PacificCPE

COURSE
34601A

Depreciation Fundamentals, Section 179, and Bonus Depreciation

Get up to speed on the core concepts every tax professional needs when handling depreciation. This course covers the fundamentals of cost recovery, how to elect the Section 179 deduction to expense qualifying property immediately, and how to claim the special depreciation allowance (bonus depreciation). Whether you're new to depreciation or looking for a solid refresher, this course lays the groundwork for making informed decisions that can significantly impact your clients' tax positions.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the general rules for depreciating property.
- Recall various requirements for electing the section 179 deduction.
- Recall various requirements for electing the special depreciation allowance.

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Publication Date: April 2026

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INTRODUCTION

The goal of this course is to explain depreciating property and how that may impact you and your clients. It explains how one can recover the cost of business or income-producing property through deductions for depreciation (for example, the special depreciation allowance and deductions under the Modified Accelerated Cost Recover System (MACRS)). It also outlines how one can elect to take a section 179 deduction, instead of depreciation deductions, for certain property and the additional rules for listed property. Note: the depreciation methods discussed in this generally do not apply to property placed in service before 1987.

Throughout the course, we use the term "you" which can be substituted with "your client". Also, this course covers information regarding depreciation as appropriate for filing tax returns for the year ending December 31, 2025.

This introduction outlines important reminders for 2025, and what's new for 2026. Then, Chapter 1 through Chapter 1 of course 34603A will dive into the details of depreciation, electing the Section 179 deduction, claiming the special depreciation allowance, figuring depreciation under MACRS, and outlining additional rules for listed property.

Reminders for 2025

Section 179 deduction dollar limits. For tax years beginning in 2025, the maximum section 179 expense deduction is $2,500,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $4,000,000. See *Dollar Limits* in Chapter 2.

Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2025 is $31,300.

Phase down of special depreciation allowance for qualified property acquired before January 20, 2025, and certain plants bearing fruits and nuts planted or grafted before January 20, 2025. The special depreciation allowance is limited to 40% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2024, and before January 1, 2026 (other than certain property with a long production period and certain aircraft). Property with a long production period and certain aircraft placed in service after December 31, 2024, and before January 1, 2026, is limited to a special depreciation allowance is 60% of the depreciable basis of the property. The special depreciation allowance is also limited to 40% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2024, and before January 20, 2025. See *Certain Qualified Property Acquired after September 27, 2017, and Before January 20, 2025*, and *Certain Plants Bearing Fruits and Nuts Planted or Grafted Before January 20, 2025*, under *What Is Qualified Property?* in Chapter 3.

Special depreciation allowance for certain qualified property acquired after January 19, 2025, and certain plants bearing fruits and nuts planted or grafted after January 19, 2025. P.L. 119-21, commonly known as the One Big Beautiful Bill Act (OBBBA), reinstated the 100% special depreciation allowance for certain qualified property acquired and placed in service after January 19, 2025 (including long production period property and certain aircraft), and certain specified plants bearing fruits and nuts planted or grafted after January 19, 2025. However, you can elect to take a 40% special depreciation allowance (60% for long production period property and certain aircraft) for this property during first tax year ending after January 19, 2025, instead of taking the 100% special depreciation allowance. See *Certain Qualified Property Acquired After January 19, 2025*, and *Certain Plants Bearing Fruits and Nuts Planted or Grafted After January 19, 2025*, under *What Is Qualified Property?* in Chapter 3.

Special depreciation allowance for qualified production property. The OBBBA added new section 168(n) which allows an elective special depreciation allowance for qualified production property. Qualified production property placed in service after July 4, 2025, the construction of which began or that was acquired after January 19, 2025, is eligible for a 100% special depreciation allowance. See *Qualified Production Property* in Chapter 3.

Additions to 5-year property. Any qualified facility (as defined in section 45Y(b)(1)(A) of the Internal Revenue Code), any qualified property (as defined in subsection (b)(2) of section 48E of the Internal Revenue Code) which is a qualified investment (as defined in subsection (b)(1) of such section), or any energy storage technology (as defined in subsection (c)(2) of such section) that is placed in service after December 31, 2024, is 5-year property.

Removal of solar or wind energy property from the definition of 5-year property. Section 70509 of the OBBBA removed solar or wind energy property from the definition of 5-year property under section 168(e)(3)(B)(vi) of the Internal Revenue Code. This applies to solar or wind energy property beginning construction after December 31, 2024.

What's New for 2026

Section 179 deduction dollar limits. For tax years beginning in 2026, the maximum section 179 expense deduction is $2,560,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $4,090,000.

Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2026 is $32,000.

Chapter 1: OVERVIEW OF DEPRECIATION

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the general rules for depreciating property.

Introduction

Depreciation is an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, deterioration, or obsolescence of the property.

This chapter discusses the general rules for depreciating property and answers the following questions.

- What property can be depreciated?
- What property cannot be depreciated?
- When does depreciation begin and end?
- What method can you use to depreciate your property?
- What is the basis of your depreciable property?
- How do you treat repairs and improvements?
- Do you have to file Form 4562?
- How do you correct depreciation deductions?

WHAT PROPERTY CAN BE DEPRECIATED?

You can depreciate most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment. You also can depreciate certain intangible property, such as patents, copyrights, and computer software.

To be depreciable, the property must meet all the following requirements.

- It must be property you own.
- It must be used in your business or income-producing activity.
- It must have a determinable useful life.
- It must be expected to last more than one year.

The following discussions provide information about these requirements.

Property You Own

To claim depreciation, you usually must be the owner of the property. You are considered as owning property even if it is subject to a debt.

Example 1

You made a down payment to purchase rental property and assumed the previous owner's mortgage. You own the property and you can depreciate it.

Example 2

You bought a new van that you will use only for your courier business. You will be making payments on the van over the next 5 years. You own the van and you can depreciate it.

Leased property. You can depreciate leased property only if you retain the incidents of ownership in the property (explained below). This means you bear the burden of exhaustion of the capital investment in the property. Therefore, if you lease property from someone to use in your trade or business or for the production of income, you generally cannot depreciate its cost because you do not retain the incidents of ownership. You can, however, depreciate any capital improvements you make to the property. See *How Do You Treat Repairs and Improvements* later in this chapter, and *Additions and Improvements* under *Which Recovery Period Applies* in Chapter 1 of course 34602A.

If you lease property to someone, you generally can depreciate its cost even if the lessee (the person leasing from you) has agreed to preserve, replace, renew, and maintain the property. However, if the lease provides that the lessee is to maintain the property and return to you the same property or its equivalent in value at the expiration of the lease in as good condition and value as when leased, you cannot depreciate the cost of the property.

Incidents of ownership. Incidents of ownership in property include the following.

- The legal title to the property.
- The legal obligation to pay for the property.
- The responsibility to pay maintenance and operating expenses.
- The duty to pay any taxes on the property.
- The risk of loss if the property is destroyed, condemned, or diminished in value through obsolescence or exhaustion.

Life tenant. Generally, if you hold business or investment property as a life tenant, you can depreciate it as if you were the absolute owner of the property. However, see *Certain term interests in property* under *Excepted Property*, later.

Cooperative apartments. If you are a tenant-stockholder in a cooperative housing corporation and use your cooperative apartment in your business or for the production of income, you can depreciate your stock in the corporation, even though the corporation owns the apartment.

Figure your depreciation deduction as follows.

1. Figure the depreciation for all the depreciable real property owned by the corporation in which you have a proprietary lease or right of tenancy. If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.
   a) Multiply your cost per share by the total number of outstanding shares, including any shares held by the corporation.
   b) Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.
   c) Subtract from the amount figured in (b) any mortgage debt that is not for the depreciable real property, such as the part for the land.
2. Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but cannot be lived in by tenant-stockholders.
3. Divide the number of your shares of stock by the total number of outstanding shares, including any shares held by the corporation.
4. Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year cannot be more than the part of your adjusted basis in the stock of the corporation that is allocable to your business or income-producing property. You must also reduce your depreciation deduction if only a portion of the property is used in a business or for the production of income.

Example

You figure your share of the cooperative housing corporation's depreciation to be $30,000. Your adjusted basis in the stock of the corporation is $50,000. You use one half of your apartment solely for business purposes. Your depreciation deduction for the stock for the year cannot be more than $25,000 (½ of $50,000).

Change to business use. If you change your cooperative apartment to business use, figure your allowable depreciation as explained earlier. The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

- The fair market value (FMV) of the property on the date you change your apartment to business use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.
- The corporation's adjusted basis in the property on that date. Do not subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) above. The fair market value of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.

Property Used in Your Business or Income-Producing Activity

To claim depreciation on property, you must use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be taxable. You cannot depreciate property that you use solely for personal activities.

Partial business or investment use. If you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the business or investment use. For example, you cannot deduct depreciation on a car used only for commuting, personal shopping trips, family vacations, driving children to and from school, or similar activities.

Note

You must keep records showing the business, investment, and personal use of your property.

Caution!

Although you can combine business and investment use of property when figuring depreciation deductions, do not treat investment use as qualified business use when determining whether the business-use requirement for listed property is met. For information about qualified business use of listed property, see *What Is the Business-Use Requirement* in Chapter 1 of course 34603A.

Office in the home. If you use part of your home as an office, you may be able to deduct depreciation on that part based on its business use.