

#### AT. 4

# Depreciable Assets and Tax Depreciation Methods

Depreciable assets are things that have lasting value to the business and have an “ascertainable useful life in excess of one year.”

Assets are not expensed (deducted) when purchased. Instead you take a “depreciation deduction” using special forms that are part of your tax return.

Assets have lasting value to the business include equipment, machinery, fences, wells, buildings, hoop houses, breeding animals, work animals such as roping horses or guard dogs, and trees or vines that bear annual crops.

What is an ascertainable useful life? It means you know the asset will not last forever, and it can be objectively determined if the asset is still useful or functional. Buildings, trees, vines, fences, equipment, etc. are all depreciable assets because we can clearly ascertain that at some point they will cease to exist.

Assets are depreciated over their useful lives or their tax lives, or in many cases you may take "bonus" depreciation and deduct the full amount in the year of purchase.

As a matter of common practice if an item will be used for more than one year but costs less than \$500 dollars the item is treated as an expense and not as an asset.

Land is an asset—but not a depreciable asset because while the land might be alive you can not ascertain how long it might continue—it might go on forever or at least far past our ability to imagine. Because we can not determine that land has a life that ends, land cannot be depreciated.

Some land improvements have no ascertainable useful life and cannot be depreciated. We will discuss some special rules for special kinds of land improvements and farm assets in Lesson 6.

See *IRS Publication 225* for more information on special rules for land improvements and farm assets.

For more information about how to depreciate assets see *IRS Publication 946*.

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