

Chapter 9

Modified Accelerated Cost Recovery System (MACRS)

Introduction

The Modified Accelerated Cost Recovery System (MACRS) is used to recover the basis of most business and investment property placed in service after 1986. MACRS consists of two depreciation systems:

- The General Depreciation System (GDS) and
- The Alternative Depreciation System (ADS)

Generally, these systems provide different methods and recovery periods to use in figuring depreciation deductions.

This chapter explains how to determine which MACRS depreciation system applies to your property. It also discusses other information you need to know before you can figure depreciation under MACRS. This information includes the property's recovery class, placed in service date, and basis; as well as the applicable recovery period, convention, and depreciation method. It explains how to use this information to figure your depreciation deduction.

Which Depreciation System (GDS or ADS) Applies?

Your use of either the General Depreciation System (GDS) or the Alternative Depreciation System (ADS) to depreciate property under MACRS determines what depreciation method and recovery period you use. You generally must use GDS unless you are specifically required by law to use ADS or you elect to use ADS.

If you placed your property in service in 2008, use MACRS and the GDS system. If you placed your property in service before 2008 and are required to file Form 4562, you can report depreciation using either GDS or ADS.

Required use of ADS

You must use ADS for the following property.

- Listed property used 50% or less in a qualified business use.
- Any tangible property used predominantly outside the United States during the year.
- Any tax-exempt use property.
- Any tax-exempt bond-financed property.
- All property used predominantly in a farming business and placed in service in a tax year during which an election (not to apply) of the uniform capitalization rules to certain farming costs is in effect.