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## Computing Depreciation Just Got Another Twist

Parman R. Green

UO&E Farm Business Management Specialist

The Tax Code is relatively clear as to calculating asset basis in like-kind exchanges or involuntary conversions. However, the Code has been silent on how to depreciate the acquired property. **Not Any Longer**, and as you might anticipate – it's not the way most taxpayers have been depreciating acquired replacement property.

IRS Notice 2000-4 provides " ... the acquired MACRS property should be treated in the same manner as the exchanged or involuntarily converted MACRS property with respect to so much of the taxpayer's basis in the acquired MACRS property as does not exceed the taxpayer's adjusted basis in the exchanged or involuntarily converted MACRS property."

"Any excess of the basis in the acquired MACRS property over the adjusted basis in the exchanged or involuntarily converted MACRS property is treated as newly purchased MACRS property."

Thus, if cash is given in an exchange, the taxpayer continues to depreciate the remaining basis of the exchanged property "as if no disposal occurred" and creates a new asset record for the cash portion of the transaction. This could result in a substantial amount of confusion as to "what assets are on the depreciation form" and "what assets are actual on the farm".

Given the minimal difference in the depreciation calculated using the "new method" compared to the "old method", it is really only a timing difference – compliance with Notice 2000-4 is going to be quite expensive.

Notice 2000-4 provides rules for property placed in service on or after January 3, 2000. Regulations for implementing this new twist in depreciation property have yet to be released.