

**Depreciation
Quickfinder[®] Handbook
(2024 Tax Year)**

Updates for Recent Guidance

Instructions: This packet contains “marked up” changes to the pages in the *Depreciation Quickfinder[®] Handbook* that were affected by recent guidance, which was enacted after the *Handbook* was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

SPECIAL RULES FOR LISTED PROPERTY

The following special rules may limit tax deductions related to listed property:

- 1) No depreciation or Section 179 deduction is allowed for listed property unless taxpayers meet certain recordkeeping requirements. (See *Recordkeeping Requirements* on Page 6-2.)
- 2) Depreciation and Section 179 deductions are limited for listed property that is not used predominantly in a qualified business. (See *Business Use Requirement for Listed Property* on Page 6-3.)
- 3) Employees must use listed property for their employer's convenience or as a condition of their employment to deduct rent, depreciation, or Section 179 expense for that property.
- 4) Depreciation deductions for passenger automobiles are subject to annual caps. (See *Limits on Vehicle Depreciation* on Page 6-5.)

What Is Listed Property?

Listed property includes [IRC Sec. 280F(d)(4)]:

- Passenger automobiles (see *Passenger Automobiles* on Page 6-5 for definition).
- Any other property used for transportation, including trucks, buses, trains, boats, airplanes, motorcycles, and any other vehicle for transporting persons or goods unless it is a *qualified nonpersonal use vehicle*.
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment), unless the property is used either exclusively at the taxpayer's regular place of business or in the taxpayer's primary trade or business [Reg. 1.280F-6(b)(3)].

Listed property does not include computers and related-peripheral equipment.

🔍 **Note:** Cell phones are not considered listed property. See Notice 2011-72 for guidance on tax considerations raised when an employer provides a cell phone or other similar telecommunication equipment to an employee.

Qualified nonpersonal use vehicles are not listed property [Reg. 1.280F-6(b)(2)]. These are vehicles that by their nature are not likely to be used more than a minimal amount for personal purposes and include [Reg. 1.274-5(k)]:

- Clearly marked police, fire, and public safety officer vehicles.
- Unmarked vehicles used by law enforcement officers, **firefighters, and members of rescue squads or ambulance crews** if the use is officially authorized.
- Ambulances and hearses used as such.
- Any vehicle designed to carry cargo with a loaded gross vehicle weight of over 14,000 pounds.
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks), flatbed trucks, and refrigerated trucks.
- Combines, cranes, derricks, and forklifts.
- Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat.
- Qualified moving vans.
- Qualified specialized utility repair trucks.
- School buses used in transporting students and employees of schools and other buses with at least 20 passenger capacity.
- Tractors and other special purpose farm vehicles.
- Trucks and vans that have been specially modified so that they are not likely to be used more than a minimal amount for personal

purposes, such as by installing permanent shelving and painting the vehicle to display advertising or the company's name.

Clearly marked police, fire, or public safety officer vehicle must be all of the following [Reg. 1.274-5(k)(3)]:

- Owned or leased by a governmental unit or an agency or instrumentality thereof.
- Required to be used for commuting by a police officer, firefighter, or public safety officer who, when not on a regular shift, is on call at all times.
- Prohibited from being used for personal use (other than commuting) outside the limit of the police officer's arrest powers or the firefighter's or public safety officer's obligation to respond to an emergency.
- Clearly marked with painted insignia or words that make it readily apparent that it is a police, fire, or public safety officer vehicle. A marking on a license plate is not sufficient.

Qualified moving van. Any truck or van used by a professional moving company for moving household or business goods if all the following are true [Reg. 1.274-5(k)(4)]:

- No personal use is allowed other than for travel to and from a move site or for minor personal use, such as a stop for lunch on the way from one move site to another.
- Personal use for travel to and from a move site happens no more than five times a month on average.
- Personal use is limited to situations in which it is more convenient to the employer, because of the location of the employee's residence in relation to the location of the move site, for the van not to be returned to the employer's business location.



Qualified specialized utility repair truck. A truck, other than a van or pickup truck, if all the following apply: [Reg. 1.274-5(k)(5)]

- It was specifically designed for and is used to carry heavy tools, testing equipment, or parts.
- Shelves, racks, or other permanent interior construction has been installed to carry and store the tools, equipment, or parts and would make it unlikely that the truck would be used, other than minimally, for personal purposes.
- The employer requires the employee to drive the truck home so he can respond in emergency situations to restore or maintain electricity, gas, telephone, water, sewer, or steam utility services.

Recordkeeping Requirements

Recordkeeping is required to substantiate the business use of listed property. Taxpayers cannot take any depreciation, Section 179, or other deduction or credit for listed property unless they can prove the business/investment use with adequate records or with sufficient evidence to support their own statements [IRC Sec. 274(d)(3)].

The records or other documentary evidence must support all the following:

- The amount of each separate expenditure, such as the cost of acquiring the item, maintenance and repair costs, capital improvement costs, lease payments, and any other expenses.
- The amount of each business and investment use (based on an appropriate measure, such as mileage for vehicles and time for other listed property), and the total use of the property for the tax year.
- The date of the expenditure or use.
- The business or investment purpose for the expenditure or use.

returns timely filed (including extensions) after September 11, 2017 and to taxpayers that:

- 1) Have assets of \$10 million or more.
- 2) Have U.S. GAAP-based certified audited financial statements.
- 3) Comply with certain certification requirements provided in the directive.

Computing the credit. The RC equals the sum of [IRC Sec. 41(a)]:

- 1) 20% of the QREs for the current tax year exceeding the base amount for that year, plus
- 2) 20% of the basic research payments over the qualified organization base period amount, plus
- 3) 20% of amounts paid to an energy research consortium.

The *base amount* equals the fixed base percentage [as defined in IRC Sec. 41(c)(3)] multiplied by the average annual gross receipts of the taxpayer for the four tax years preceding the tax year for which the credit is being determined [IRC Sec. 41(c)]. However, the base amount cannot be less than 50% of its QREs for the year. This means no more than half of the current year's QREs can qualify for the RC.

Basic research payments are cash payments made to qualified organizations such as educational institutions and certain scientific research organizations if the basic research is to be performed by the organization. Cash payments to scientific tax-exempt organizations and certain grant organizations also qualify, but these organizations do not have to perform the research directly.

Alternative Simplified Credit (ASC). Taxpayers may elect to take the Section 41(c)(4) Alternative Simplified Credit (ASC). This is equal to 14% (12% before 2009) of the excess of the qualified research expenses for the tax year over 50% of the average qualified research expenses for the three preceding tax years. A taxpayer may make an ASC election on an amended return (Reg. 1.41-9). A taxpayer who is a member of a controlled group in a tax year may not make an election under IRC Sec. 41(c)(4) for that tax year on an amended return if any member of the controlled group for that year claimed the credit using a method other than the ASC.

Reduction of expenses. Any deductions for R&E claimed under IRC Sec. 174 must be reduced by the amount of the RC [IRC Sec. 280C(c)(1)]. For capitalized research expenditures, the amount chargeable to a capital account is reduced by the excess of the RC over the amount of QREs allowable as a deduction for the year. The taxpayer may avoid these reductions by electing a reduced credit. Under the election, the credit is reduced by an amount equal to the top corporate income tax rate multiplied by the full credit.


Reporting requirements. Form 6765, *Credit for Increasing Research Activities*, is filed to claim the RC. The taxpayer may elect to reduce the credit by completing the appropriate lines on Form 6765. If the taxpayer does not elect a reduced credit, a statement must be attached to Form 6765 showing the QREs reduced by the research credit.

Controlled groups. The credit is allocated to a member of a controlled group on a proportionate basis consistent with its share of total QREs and other factors [IRC Sec. 41(f)(1)(A) and Reg. 1.41-6].

Specified R&E expenditures. Capitalization and amortization (over 60 months beginning at the midpoint of the year) is required for specified R&E expenditures, which are R&E costs paid or incurred, in tax years beginning after 2021, by the taxpayer in connection with the taxpayer's trade or business. Specified R&E expenditures are defined by Reg. 1.174-2. R&E expenditures attributable to foreign research are amortized over a 180-month period beginning at the midpoint of the year.

Specified R&E expenditures do not include costs incurred for:

- Land.
- Depreciable or depletable property (but they do include the depreciation or depletion allowed on such property).
- Exploration of mineral (including oil and gas) or ore deposits.

 **Note:** Research and experimental property disposed of, retired, or abandoned during its amortization period is not allowed immediate expensing of the unamortized balance. Instead amortization continues over the remaining amortization period.

Change in accounting method. Applying this rule is a change in accounting method treated as initiated by the taxpayer, made with IRS's consent, and applied on a cut-off basis. Therefore, there is no IRC Sec. 481(a) adjustment. See Rev. Proc. 2024-23, **as modified by Rev. Proc. 2025-8**, and *Requesting an Accounting Method Change* on Page 10-2.

INCOME FORECAST METHOD

The income forecast method uses an estimate of income to recover the cost of certain assets. Under this method, each year's deduction is equal to:


$$(\text{Cost} - \text{Salvage Value}) \times \frac{\text{Current Year Net Income From Property}}{\text{Estimated Total Income From Property}}$$

The denominator is the total income anticipated from the property through the end of the 10th tax year following the tax year the property is placed in service [IRC Sec. 167(g)].

Look-back calculation. Taxpayers who use the income forecast method for property with a cost of more than \$100,000 are subject to a look-back calculation that may result in the receipt or payment of interest if actual income differs from anticipated income. Any interest computed under the look-back method is reported on Form 8866, *Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method*.

Eligible assets. The following intangibles can be amortized under either the straight-line method or the income forecast method:

- 1) Motion picture films or video tapes.
- 2) Sound recordings.
- 3) Copyrights.
- 4) Books.
- 5) Patents.
- 6) Other property to be specified in regulations.

 **Caution:** The income forecast method cannot be used for Section 197 intangibles. Thus, to the extent any of the intangibles listed above is a Section 197 intangible (because it was acquired in connection with acquiring assets making up a trade or business), it cannot be amortized under the income forecast method.

Example: Easygoing Inc. produces a new record for a cost of \$250,000. Salvage value of the recording at the end of 10 years is expected to be \$10,000. Expected net income for the first 11 years of sales is \$500,000. The record generates \$150,000 of net income in the first year of sales. Current year amortization is \$72,000 [(\$250,000 - \$10,000) × \$150,000 ÷ \$500,000].

Participations and Residuals

Participations and residuals are costs that, by contract, vary with the amount of income earned in connection with the property. The participations and residuals that relate to income to be derived from the property before the end of the tenth tax year after the property is placed in service are eligible for two optional tax treatments [IRC Sec. 167(g)(7)]:

- The participations and residuals can be included in the property's adjusted basis for calculating the amortization deduction for the year.
- The participations and residuals can be deducted in the tax year they are paid.



Reporting Income Forecast Method Deductions

Expense for assets depreciated under the income forecast method is reported on Form 4562, line 16, *Other depreciation (including ACRS)*.