

Modified Accelerated Cost-Recovery System (MACRS) + Bonus Depreciation

Last DSIRE Review: 02/27/2008

Incentive Type: Corporate Depreciation

Eligible Renewable/Other Technologies: Solar Water Heat, Solar Space Heat, Solar Thermal Electric, Solar Thermal Process Heat, Photovoltaics, Landfill Gas, Wind, Biomass CHP/Cogeneration, Solar Hybrid Lighting, Direct Use Geothermal, Anaerobic Digestion, Microturbines

Applicable Sectors: Commercial, Industrial

Authority 1: 26 USC § 168

Effective Date: 1986

Authority 2: Economic Stimulus Act of 2008

Date Enacted: 2/13/2008

Effective Date: 12/31/2007

Expiration Date: 12/31/2008

Summary:

Under the federal Modified Accelerated Cost-Recovery System (MACRS), businesses may recover investments in certain property through depreciation deductions. The MACRS establishes a set of class lives for various types of property, ranging from three to 50 years, over which the property may be depreciated. For solar, wind and geothermal property placed in service after 1986, the current MACRS property class is five years. For certain biomass property, the MACRS property class life is seven years. Eligible biomass property generally includes assets used in the conversion of biomass to heat or to a solid, liquid or gaseous fuel, and to equipment and structures used to receive, handle, collect and process biomass in a waterwall, combustion system, or refuse-derived fuel system to create hot water, gas, steam and electricity.

The federal Energy Policy Act of 2005 (EPA 2005) classified fuel cells, microturbines and solar hybrid lighting technologies as five-year property as well. The federal Economic Stimulus Act of 2008, enacted in February 2008, included a 50% bonus depreciation provision for eligible renewable-energy systems acquired and placed in service in 2008. To qualify for bonus depreciation, a project must satisfy these criteria:

- the property must have a recovery period of 20 years or less under normal federal tax depreciation rules;
- the original use of the property must commence with the taxpayer claiming the deduction;
- the property generally must be acquired during 2008; and
- the property must be placed in service during 2008 (or, in certain limited cases, in 2009).

If property meets these requirements, the owner is entitled to deduct 50% of the adjusted basis of the property in 2008. The remaining 50% of the adjusted basis of the property is depreciated over the ordinary depreciation schedule. The bonus depreciation rules do not override the depreciation limit applicable to projects qualifying for the federal business energy tax credit. Before calculating depreciation for such a project, including any bonus depreciation, the adjusted basis of the project must be reduced by one-half of the amount of the energy credit for which the project qualifies.

For more information on the federal MACRS, see *IRS Publication 946, IRS Form 4562: Depreciation and Amortization*, and *Instructions for Form 4562*. The [IRS web site](#) provides a search mechanism for forms and publications. Enter the relevant form, publication name or number, and click "GO" to receive the requested form or publication.

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