property placed in service under a binding contract in effect at all times since June 9, 1996.

Residential rental property is a building in which 80% or more of the total rent is from dwelling units.

Nonresidential real property is any real property that is neither residential rental property nor property with a class life of less than 27.5 years.

50-year property includes any improvements necessary to construct or improve a roadbed or right-of-way for railroad track that qualifies as a railroad grading or tunnel bore under section 168(e)(4).

There is no separate line to report 50-year property. Therefore, attach a statement showing the same information as required in columns (a) through (g). Include the deduction in the line 22 "Total" and write "See attachment" in the bottom margin of the form.

Determining the classification. If your depreciable property is **not** listed above, determine the classification as follows.

1. Find the property's class life. See the Table of Class Lives and Recovery Periods in Pub. 946.

2. Use the following table to find the classification in column (b) that corresponds to the class life of the property in column (a).

(a) Class life (in years) (See Pub. 946)	(b) Classification
4 or less	3-year property
More than 4 but less than 10	5-year property
10 or more but less than 16	7-year property
16 or more but less than 20	10-year property
20 or more but less than 25	15-year property
25 or more	20-year property

Column (b). For lines 19h and 19i, enter the month and year you placed the property in service. If you converted property held for personal use to use in a trade or business or for the production of income, treat the property as being placed in service on the conversion date.

Column (c). To find the basis for depreciation, multiply the cost or other basis of the property by the percentage of business/investment use. From that result,

subtract any section 179 expense deduction, deduction for removal of barriers to the disabled and the elderly, disabled access credit, enhanced oil recovery credit, credit for employer-provided childcare facilities and services, and any special depreciation allowance included on line 14. See section 50(c) to determine the basis adjustment for investment credit property.

Note: If you acquired the property through a trade-in, see Notice 2000-4, 2000-1 C.B. 313. You can find Notice 2000-4 on page 313 of Internal Revenue Bulletin 2000-3 at www.irs.gov/pub/irs-irbs/irb00-03.pdf.

Column (d). Determine the recovery period from the table below, unless you acquired qualified Indian reservation property. Qualified Indian reservation property does not include property placed in service to conduct class I, II, or III gaming activities. See Pub. 946 for more information, including the table for qualified Indian reservation property.

Recovery Period for Most Property

Classification	Recovery period
3-year property	3 yrs.
5-year property	5 yrs.
7-year property	7 yrs.
10-year property	10 yrs.
15-year property	15 yrs.
20-year property	20 yrs.
25-year property	25 yrs.
Residential rental property	27.5 yrs.
Nonresidential real property	39 yrs.
Railroad gradings and tunnel bores	50 yrs.

Column (e). The applicable convention determines the portion of the tax year for which depreciation is allowable during a year property is either placed in service or disposed of. There are three types of conventions. To select the correct convention, you must know the type of property and when you placed the property in service.

Half-year convention. This convention applies to all property reported on lines 19a through 19g, unless the mid-quarter convention applies. It does not apply to residential rental property, nonresidential real property, and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any tax year as placed in service (or disposed of) on the midpoint of that tax year. Enter "HY" in column (e).

Mid-quarter convention. If the total depreciable bases (before any special depreciation allowance) of MACRS property placed in service during the last 3 months of your tax year exceed 40% of the total depreciable bases of MACRS property placed in service during the entire tax year, the mid-quarter, instead of the half-year, convention generally applies.

In determining whether the mid-quarter convention applies, **do not** take into account the following.

- Property that is being depreciated under a method other than MACRS.
- Any residential rental property, nonresidential real property, or railroad gradings and tunnel bores.

- Property that is placed in service and disposed of within the same tax year.

The mid-quarter convention treats all property placed in service (or disposed of) during any quarter as placed in service (or disposed of) on the midpoint of that quarter. However, no depreciation is allowed under this convention for property that is placed in service and disposed of within the same tax year. Enter "MQ" in column (e).

Mid-month convention. This convention applies **only** to residential rental property (line 19h), nonresidential real property (line 19i), and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any month as placed in service (or disposed of) on the midpoint of that month. Enter "MM" in column (e).

Column (f). Applicable depreciation methods are prescribed for each classification of property as follows. However, you may make an irrevocable election to use the straight line method for all property within a classification that is placed in service during the tax year. Enter "200 DB" for 200% declining balance, "150 DB" for 150% declining balance, or "S/L" for straight line.

• 3-, 5-, 7-, and 10-year property. Generally, the applicable method is the 200% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate. However, the straight line method is the only applicable method for trees and vines bearing fruit or nuts and qualified Liberty Zone leasehold improvement property. For 3-, 5-, 7-, or 10-year property eligible for the 200% declining balance method, you may make an irrevocable election to use the 150% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate. The election applies to all property within the classification for which it is made and that was placed in service during the tax year. You will not have an AMT adjustment for any property included under this election.

• 15- and 20-year property and property used in a farming business. The applicable method is the 150% declining balance method, switching to the straight line method in the first tax year that the straight line rate exceeds the declining balance rate.

• Water utility property, residential rental property, nonresidential real property, or any railroad grading or tunnel bore. The only applicable method is the straight line method.

Column (g). To figure the depreciation deduction you may use optional Tables A through E, starting on page 10. Multiply column (c) by the applicable rate from the appropriate table. See Pub. 946 for complete tables. If you disposed of the property during the current tax year, multiply the result by the applicable decimal amount from the tables in Step 3 on page 6. Or, you may compute the deduction yourself by completing the following steps.

Step 1. Determine the depreciation rate as follows.

- If you are using the 200% or 150% declining balance method in column (f), divide the declining balance rate (use 2.00 for 200 DB or 1.50 for 150 DB) by the

number of years in the recovery period in column (d). For example, for property depreciated using the 200 DB method over a recovery period of 5 years, divide 2.00 by 5 for a rate of 40%. You must switch to the straight line rate in the first year that the straight line rate exceeds the declining balance rate.

- If you are using the straight line method, divide 1.00 by the remaining number of years in the recovery period as of the beginning of the tax year (but not less than one). For example, if there are 6½ years remaining in the recovery period as of the beginning of the year, divide 1.00 by 6.5 for a rate of 15.38%.

Step 2. Multiply the percentage rate determined in Step 1 by the property's unrecovered basis (basis for depreciation (as defined in column (c)) reduced by all prior years' depreciation).

Step 3. For property placed in service or disposed of during the current tax year, multiply the result from Step 2 by the applicable decimal amount from the tables below (based on the convention shown in column (e)).

Half-year (HY) convention 0.5

Mid-quarter (MQ) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st quarter	0.875	0.125
2nd quarter	0.625	0.375
3rd quarter	0.375	0.625
4th quarter	0.125	0.875

Mid-month (MM) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st month	0.9583	0.0417
2nd month	0.8750	0.1250
3rd month	0.7917	0.2083
4th month	0.7083	0.2917
5th month	0.6250	0.3750
6th month	0.5417	0.4583
7th month	0.4583	0.5417
8th month	0.3750	0.6250
9th month	0.2917	0.7083
10th month	0.2083	0.7917
11th month	0.1250	0.8750
12th month	0.0417	0.9583

Short tax years. See Pub. 946 for rules on how to compute the depreciation deduction for property placed in service in a short tax year.

Section C

Lines 20a Through 20c

Complete lines 20a through 20c for assets, other than automobiles and other listed property, placed in service **only** during the tax year beginning in 2003 and depreciated under the Alternative Depreciation System (ADS). Report on line 17 MACRS depreciation on assets placed in service in prior years.

Under ADS, use the applicable depreciation method, the applicable recovery period, and the applicable convention to compute depreciation.

The following types of property **must** be depreciated under ADS.

- Tangible property used predominantly outside the United States.
- Tax-exempt use property.
- Tax-exempt bond financed property.
- Imported property covered by an executive order of the President of the United States.
- Property used predominantly in a farming business and placed in service during any tax year in which you made an election under section 263A(d)(3).

Instead of depreciating property under GDS (line 19), you may make an irrevocable election with respect to any classification of property for any tax year to use ADS. For residential rental and nonresidential real property, you may make this election separately for each property.

Column (a). Use the following rules to determine the classification of the property under ADS.

Class life. Under ADS, the depreciation deduction for most property is based on the property's class life. See the Table of Class Lives and Recovery Periods in Pub. 946. Use line 20a for all property depreciated under ADS, except property that does not have a class life, residential rental and nonresidential real property, water utility property, and railroad gradings and tunnel bores.

See section 168(g)(3) for special rules for determining the class life for certain property. The class life for qualified Liberty Zone leasehold improvement property under ADS is 9 years.

12-year property. Use line 20b for property that does not have a class life.

40-year property. Use line 20c for residential rental and nonresidential real property.

Water utility property and railroad gradings and tunnel bores. These assets are 50-year property under ADS. There is no separate line to report 50-year property. Therefore, attach a statement showing the same information required in columns (a) through (g). Include the deduction in the line 22 "Total" and write "See attachment" in the bottom margin of the form.

Column (b). For 40-year property, enter the month and year placed in service or converted to use in a trade or business or for the production of income.

Column (c). See the instructions for line 19, column (c).

Column (d). On line 20a, enter the property's class life.

Column (e). Under ADS, the applicable conventions are the same as those used under GDS. See the instructions for line 19, column (e).

Column (g). Figure the depreciation deduction in the same manner as under GDS, except use the straight line method over the ADS recovery period and use the applicable convention.

Part IV—Summary

Line 22

A partnership (other than an electing large partnership) or S corporation does not include any section 179 expense deduction (line 12) on this line. Instead, any section 179 expense deduction is passed through

separately to the partners and shareholders on the appropriate line of their Schedules K-1.

Line 23

If you are subject to the uniform capitalization rules of section 263A, enter the increase in basis from costs you must capitalize. For a detailed discussion of who is subject to these rules, which costs must be capitalized, and allocation of costs among activities, see Regulations section 1.263A-1.

Part V—Listed Property

If you claim the standard mileage rate, actual vehicle expenses (including depreciation), or depreciation on other listed property, you must provide the information requested in Part V, regardless of the tax year the property was placed in service. However, if you file Form 2106, 2106-EZ, or Schedule C-EZ (Form 1040), report this information on that form and not in Part V. Also, if you file Schedule C (Form 1040) and are claiming the standard mileage rate or actual vehicle expenses (except depreciation), and you are not required to file Form 4562 for any other reason, report vehicle information in Part IV of Schedule C and not on Form 4562.

Section A

Line 25

An additional 30% special depreciation allowance (or an additional 50% special depreciation allowance for property acquired after May 5, 2003) is allowed for qualified property placed in service during the tax year. See the instructions for line 14 for the definition of qualified property and how to figure the deduction. This special depreciation allowance is included in the overall limit on depreciation and section 179 expense deduction for passenger automobiles. However, the limit is increased for passenger automobiles (except for qualified Liberty Zone property) for which the special depreciation allowance is claimed. See the instructions for lines 26 and 27 for details on the limit. Enter on line 25 your total special depreciation allowance for all listed property.

Lines 26 and 27

Qualified business use. To determine whether to use line 26 or line 27 to report your listed property, you must first determine the percentage of qualified business use for each property. Generally, a qualified business use is any use in your trade or business. However, it does not include any of the following.

- Investment use.
- Leasing the property to a 5% owner or related person.
- The use of the property as compensation for services performed by a 5% owner or related person.
- The use of the property as compensation for services performed by any person (who is not a 5% owner or related person), unless an amount is included in that person's income for the use of the property and, if required, income tax was withheld on that amount.

Exception. If at least 25% of the total use of any aircraft during the tax year is for a qualified business use, the leasing or compensatory use of the aircraft by a 5% owner or related person is treated as a qualified business use.

Determine your percentage of qualified business use similar to the method used to figure the business/investment use percentage in column (c). Your percentage of qualified business use may be smaller than the business/investment use percentage.

For more information, including the definition of 5% owner and related person, see Pub. 946.

Column (a). List on a property-by-property basis all your listed property in the following order.

1. Automobiles and other vehicles.
2. Other listed property (computers and peripheral equipment, etc.).

See **Listed Property** on page 1 for items to include.

In column (a), list the make and model of automobiles, and give a general description of other listed property.

If you have more than five vehicles used 100% for business/investment purposes, you may group them by tax year. Otherwise, list each vehicle separately.

Column (b). Enter the date the property was placed in service. If property held for personal use is converted to business/investment use, treat the property as placed in service on the date of conversion.

Column (c). Enter the percentage of business/investment use. For automobiles and other vehicles, determine this percentage by dividing the number of miles the vehicle is driven for trade or business purposes or for the production of income during the year (not to include any commuting mileage) by the total number of miles the vehicle is driven for all purposes. Treat vehicles used by employees as being used 100% for business/investment purposes if the value of personal use is included in the employees' gross income, or the employees reimburse the employer for the personal use.

Employers who report the amount of personal use of the vehicle in the employee's gross income, and withhold the appropriate taxes, should enter "100%" for the percentage of business/investment use. For more information, see Pub. 463.

For other listed property (such as computers or video equipment), allocate the use based on the most appropriate unit of time the property is actually used (rather than merely being available for use).

If during the tax year you convert property used solely for personal purposes to business/investment use, figure the percentage of business/investment use only for the number of months you use the property in your business or for the production of income. Multiply that percentage by the number of months you use the property in your business or for the production of income, and divide the result by 12.

Column (d). Enter the property's actual cost (including sales tax) or other basis (unadjusted for prior years' depreciation). If you traded in old property, your basis is the

adjusted basis of the old property (figured as if 100% of the property's use had been for business/investment purposes) plus any additional amount you paid for the new property.

Note: *If you acquired the property through a trade-in, see Notice 2000-4, 2000-1 C.B. 313. You can find Notice 2000-4 on page 313 of Internal Revenue Bulletin 2000-3 at www.irs.gov/pub/irs-irbs/irb00-03.pdf.*

For a vehicle, reduce your basis by any qualified electric vehicle credit or deduction for clean-fuel vehicles you claimed.

If you converted the property from personal use to business/investment use, your basis for depreciation is the **smaller** of the property's adjusted basis or its fair market value on the date of conversion.

Column (e). Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense deduction, any special depreciation allowance, any credit for employer-provided childcare facilities and services, and half of any investment credit taken before 1986 (unless you took the reduced credit). For automobiles and other listed property placed in service after 1985 (i.e., transition property), reduce the depreciable basis by the entire investment credit.

Column (f). Enter the recovery period. For property placed in service after 1986 and used more than 50% in a qualified business use, use the table in the instructions for line 19, column (d). For property placed in service after 1986 and used 50% or less in a qualified business use, depreciate the property using the straight line method over its ADS recovery period. The ADS recovery period is 5 years for automobiles and computers.

Column (g). Enter the method and convention used to figure your depreciation deduction. See the instructions for line 19, columns (e) and (f). Write "200 DB," "150 DB," or "S/L," for the depreciation method, and "HY," "MM," or "MQ," for half-year, mid-month, or mid-quarter conventions, respectively. For property placed in service before 1987, write "PRE" if you used the prescribed percentages under ACRS. If you elected an alternate percentage, enter "S/L."

Column (h). See **Limits for passenger automobiles** below before entering an amount in column (h).

For property used more than 50% in a qualified business use (line 26) and placed in service after 1986, figure column (h) by following the instructions for line 19, column (g). If placed in service before 1987, multiply column (e) by the applicable percentage given in Pub. 534 for ACRS property. If the recovery period for an automobile ended before your tax year beginning in 2003, enter your unrecovered basis, if any, in column (h).

For property used 50% or less in a qualified business use (line 27) and placed in service after 1986, figure column (h) by dividing column (e) by column (f) and using the same conventions as discussed in the instructions for line 19, column (e). The amount in column (h) cannot exceed the property's unrecovered basis. If the recovery period for an automobile ended before your tax year beginning in 2003, enter your unrecovered basis, if any, in column (h).

For property placed in service before 1987 that was disposed of during the year, enter zero.

Limits for passenger automobiles. The depreciation deduction, including any special depreciation allowance, plus section 179 expense deduction for passenger automobiles is limited for any tax year.

For any passenger automobile (including an electric passenger automobile) you list on line 26 or line 27, the total of columns (h) and (i) on line 26 or 27 and column (h) on line 25 for that automobile cannot exceed the applicable limit shown in **Table 1, 2, 3, or 4** on page 8. If the business/investment use percentage in column (c) for the automobile is less than 100%, you must reduce the applicable limit to an amount equal to the limit multiplied by that percentage. For example, for an automobile (other than a truck or van or an electric automobile) placed in service in December 2003 (for which you elect not to claim any special depreciation allowance) that is used 60% for business/investment, the limit is \$1,836 (\$3,060 x 60%).

Definitions. For purposes of the limits for passenger automobiles, the following apply.

- Passenger automobiles are 4-wheeled vehicles manufactured primarily for use on public roads that are rated at 6,000 pounds unloaded gross vehicle weight or less (for a truck or van, gross vehicle weight is substituted for unloaded gross vehicle weight).
- Trucks and vans placed in service after 2002 that are not qualified nonpersonal use vehicles (see **Exception** below) are passenger automobiles built on a truck chassis, including minivans and sport utility vehicles built on a truck chassis.
- Electric passenger automobiles are vehicles produced by an original equipment manufacturer and designed to run primarily on electricity.

Exception. The following vehicles are not considered passenger automobiles.

- An ambulance, hearse, or combination ambulance-hearse used in your trade or business.
- A vehicle used in your trade or business of transporting persons or property for compensation or hire.
- Any truck or van placed in service after July 6, 2003 that is a qualified nonpersonal use vehicle. A truck or van is a qualified nonpersonal use vehicle only if it has been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes. For example, a van that has only a front bench for seating, in which permanent shelving has been installed, that constantly carries merchandise or equipment, and that has been specially painted with advertising or the company's name, is a vehicle not likely to be used more than a de minimis amount for personal purposes.

Exception for clean-fuel

modifications. The limits for passenger automobiles placed in service after August 5, 1997 do **not** apply to the cost of any qualified clean fuel property (such as retrofit parts and components) installed on a vehicle to permit that vehicle to run on a clean-burning fuel.

Column (i). Enter the amount you elect to expense for section 179 property used more

than 50% in a qualified business use (subject to the limits for passenger automobiles noted above). Refer to the Part I instructions to determine if the property qualifies under section 179.

Recapture of depreciation and section 179 expense deduction. If you used listed property more than 50% in a qualified business use in the year you placed the property in service and used it 50% or less in a later year, you may have to recapture in the later year part of the depreciation and section 179 expense deduction. Use **Form 4797**, Sales of Business Property, to figure the recapture amount.

Table 1—Limits for Passenger Automobiles Placed in Service Before 2001 (excluding electric passenger automobiles placed in service after August 5, 1997)

IF you placed your automobile in service:	THEN the limit on your depreciation and section 179 expense deduction is:
June 19—Dec. 31, 1984	\$6,000
Jan. 1—Apr. 2, 1985	\$6,200
Apr. 3, 1985—Dec. 31, 1986	\$4,800
Jan. 1, 1987—Dec. 31, 1990	\$1,475
Jan. 1, 1991—Dec. 31, 1992	\$1,575
Jan. 1, 1993—Dec. 31, 1994	\$1,675
Jan. 1, 1995—Dec. 31, 2000	\$1,775

Table 2—Limits for Passenger Automobiles Placed in Service After 2000 (excluding trucks and vans placed in service after 2002 and electric passenger automobiles)

IF you placed your automobile in service:	AND the number of tax years in which this automobile has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Jan. 1 — Dec. 31, 2001	3	\$2,950
	4	\$1,775
Jan. 1 — Dec. 31, 2002	2	\$4,900
	3	\$2,950
Jan. 1 — May 5, 2003	1	\$7,660*
	2	\$4,900
May 6 — Dec. 31, 2003	1	\$10,710*
	2	\$4,900

*If you elect **not** to claim any special depreciation allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$3,060.

Table 3—Limits for Electric Passenger Automobiles Placed in Service After August 5, 1997

IF you placed your electric automobile in service:	AND the number of tax years in which this automobile has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Aug. 6, 1997 — Dec. 31, 1998	4 or more	\$5,425
Jan. 1, 1999 — Dec. 31, 2000	4 or more	\$5,325
Jan. 1 — Dec. 31, 2001	3	\$8,850
	4 or more	\$5,325
Jan. 1 — Dec. 31, 2002	2	\$14,700
	3	\$8,750
Jan. 1 — May 5, 2003	1	\$22,880*
	2	\$14,600
May 6 — Dec. 31, 2003	1	\$32,030*
	2	\$14,600

*If you elect **not** to claim any special depreciation allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$9,080.

Table 4—Limits for Trucks and Vans Placed in Service After 2002

IF you placed your truck or van in service:	AND the number of tax years in which this truck or van has been in service is:	THEN the limit on your depreciation and section 179 expense deduction is:
Jan. 1 — May 5, 2003	1	\$7,960*
	2	\$5,400
May 6 — Dec. 31, 2003	1	\$11,010*
	2	\$5,400

*If you elect **not** to claim any special depreciation allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$3,360.

Note: *The limit for automobiles (including trucks and vans and electric passenger automobiles) placed in service after December 31, 2003, will be published in the Internal Revenue Bulletin. These amounts were not available at the time these instructions were printed.*

Section B

Except as noted below, you must complete lines 30 through 36 for each vehicle identified in Section A. Employees must provide their employers with the information requested on lines 30 through 36 for each automobile or vehicle provided for their use.

Exception. Employers are not required to complete lines 30 through 36 for vehicles used by employees who are not more than 5% owners or related persons and for which the question on line 37, 38, 39, 40, or 41 is answered "Yes."

Section C

Employers providing vehicles to their employees satisfy the employer's substantiation requirements under section 274(d) by maintaining a written policy statement that:

- Prohibits personal use including commuting or
- Prohibits personal use except for commuting.

An employee does not need to keep a separate set of records for any vehicle that satisfies these written policy statement rules.

For both written policy statements, there must be evidence that would enable the IRS to determine whether use of the vehicle meets the conditions stated below.

Line 37

A policy statement that prohibits personal use (including commuting) must meet **all** of the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business.
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere (e.g., for maintenance or because of a mechanical failure).

- No employee using the vehicle lives at the employer's business premises.

- No employee may use the vehicle for personal purposes, other than de minimis personal use (e.g., a stop for lunch between two business deliveries).

- Except for de minimis use, the employer reasonably believes that no employee uses the vehicle for any personal purpose.

Line 38

A policy statement that prohibits personal use (except for commuting) is **not** available if the commuting employee is an officer, director, or 1% or more owner. This policy must meet **all** of the following conditions.

- The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business, and it is used in the employer's trade or business.

- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle.

- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (e.g., a stop for a personal errand between a business delivery and the employee's home).

- Except for de minimis use, the employer reasonably believes that the employee does not use the vehicle for any personal purpose other than commuting.

- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

Line 40

An employer that provides more than five vehicles to its employees who are not 5% owners or related persons need not complete Section B for such vehicles. Instead, the employer must obtain the information from its employees and retain the information received.

Line 41

An automobile meets the requirements for qualified demonstration use if the employer maintains a written policy statement that:

- Prohibits its use by individuals other than full-time automobile salespersons,
- Prohibits its use for personal vacation trips,
- Prohibits storage of personal possessions in the automobile, and
- Limits the total mileage outside the salesperson's normal working hours.

Part VI—Amortization

Each year you may elect to deduct part of certain capital costs over a fixed period. If you amortize property, the part you amortize does not qualify for the section 179 expense deduction or for depreciation.

Attach any information the Code and regulations may require to make a valid election. See Pub. 535 for more information.

Amortization of bond premiums. For individuals reporting amortization of bond premium for bonds acquired before October 23, 1986, **do not** report the deduction here. See the instructions for Schedule A (Form 1040), line 27.

For taxpayers (other than corporations) claiming a deduction for amortization of bond premium for bonds acquired after October 22, 1986, but before January 1, 1988, the deduction is treated as interest expense and is subject to the investment interest limitations. Use **Form 4952**, Investment Interest Expense Deduction, to compute the allowable deduction.

For taxable bonds acquired after 1987, the amortization offsets the interest income. See **Pub. 550**, Investment Income and Expenses.

Line 42

Complete line 42 only for those costs for which the amortization period begins during your tax year beginning in 2003.

Column (a). Describe the costs you are amortizing. You may amortize the following.

- Pollution control facilities (section 169, limited by section 291 for corporations). If you take the 30% or 50% special allowance for pollution control facilities, you must reduce the amount on which you figure your amortization deduction by the amount deducted.

- Certain bond premiums (section 171).
- Research and experimental expenditures (section 174).
- The cost of acquiring a lease (section 178).
- Qualified forestation and reforestation costs (section 194). See Pub. 535 for details, including limitations and other requirements. Partnerships and S corporations, see the instructions for line 44.
- Qualified revitalization expenditures (section 1400I). These are certain capital expenditures that relate to a qualified revitalization building located in an area designated as a renewal community. The amount of qualified revitalization expenditures cannot exceed the commercial revitalization expenditure amount allocated to the qualified revitalization building by the commercial revitalization agency for the state in which the building is located.

You may elect to either **(a)** deduct one-half of the expenditures for the year the building is placed in service or **(b)** amortize all such expenditures ratably over the 120-month period beginning with the month the building is placed in service. Report any amortization on line 42. Report any deductions on the applicable "Other Deductions" or "Other Expenses" line of your return. This deduction is treated as depreciation for purposes of section 1016 (basis adjustment) and section 1250 (ordinary income recapture upon disposition).

- Organizational expenditures for a corporation (section 248) or partnership (section 709).
- Optional write-off of certain tax preferences over the period specified in section 59(e).
- Certain section 197 intangibles (which must be amortized over 15 years starting with the month the intangibles were acquired), including:
 1. Goodwill;
 2. Going concern value;
 3. Workforce in place;
 4. Business books and records, operating systems, or any other information base;
 5. Any patent, copyright, formula, process, design, pattern, know-how, format, or similar item;
 6. Any customer-based intangible (e.g., composition of market or market share);
 7. Any supplier-based intangible;
 8. Any license, permit, or other right granted by a governmental unit;
 9. Any covenant not to compete entered into in connection with the acquisition of a business; and
 10. Any franchise (other than a sports franchise), trademark, or trade name.
- Business start-up expenditures (section 195). To elect to amortize start-up expenditures, attach a statement to your income tax return containing:

1. A detailed description of the trade or business,
2. The month in which the active trade or business began (or was acquired),
3. The number of months in the amortization period you are selecting (cannot be less than 60), and
4. A description of each start-up expenditure incurred (whether or not paid).

The statement must be filed by the due date, including extensions, of your return for the year in which the active trade or business begins. If you timely filed that return without making the election, you can still make the election on an amended return filed within 6 months of the due date, excluding extensions, of that return. Write "Filed pursuant to section 301.9100-2" on the amended return. See Regulations section 1.195-1 for more details.

Column (b). Enter the date the amortization period begins under the applicable Code section.

Column (c). Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d). Enter the Code section under which you amortize the costs.

Column (f). Compute the amortization deduction by:

1. Dividing column (c) by the number of months over which the costs are to be amortized and multiplying the result by the number of months in the amortization period included in your tax year beginning in 2003 or
2. Multiplying column (c) by the percentage in column (e).

Line 43

If you are reporting the amortization of costs that began before your 2003 tax year and you are not required to file Form 4562 for any other reason, do not file Form 4562. Report the amortization directly on the "Other Deductions" or "Other Expenses" line of your return. See Pub. 535.

Line 44

Report the total amortization, including the allowable portion of forestation or reforestation amortization, on the applicable "Other Deductions" or "Other Expenses" line of your return. For more details, including limitations that apply, see Pub. 535. Partnerships (other than electing large partnerships) and S corporations, report the amortizable basis of any forestation or reforestation expenses for which amortization is elected and the year in which the amortization begins as a separately stated item on Schedules K and K-1 (Form 1065 or 1120S). See the instructions for Schedule K (Form 1065 or 1120S) for more details on how to report.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 38 hr., 14 min.; **Learning about the law or the form**, 5 hr., 57 min.; **Preparing and sending the form to the IRS**, 6 hr., 50 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

Table A—General Depreciation System

Method: 200% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:			
	3 years	5 years	7 years	10 years
1	33.33%	20.00%	14.29%	10.00%
2	44.45%	32.00%	24.49%	18.00%
3	14.81%	19.20%	17.49%	14.40%
4	7.41%	11.52%	12.49%	11.52%
5		11.52%	8.93%	9.22%
6		5.76%	8.92%	7.37%
7			8.93%	6.55%
8			4.46%	6.55%
9				6.56%
10				6.55%
11				3.28%

Table B—General and Alternative Depreciation System

Method: 150% declining balance switching to straight line

Convention: Half-year

Year	If the recovery period is:					
	5 years	7 years	10 years	12 years	15 years	20 years
1	15.00%	10.71%	7.50%	6.25%	5.00%	3.750%
2	25.50%	19.13%	13.88%	11.72%	9.50%	7.219%
3	17.85%	15.03%	11.79%	10.25%	8.55%	6.677%
4	16.66%	12.25%	10.02%	8.97%	7.70%	6.177%
5	16.66%	12.25%	8.74%	7.85%	6.93%	5.713%
6	8.33%	12.25%	8.74%	7.33%	6.23%	5.285%
7		12.25%	8.74%	7.33%	5.90%	4.888%
8		6.13%	8.74%	7.33%	5.90%	4.522%
9			8.74%	7.33%	5.91%	4.462%
10			8.74%	7.33%	5.90%	4.461%
11			4.37%	7.32%	5.91%	4.462%
12				7.33%	5.90%	4.461%
13				3.66%	5.91%	4.462%
14					5.90%	4.461%
15					5.91%	4.462%
16					2.95%	4.461%
17						4.462%
18						4.461%

Table C—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 27.5 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2-9	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
10, 12, 14, 16, 18	3.637%	3.637%	3.637%	3.637%	3.637%	3.637%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
11, 13, 15, 17	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.637%	3.637%	3.637%	3.637%	3.637%	3.637%

Table D—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 31.5 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
11, 13, 15, 17	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%
12, 14, 16, 18	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%	3.175%	3.174%

Table E—General Depreciation System**Method:** Straight line**Convention:** Mid-month**Recovery period:** 39 years

The month in the 1st recovery year the property is placed in service:												
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
2-39	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%	2.564%
