

DEPRECIATION OF REAL PROPERTY

By

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MACRS — Modified Accelerated Cost Recovery System

- A. Real property costs are recovered under MACRS using the straight line method.
 - 1. 27.5 years residential real property.
 - 2. 39 years non-residential real property.

- B. No depreciation for portion attributable to land.

- C. Mid-month convention.

- D. Certain property — 40 years straight line or 125% of lease term.
 - 1. Used for AMT.
 - 2. Tax exempt use property —
Property leased to tax-exempt entry.

- E. Land improvements.
 - 1. Land improvements may be depreciated depending on if permanently improved the land (i.e., grading for a particular building vs. general site grading).

See Revenue Rulings 65-265/68-193/74-265.
 - 2. Depreciating landscaping (trees, etc.) may depend on association with a building.

- F. Planning.
 - 1. Allocate costs carefully between land and building
 - 2. Segregate costs
 - a. Land improvements 15 years.
 - b. Component depreciation is not separately allowed on buildings.
 - c. Account for tangible personalty which have shorter depreciable periods such as movable partitions (example, removable floors).