RURAL TAX EDUCATION

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Depreciation: Alternative Minimum Tax Considerations*

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Introduction

In some circumstances, certain depreciation methods will cause depreciation to be recalculated for Alternative Minimum Tax (AMT) purposes. These calculations rely on more federal income tax knowledge. The treatment here is to give producers some idea of the relationship between depreciation and AMT. The Alternative Minimum Tax is a separate but parallel tax that is meant to reduce the deductions of taxpayers that have taken advantage of what Congress perceives to be excess deductions. For depreciation purposes it means that a method of depreciation must be used for AMT that allows lower amounts of depreciation than that allowed for the regular income tax calculations.

For property placed in service after 1998, if the 200% declining balance (DB) MACRS method is used for regular tax purposes, depreciation must be recalculated for AMT purposes using 150% DB MACRS. The difference between regular depreciation and this redetermined amount is an income adjustment subject to inclusion in Alternative Minimum Tax Income (AMTI).

For all other property placed in service after 1998, the depreciation method is the same for regular tax and AMT purposes. Therefore, farm property placed in service after 1998 is depreciated using the same method for AMT purposes.

> **Note**: There could still be an AMT adjustment on such property if it was acquired using a trade-in that has a different basis for AMT purposes due to prior-year AMT depreciation rules discussed later.

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For Internal Revenue Code (IRC) Section 1245 property placed in service after 1986 and before 1999, depreciation must be recalculated for AMT purposes by using the following table.

IRC Section 1245 Property Placed in Service Prior to 1999

Used for Regular Tax Purposes	Must Use for AMT Purposes
150 DB MACRS	150 DB, ADS life
200 DB MACRS	150 DB, ADS life
SL MACRS ADS	SL, ADS life ADS

An adjustment remains for nonfarm property depreciated using 200% DB MACRS as well as for other property placed in service prior to 1999.

The AMT depreciation adjustment for IRC Section 1250 property placed in service after 1986 and before 1999 is the difference between what was claimed for regular income tax and what was allowed under MACRS ADS SL depreciation. As can be seen, required AMT depreciation changes will minimally affect assets purchased by farmers and ranchers after 1998 for use in their businesses. Should farmers and ranchers become subject to an AMT calculation, which is complex, it is advisable to obtain qualified professional tax help.

IRS Publications

To access IRS Publications go to www.irs.gov and click on "Forms and Publications". Then click on "Publication number" under "Download forms and publications by:". Type the publication number in the find box to search for the publication. Publication may be viewed online by double clicking on the publication or downloaded.

IRS Publication 946: How to Depreciate Property. This publication specifically covers depreciation with great detail.

IRS Publication 225, Farmer's Tax Guide. This publication addresses many of the issues for depreciation including separate sections for: Depreciation, Chapter 7; Basis of Assets, Chapter 6; and Dispositions of Property Used in Farming, Chapter 9.

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land-grant universities, to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

Fact sheets that might be of particular interest include:

- Depreciation: An Introduction
- Depreciation: Class Life
- Depreciation: Cost Recovery Methods and Options

- Depreciation: Special Rules on Pickups, SUVs, Other Autos and Listed Property
- Depreciation: Election to Expense Qualifying Assets (Section 179 Deduction)
- Depreciation: Bonus or Additional First-Year Depreciation (AFYD)
- Depreciation: Other Topics
- Depreciating Your Home Office