

R.10

Special Records Requirements for Depreciable Assets

You should keep a detailed list of all the depreciable assets used in your business. Show:

1. Description
2. Purchase date
3. Purchase amount
4. Depreciation deduction taken each year
5. Date sold or taken out of service

In addition to your asset list you need supporting documentation showing evidence of:

- When and how you acquired the assets
- Purchase price
- Cost of any improvements
- Depreciation deductions taken
- Deductions taken for casualty losses, such as losses resulting from fires or storms
- How you used the asset in your business
- Sales price of asset if sold and terms of sale if sold on contract or in partial exchange for another asset.

Examples of supporting documents include: purchase and sales invoices, real estate closing statements, canceled checks or other documents that identify payee, amount, and proof of payment, prior year tax returns with depreciation schedules.

Special requirements for transactions involving assets

When you sell an asset the income is not part of your business income, it is reported separately as Capital Gains Income.

Capital Gains are taxed at a lower rate than self-employment income.

Capital Gains Income is:

Gross sales price

Less your basis in the asset

Less costs of the sale

Equals: Capital Gains Income (or Loss)

Basis is:

- a) **cost basis** which is your purchase price or cost to build
- b) **gift basis** or the donor's basis when they gave it to you or
- c) for inherited assets you have a special "**stepped-up basis.**"

A stepped-up basis is the fair market value of the asset on the date of death of the person from whom you inherited it.

You may increase your basis in an asset if you incur costs by making improvements to it.

Your basis in an asset decreases by the amount of the depreciation that would be allowed on your tax return - and it decreases by this amount even if you don't take the deduction on your tax return!

You need records to show your basis in any asset you sell.

If you can not prove the amount you claim as basis the IRS will assume the basis is zero and you will owe tax on the full sales price of the item.

Records to show basis include:

- purchase records
- tax returns showing depreciation
- gift letters and the tax returns of the person who made you the gift (if you want to show that you have more than zero basis in the gift because they had more than zero basis in the gift)
- estate tax returns or probate documents for inherited assets
- receipts for any improvements you made.

This resource is derived from materials developed by the University of Arkansas School of Law Agricultural Tax Training as part of the Agricultural Financial, Tax and Asset Protection (AgFTAP) partnership with the University of Arkansas Southern Risk Management Education Center and others.