



Renewable Energy Depreciation

INDUSTRY ALERT

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In general, a number of renewable energy projects utilize depreciable property for which “accelerated depreciation” is available. When referring to so-called “accelerated depreciation,” many non-CPAs are simply referring to what is technically known as the Modified Accelerated Cost Recovery System (MACRS), also known as “5- year depreciation.”

Five-year MACRS is generally available for energy property that qualifies for the federal Internal Revenue Code (IRC) § 46 investment tax credit, which includes § 48 property, as well as those properties currently included as eligible facilities under IRC § 45 (described in more detail below).

In short, certain eligible energy property is deemed to have a “useful-life” for federal income tax purposes, of 5 years, despite such property having an actual, physical life of a much longer time frame.

Accordingly, the ability to deduct most of the cost of a capital outlay in a relatively short period of time has tremendous economic value to many energy property owners. However, in addition to 5 year MACRS, in recent years, there has also been “bonus depreciation” as well as “GO Zone” depreciation, in addition to current year expensing provisions under § 179, or Energy Efficient Commercial Building Deductions under § 179D, as well as Commercial Revitalization deductions under § 1400I, any one of which could be viewed, or understood by the layman, as “accelerated depreciation.”

Therefore, given all the above, there is much confusion in the general public as to exactly what “accelerated depreciation” is, and even more confusion as to what particular rules apply to any given taxpayer’s project as it pertains to the issue of what qualifies for 5 year MACRS property and what does not.

The following paper is therefore an attempt to help clarify the considerations that must be made when determining the depreciation of renewable energy property. As such, this paper principally concerns only IRC § 168(e), wherein lies the classification method of 5-year MACRS for various energy properties as it relates to its depreciation for federal income tax purposes.

Also provided is a non-exhaustive survey of some additional federal tax rules that may extend the 5-year period, or alter the method from the MACRS system to another system, such as ADS depreciation or AMT or another straight-line treatment.

Finally, some comment is made as to the actual ability of any taxpayer to realize depreciation deductions despite the property being originally classifiable as 5 year MACRS property as well a brief additional comment as to how some states may force further restrictions on taxpayers and prevent taking depreciation benefits at the state level to the same extent taken at the federal level.

What Is 5 year MACRS Depreciation?

The deduction for depreciation represents an allowance for the wearing out, or loss of usefulness, of property used in a trade or business or held for the production of income. Personal use, or use on your home, is not generally eligible for depreciation.

“MACRS” is the acronym for “modified accelerated cost recovery system” which distinguishes the depreciation rules that apply to most tangible depreciable property placed in service after 1986 from the accelerated cost recovery system (ACRS) rules that previously applied.

Most property is depreciated under the rules of IRC §168, usually referred to as “MACRS.”

MACRS prescribes the depreciation periods over which the depreciation deduction for MACRS property is allowed. The prescribed depreciation periods of MACRS are those provided by the “general depreciation system,” unless the

generally longer depreciation periods prescribed by the “alternative depreciation system” (ADS) are required or elected. MACRS generally allows depreciation deductions to be taken over the recovery period equal to the MACRS class in which the property belongs.

The depreciation periods provided under the two MACRS “systems” (i.e. general depreciation system and alternative depreciation system) are the only depreciation periods permitted under MACRS.

The term “useful life” is defined as an estimate of how long an item of property can be expected to be usable in trade or business or to produce income.¹

Computation of depreciation based on the useful life of the property is ***not*** permitted.

Depletion

Certain assets, particularly those comprised of valuable natural resources differ from assets that are depreciable because rather than experience “wear-and-tear” they are physically extracted from the environment. Accordingly, they “deplete” and are replaceable only by natural process. For federal tax purposes, the cost of natural resources sold is known as depletion. It is a deduction, similar in overall tax effect to depreciation, but distinct from depreciation. Though generally not applicable in most renewable energy projects, depletion in lieu of depreciation can be a factor in certain geothermal or biomass projects, as they involve wells and reliance on water or other natural resources as an initial energy supply.

Amortization – Section 197

Amortization is functionally similar to depreciation in that it represents the gradual reduction of a base (or basis) amount over time. In order for a property to be eligible for the § 48 tax credit, one condition is that the property be depreciable or amortizable, thus, merely because a property is not depreciable does not mean that it may not be amortizable, and if amortizable, it may be eligible, assuming it meets other qualifying tests specific to the tax credit. However, for federal income tax purposes, § 197 imposes a number of rules on the amortization of a specific class of items, specifically “intangibles.” In general, the § 48 credit is not allowed for intangibles, as the credit is generally allowed for personal property only. However, to the extent that amortization is allowed, the general period over which amortization is allowed is 15 years with other periods being separately provided for by the Internal Revenue Code.

Section 470

In reaction to certain abusive tax shelter transaction Congress implemented in the U.S. tax code a rule under § 470 of the code. In essence, what the rule does is limit the amount of deductions a taxpayer may take when a tax exempt entity is a lessee of property giving rise to the deductions. Because many renewable energy projects involve leases of the energy property, and because many governments, municipal utilities, or tax-exempt entities such as schools may be involved, § 470 could, despite it being an otherwise unintended consequence, limit a taxpayer’s ability to deduct depreciation amounts. Note that in general, § 470 may not apply due to special provisions within § 470 that pertain to tax-exempt use. Note also, that in the context of a § 48 energy project, because other governmental or tax exempt use rules prevent tax credits when the tax credit eligible property is leased by a government or tax exempt you will rarely see such leases. However, the new § 1603 grant in lieu of credit does allow a lease to a government or tax exempt, and as such, depreciation with respect to that property may be governed by § 470 if the exception with respect to § 168(h)(6) does not apply to your transaction.

¹ IRS Publication 946

Basic Tax Depreciation of Eligible Energy Property – 5 Year MACRS

The rules with respect to federal and state depreciation are inordinately complex. Unless you are an expert in such matters, it is a subject best handled by experienced tax advisors.

What follows are the “basics” as it relates to 5-year MACRS.

Internal Revenue Code § 168(e)(3)(B) specifically describes the type of energy property that qualifies as 5-year MACRS property. Much, but not all, energy or “renewable energy” property falls under this category.

Specifically, five-year property includes “qualified energy property.”

The term “qualified energy property” (here in quotes for emphasis) is a technical tax term, wherein qualified energy property consists of any energy investment tax credit property, qualified biomass property, and any ocean thermal energy property. Therefore, only if your property falls within the following definition, or some other rule applies, will your property actually be 5-year MACRS property.

Specifically, such 5-year property includes:

1. Any property which is described in subparagraph (A) of section 48(a)(3) (or would be so described if “solar or wind energy” were substituted for “solar energy” in clause (i) thereof and the last sentence of such section did not apply to such subparagraph).

Therefore, under this general IRC provision, such property includes:

- i. equipment which uses solar or wind energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat, excepting property used to generate energy for the purposes of heating a swimming pool,
 - ii. equipment which uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight but only with respect to periods ending before January 1, 2017,
 - iii. equipment used to produce, distribute, or use energy derived from a geothermal deposit (within the meaning of section 613(e)(2)), but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage,
 - iv. qualified fuel cell property or qualified microturbine property,
 - v. combined heat and power system property,
 - vi. qualified small wind energy property,
 - vii. equipment which uses the ground or ground water as a thermal energy source to heat a structure or as a thermal energy sink to cool a structure, but only with respect to periods ending before January 1, 2017, and
2. Any qualified biomass property which is a qualifying small power production facility under §3(17)(C) of the Federal Power Act as in effect on September 1, 1986.

As such, “qualified biomass property” includes:

- i. a boiler the primary fuel for which will be an “alternate substance”
- ii. a burner (including necessary on-site equipment to bring the alternate substance to the burner) for a combustor other than a boiler if the primary fuel for such burner will be an alternate substance

- iii. equipment for converting an alternate substance into a synthetic liquid, gaseous, or solid fuel
- iv. pollution control equipment required (by Federal, State, or local regulations) to be installed on or in connection with equipment described above, or
- v. equipment used for the unloading, transfer, storage, reclaiming from storage, and preparation (including, but not limited to, washing, crushing, drying, and weighing) at the point of use of an “alternate substance” for use in equipment described above.

For this purpose, an “alternate substance” is any substance other than oil, natural gas, any product of oil or natural gas, inorganic substances, coal, lignite, and any product of coal or lignite.

A qualified fuel is any synthetic fuel and any alcohol for fuel purposes if the primary source of energy for the facility producing the alcohol is not oil, natural gas, or a product of oil or natural gas.

3. Any qualified ocean thermal energy property.

NOTE: The above 3 paragraphs, taken from the IRC, are riddled with technical tax terms and definitions, each of which requires separate detailed federal income tax research of IRS pronouncements and federal case law in order to properly understand whether any taxpayer’s property is eligible for 5-year MACRS treatment. Unfortunately, there is **NO** “easy” way around it. An exposition of each term or definition above is well beyond the scope or intent of this white paper. However, failure to take the time and do the research will likely result in ultimate hardship for the taxpayer. It is important to take the time, and spend the effort to get it right at the outset, despite it being time consuming and expensive in some cases.

Will All My Property Qualify As 5 Year Property?

The National Renewable Energy Laboratory (NREL) released a report titled “PTC, ITC, or Cash Grant? An Analysis of the Choice Facing Renewable Power Projects in the United States” in March 2009 which makes certain general “rule of thumb” references to depreciation recovery periods

The NREL report provides the following:

1. **Wind Projects** – Generally, 90% of the project is depreciated using a 5-year MACRS schedule, while another 5% is depreciated using a 20-year MACRS schedule. The remaining 5% of installed project costs are not considered to be depreciable.
2. **Biomass Projects** – Generally, 60% of the project is depreciated using a 5-year MACRS schedule, while another 35% is depreciated using a 20-year MACRS schedule with 5% of installed project costs non-depreciable.
3. **Geothermal Projects** – Generally, 75% of the project is depreciated using a 5-year MACRS schedule, while the rest of the project’s costs are, for tax purposes, either expensed or depleted.
4. **Landfill Gas Projects** – Generally, 95% of the project is depreciated using a 15-year MACRS schedule, while the remaining 5% of project costs are not considered to be depreciable.

You can access this NREL document at <http://www.nrel.gov/docs/fy09osti/45359.pdf>.

These percentages are merely generalizations for illustration purposes only.

How Much Depreciation is Actually Taken and When?

In addition to rules that determine the “useful life” of depreciable property for federal income tax purposes, there are other rules that determine how much depreciation is deductible in any given taxable year even when you know you have 5-year MACRS property.

In general, for renewable energy projects placed in service prior to October 1 of a given year, depreciable property will be subject to what is known as the mid-year convention.

However, if more than 40% of the aggregate basis of property is placed-in-service during the last three months of the year, all property will be subject to the mid-quarter convention.

Since most renewable projects are placed in service at one time in the year (rather than in several installments), we have shown below only the 4th QTR placed in service mid-quarter convention depreciation method. Obviously, with more complex facts and circumstances, more complicated criteria affect the actual realization of federal depreciation tax deductions.

Asset Balance :	\$ 1,000,000	
Depr. Method	5 Year MACRS	
Convention:	Half-Year	Mid-Quarter PIS: 4th Qtr
Year		
1	200,000	50,000
2	320,000	380,000
3	192,000	228,000
4	115,200	136,800
5	115,200	109,400
6	57,600	95,800
Total	<u>1,000,000</u>	<u>1,000,000</u>

Note however, that the application and impact of these rules are dependent on highly fact-specific factors, and as such, the principal goal of their listing here is to inform the reader of the importance of knowing all the facts and circumstances of the transaction.

AMT Depreciation

AMT depreciation is a method that uses the MACRS recovery period, but a slower recovery method, for purposes of impacting the depreciation deductions allowed in any one taxable year, using either the straight line, or 150 percent declining balance method, rather than the 200 percent declining balance method of general MACRS. In general, taxpayers may choose “slower” depreciation, but once chosen, you must continue with it. However, though the annual deductions allowed may be less than with 200 percent declining balance MACRS, you will eventually receive the same amount of deduction and tax reduction.

Cost Segregation

In general, for federal income tax purposes, depreciable property is of one of two types. It is either “personal property” or “real property.” In general, for purposes of § 48, only personal property, or amounts properly capitalized with respect to such personal property is eligible for the tax credit. Though items like intangibles may be personal property, separate rules prohibiting § 48 tax credits for intangibles would eliminate such associated costs from depreciable basis.

Cost Segregation, also known as “component depreciation” is the practice of conducting a detailed classification of all assets involved in a trade or business so as to determine the greatest possible amount of personal property for tax purposes. This is generally an extremely valuable exercise given that in general, property classified as real estate has a depreciable life of either 27.5 or 39 years (or longer). Therefore, any property related costs that can be SEGREGATED from the classification of real estate will generally comprise an asset base with materially shorter useful lives for federal income tax purposes, and as such, represent tax deductions that can be taken much sooner (e.g., in 3 or 5 or 7 or 10) years rather than over 27.5 or 39 or more years. The time value of money is generally viewed as being greater the sooner it is realized, and thus a federal income tax deduction today, is of greater real economic value than one that must be taken in some later, far more remote year.

Depreciation Rules That Impact Depreciation Allowed or Allowable

Within § 168 itself are a number of other rules, specific to depreciation, that can alter the recognition or realization of what would otherwise be 5-year MACRS property.

What follows next is a general sampling of the most common of these rules under § 168 which may apply to renewable energy, many of which trigger exceptions to the 5-year treatment otherwise contemplated under 5-year MACRS.

Seeking competent tax advice from a tax advisor highly experienced in such matters is essential in order to ensure that the correct federal and state tax treatments are understood.

Smart Meter/Smart Grid Rules - “Qualified smart electric meters” and “qualified smart electric grid systems” are depreciated on the 150% declining balance method not the 200% allowed by MACRS.

Water Utility property - The straight line method applies to water utility property.

Smart Electric Grid - “Qualified smart electric grid systems” are assigned to the ten-year property class.

Smart Electric Meter - “Qualified smart electric meters” are assigned to the ten-year property class.

Municipal Waste Water Treatment Plant - “Municipal waste water treatment plants” are assigned to the 15-year property class.

Transmission Property - Section 1245 property used in the transmission at 69 or more kilovolts of electricity for sale and the original use of which commences with the taxpayer after April 11, 2005 is assigned to the 15-year property class.

Transmission/Distribution Clearing and Grading - Initial clearing and grading land improvements with respect to any electric utility transmission and distribution plant is assigned to the 20-year property class.

Normalization – Public Utility Property - The depreciation rules set forth under Section 168 do not apply to any public utility property if the taxpayer does not use a normalization method of accounting. Substantially longer depreciable periods typically results.

ADS – Rules pertaining to the alternative depreciation system (ADS) provide the recovery period for such property will vary from the class life (often 12 years for § 48 property) and can range up to 50 years rather than the MACRS 5 years.

Property used outside the U.S. - The alternative depreciation system (ADS) must be used for this type of property.

Tax exempt use property - The alternative depreciation system (ADS) must be used for this type of property.

Tax exempt use property subject to a lease - The alternative depreciation system (ADS) must be used for this type of property. Requires a recovery period of no less than 125% of the lease term.

Tax exempt bond financed property - The alternative depreciation system (ADS) must be used for this type of property.

Imported Property - The alternative depreciation system (ADS) must be used for this type of property.

Other Factors That Impact Depreciation

Tax Exempt Use Property - This category includes tangible property other than nonresidential real property leased to a tax-exempt entity under a disqualified lease if that portion of the property so leased is more than 35% of the property.

Short Term leases - Property leased to a tax-exempt entity under a short-term lease is not treated as tax-exempt-use property.

Tax exempt entity - This term includes The United States, any state or political subdivision thereof, any U.S. possession, or agencies or instrumentalities of any of the foregoing; any organization, except a farmer's cooperative, that is exempt from U.S. income tax, and certain organizations that were formerly exempt; and any foreign person or entity and certain Indian tribal governments.

Taxable instrumentalities - Corporations are not treated as an instrumentality of the United States or of any State or political subdivision thereof if all of the corporation's activities are subject to tax, and a majority of the corporation's board of directors is not selected by the U.S. or any State or political subdivision thereof.

Election for tax exempt COOP to be taxed - Rural electric cooperatives are not subject to the five-year look back rules if they elect not to be exempt from tax under Section 501(a) during the "tax-exempt period," elect to be taxable on exempt arbitrage profits, and comply with the transitional rule on payment of tax on the exempt arbitrage profits.

Government Related Entities - Each governmental unit and each agency or instrumentality of a governmental unit is related to each other such unit, agency, or instrumentality which directly or indirectly derives its powers, rights, and duties in whole or in part from the same sovereign authority.

Partnership Leasing Rules - In the case of any property which is leased to a partnership, the determination of whether any portion of such property is tax-exempt use property shall be made by treating each tax-exempt entity partner's proportionate share of such property as being leased to such partner.

Partnership ownership rules - if depreciable property that would not otherwise constitute tax-exempt use property is owned by a partnership that has among its partners both tax-exempt and taxable entities, and any allocation to the tax-exempt partner of partnership tax items is not a "qualified allocation," then an amount equal to the tax-exempt partner's "proportionate share" of such depreciable property is treated as tax-exempt use property.

Normalization - In order to use a normalization method of accounting with respect to any public utility property, the taxpayer must satisfy some requirements.

Public Utility Property - This term means property used predominantly in the trade or business of the furnishing or sale of electrical energy, water, or sewage disposal services; gas or steam through a local distribution system; telephone services or certain other communication services, or transportation of gas or steam by pipeline if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by any agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof.

Smart Meters - A “qualified smart electric meter” is any “smart electric meter” that is placed in service by a taxpayer that is a supplier of electric energy or a provider of electric energy services, and doesn’t have a class life of less than 10 years.

Smart Grid - A “qualified smart electric grid system” is any “smart grid property” that is used as part of a system for electric distribution grid communications, monitoring and management placed in service by a taxpayer that is a supplier of electric energy or a provider of electric energy services and doesn’t have a class life of less than 10 years.

Indian Reservation property - The applicable recovery period for property on Indian reservations shall be determined in accordance to a specific table.

ADS Exception - The term “qualified Indian reservation property” does not include any property to which ADS applies.

Bonus Depreciation - 50% bonus depreciation is available for certain property acquired after December 31, 2007 and before January 1, 2010.

Cellulosic Biofuel - 50% bonus depreciation for qualified cellulosic biofuel plant property.

Reuse and Recycling - 50% bonus depreciation is allowed for “qualified reuse and recycling property.”

Special Allowance for Qualified Disaster Assistance Property - 50% bonus depreciation and AMT depreciation relief are allowed in connection with disasters federally declared after 2007 and occurring before 2010.

Other Non-Energy Federal Tax Rules That Impact Federal Depreciation

In addition to the above depreciation schedule which ultimately only affects the timing of when deductions are allowed, other, non-depreciation rules will impact whether any given taxpayer may claim a depreciation deduction in any given taxable year.

For example, the federal income tax accounting rules under IRC § 704 determine whether an owner of an interest in an entity taxable as a partnership for federal income tax purposes is merely able to receive an allocation of depreciation deductions from that entity. In many cases, though the partnership or LLC will have depreciation deductions allocable to partners, any one of those partners may not be allowed to receive such an allocation. However, even in the event that a partner is able to receive a tax allocation of depreciation deductions, there are separate and essentially independent tax accounting rules under IRC

§ 705 which determine whether any partner who is able to receive such an allocation may actually claim the deduction.

Then, over and above these rules, there are other, again separate, federal income rules under §§ 465 and 469 that may also suspend the ability of a taxpayer to realize such deductions in any given year.

NOTE: Rules of similar effect under different IRC sections also may apply to S-corporations, trusts, and other “flow-through” entities.

Many energy projects source their funding/capital to a variety of sources, some of which may come from public utilities. In cases with respect to dwelling units, the receipt and use of funds from a public utility to help finance the costs of the energy equipment may force reductions to depreciable basis thereby reducing the amount of depreciation overall.

In addition, other one-time, “up-front” expensing provisions may also reduce future depreciation deductions.

Also, certain federal income tax credit rules further require permanent reductions to depreciable basis, although these typically do not impact the timing of deductions or the useful life of the depreciable property.

Reportable Transactions (Losses)

Depreciation deductions, in general, are treated for federal income tax purposes as a form of “loss.” Though an item of depreciable property may in fact be increasing in fair market value over time, the rules with respect to depreciation are treated as a reduction in value due to wear and tear on the item being depreciated.

Such “losses” are generally allowed as a deduction under § 165 of the federal tax code, and as such, because these deductions generally reduce taxable income, the ability to claim a deduction has the immediate effect of lowering one’s tax. This value creates a tendency for taxpayers to seek to maximize deductible losses in any given year. Unfortunately, this tendency has, particularly in the recent past, given rise to certain abusive transactions whose principal purpose was the creation of losses not properly allowable. In response to such taxpayer abuse, Congress imposed a number of rules, implemented through the IRS that require transactions with excessive losses to be specially disclosed and reported. Though not common in most renewable energy transactions, taxpayers should be aware of the following rules, as they pertain to depreciation deductions.

Taken directly from IRS Website:

<http://www.irs.gov/businesses/article/0,,id=214002,00.html>

“Congress has enacted a series of income tax laws designed to halt the growth of abusive tax avoidance transactions. These provisions include the **disclosure of reportable transactions**. Each taxpayer that has participated in a reportable transaction and that is required to file a tax return must disclose information for each reportable transaction in which the taxpayer participates

If a taxpayer claims a loss under § 165 of at least one of the following amounts on a tax return, then the taxpayer has participated in a loss transaction and must file Form 8886. If an advisor provides material aid, assistance, or advice on a transaction that results in a taxpayer claiming a § 165 loss of at least one of the following amounts and meets other filing requirements; then the advisor is a material advisor and must file Form 8918.

- For individuals, at least \$2 million in a single tax year or \$4 million in any combination of tax years.
- For corporations (excluding S corporations), at least \$10 million in any single tax year or \$20 million in any combination of tax years.
- For partnerships with only corporations (excluding S corporations) as partners (looking through any partners that are also partnerships), at least \$10 million in any single tax year or \$20 million in any combination of tax years, whether or not any losses flow through to one or more partners.
- For all other partnerships and S corporations, at least \$2 million in any single tax year or \$4 million in any combination of tax years, whether or not any losses flow through to one or more partners or shareholders.
- For trusts, at least \$2 million in any single tax year or \$4 million in any combination of tax years, whether or not any losses flow through to one or more beneficiaries.
- A loss from a foreign currency transaction under Internal Revenue Code section 988 is a loss transaction if the gross amount of the loss is at least \$50,000 in a single tax year for individuals or trusts, whether or not the loss flows through from an S corporation or partnership.

Taxpayers whose filed return does not reflect a section 165 loss that equals or exceeds the applicable threshold amount have not participated in a loss transaction. If you are a partner, shareholder, or beneficiary of a pass-through entity, you have participated in a loss transaction if your tax return reflects a section 165 loss allocable to it from the pass-through entity that equals or exceeds the applicable threshold amount.

Losses that do not have to be reported on Forms 8886 and 8918:

- Losses from casualties, thefts, and condemnations
- Losses from Ponzi Schemes
- Losses from the sale or exchange of an asset with a qualifying basis
- Losses arising from any mark-to-market treatment of an item
- Certain Swap losses (see Notice 2006-16)."

State Tax Add-Backs

Certain states require taxpayers to add back either all or a portion of federal bonus depreciation claimed for the tax year. Therefore, based on the taxpayer's specific situation, it is critical to check whether the relevant states require an add-back of some type.

Conclusion

The federal income tax rules with respect to tax depreciation are inordinately complex.² As such, without a detailed and thorough knowledge of the tax rules, combined with an in-depth understanding of the facts and circumstances relevant to the particular transaction of any given taxpayer, it is unwise to simply assume, or hope, that the general 5 year MACRS treatment will apply to your particular transaction.

Furthermore, even in cases where 5 year MACRS depreciation *COULD* apply, it is not always beneficial to have it applied. There are many cases where "longer" or "slower" recognition of tax depreciation deductions may yield an overall more favorable result to the owners of any given project given the interplay with rules respecting partnership tax allocations. Moreover, in cases where 5 year MACRS is allowed, there may be other good and valid business reasons why straight-line or other methods of depreciation recognition and realization may be more favorable to the transaction, and in those cases, taxpayers may indeed choose to elect out when and where permitted by the tax rules.

Also, caution must be exercised when choosing to change methods. Highly technical rules apply to such changes, and in many cases, it may not be allowed. Therefore, careful advance planning should be undertaken to ensure that once selected, a method of depreciation is suitable for the life of the property and the project with which it is associated.

Finally, there are other tax rules that may further impact the treatment or reporting of depreciation not covered here. You are hereby advised to see your tax advisor for advice regarding your particular situation.

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² See, e.g., IRS Publication 946

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