

Chapter 10

Straight-Line (S/L)

This depreciation method is *generally* used for intangible property. It allows the taxpayer to deduct the same amount of depreciation each year.

To figure the deduction for straight-line depreciation:

1. First determine the adjusted basis, salvage value, and estimated useful life of the property.
2. Subtract the salvage value, if any, from the adjusted basis. The balance is the total amount of depreciation you can take over the useful life of the property.
3. Divide the balance by the number of years in the useful life. This figure is the amount of the yearly depreciation deduction. Unless there is a significant change in adjusted basis or use full life, this amount will stay the same throughout the time the property is depreciated. If in the first year, the property is used for less than a full year, the depreciation must be prorated for the number of months used.

Example: In April, Frank purchased a patent for \$5,100. It was not purchased in connection with the acquisition of any part of a trade or business. He depreciates the patent under the straight-line method, using a 17-year useful life and no salvage value. The annual depreciation amount is calculated as follows:

1. $\$5,100$ (purchase price or basis for depreciation \div 17 (useful life) = $\$300$ (annual depreciation)
2. Frank has an annual depreciation deduction of $\$300$. However the patent was purchased in April, allowing only nine months of depreciation for the first year. The first year of depreciation is calculated as follows:
 $\$300$ (annual depreciation \div 12 (months) = $\$25$ (per month depreciation allowed)
 $\$25$ (per month depreciation allowed) \times 9 (months business use) = $\$225$ (first year depreciation)

The straight-line method must be used for:

- Residential and
- Non-residential real property

For certain assets (principally for cars, computers, and for cellular telephones) used for business purposes 50% of the time or less, one cannot use ACRS or the regular MACRS system. Instead, one must depreciate the part of the asset allocable to business use using the straight-line method.

Using the Applicable Convention

The applicable convention (discussed earlier under Which Convention Applies, on page 54) affects how you figure your depreciation deduction for the year you place your property in service and for the