



Instructions for Oregon Depreciation Schedule

For Individuals, Partnerships, Corporations, and Fiduciaries

New information

In 1995, Oregon law was amended retroactively to reflect changes made to federal law. Changes relating to amortization, depreciation, and IRC Section 179 expense are:

- Amortization of intangibles. Federal law requires that certain intangibles be amortized over 15 years. You must file any amended Oregon returns necessary to reflect federal amortization.
- Nonresidential real property. For property placed in service on or after May 13, 1993, federal law required you to use a depreciable life of 39 years. If you used a life of 31.5 years for Oregon depreciation you must amend your returns to conform the Oregon depreciation to a life of 39 years.
- Section 179 expense. For tax years beginning on or after January 1, 1993, federal law allowed a maximum expense of \$17,500. Oregon adopted this same maximum amount retroactively to 1993. You may choose to amend your 1993 and 1994 returns to conform to the federal amount, or make an adjustment on your 1996 tax return.
- Effective for tax year 1996 only: you may be required to make a one-time adjustment on your 1996 tax return. The adjustment will conform the Oregon basis of assets to the federal basis in certain cases. The adjustment will apply to assets that have a different basis because Oregon law did not conform to federal law regarding depreciation of these assets:
 1. Assets placed in service in 1993 or 1994, if you claimed a different amount of Sec. 179 expense for Oregon purposes, but chose to not amend your 1993 or 1994 return to conform to the federal amount.
 2. Assets placed in service between January 1, 1981 and January 1, 1985 using different federal and state depreciation methods, periods, or conventions.

Do not make this adjustment on your 1995 tax return. The adjustment is for 1996 tax returns only.

Tax words

Depreciation. This is the way you deduct the cost of the property over its useful life. Property you depreciate must have a useful life of more than one year. Depreciation starts when the property is first made available for use (placed in service). You can't depreciate the cost of land.

Amortization. This is an expense similar to depreciation. Amortization allows you to deduct the cost of some intangible property over a certain period of time.

Sec. 179 expense. This allows you to expense some of the cost of certain property in the year you acquire it, rather than recovering the entire cost over the property's recovery period.

Basis of property. Generally, the cost of the property is its basis. Did you first place assets in service outside Oregon and

later bring them into Oregon? If so, the basis for figuring depreciation is the same basis you would use to figure the gain or loss on the sale of that property.

Assets first placed in service outside Oregon. Did you bring assets into Oregon on or after January 1, 1985? Were they first placed in service outside Oregon on or after January 1, 1985? Assets placed in service in tax years beginning on or between January 1, 1985, and December 31, 1986, are depreciated using the Accelerated Cost Recovery System (ACRS). Assets placed in service on or after January 1, 1987, are depreciated using the Modified Accelerated Cost Recovery System (MACRS).

Did you first place assets in service outside Oregon after December 31, 1980, but before January 1, 1985? If so, the basis for depreciation will be the lower of federal unadjusted basis or fair market value. The federal unadjusted basis is the original cost before any adjustments. Adjustments include: reductions for investment tax credits, depletion, amortization, or amounts expensed under Internal Revenue Code (IRC) Section 179. The asset's fair market value and useful life are figured when the asset is brought into Oregon. However, if you are subject to the apportionment rules, basis is computed using original cost and 1980 federal depreciation methods.

Did you first place assets in service outside Oregon before January 1, 1981? If so, your Oregon basis will be the same as your federal basis.

Useful life. This is the number of years you can reasonably expect to use the property in your trade or business, or hold the property to produce income for you.

Salvage value. This is the amount you expect the property to be worth at the end of its useful life (see above). Salvage value is figured when you acquire the property.

Real property. This type of property includes land and generally any buildings or improvements on the land. Land can't be depreciated, but buildings and most improvements can. Apartment complexes and office buildings are examples of depreciable real property.

Personal property. Property which isn't real property is generally personal property. Machinery, equipment, tools, and vehicles are examples of business personal property which can be depreciated.

Intangible property. This is personal property that has a value but cannot be seen or touched. Examples of intangibles include goodwill, franchises, patents and trademarks. IRC Section 197 allows certain intangibles to be amortized over 15 years.

Nonresidential real property. This is property held for the production of income or property used in a trade or business. This is IRC Section 1250 real property that is not (1) residential rental property, or (2) property with a class life of less than 27.5 years. See "New Information" on page 1 for changes that may require you to amend your 1993 or 1994 tax returns.

Assets placed in service on or after January 1, 1993

MACRS is effective for assets placed in service on or after January 1, 1993. The method and life will be the same as you used on the federal return. If you elect to expense the cost of qualifying assets under IRC Sec. 179, the election and amount is also effective for Oregon purposes. See "New Information" on page 1 for 1995 law changes which may allow you to amend your 1993 and 1994 returns, or make an adjustment on your 1996 tax return.

Assets placed in service on or after January 1, 1987 and before January 1, 1993

MACRS is effective for assets placed in service on or after January 1, 1987. For assets placed in service in tax years beginning on or between January 1, 1987 and December 31, 1992, Oregon and federal law will allow you a Section 179 expense of up to \$10,000 of the cost of qualifying assets.

The regular federal investment credit was repealed for property placed in service after 1985. The credit is still available for limited types of property and expenditures. If you have taken this credit, you will have a higher basis for Oregon. This is because your Oregon basis isn't reduced by the federal credit.

Oregon also follows the federal special election to recover the cost of assets placed in service after July 31, 1986, and before January 1, 1987, using the MACRS rules.

Assets placed in service on or after January 1, 1985, and before January 1, 1987

Did you place assets in service in tax years beginning on or between January 1, 1985, and December 31, 1986? Use the ACRS in effect on December 31, 1984. Your Oregon depreciation or Section 179 election to expense the cost of assets will generally be the same as the federal amount. Assets used for the production of income but not used in a trade or business don't qualify for the Section 179 expense. The maximum Section 179 expense is \$5,000 for all property.

ACRS can be used for "recovery property" placed in service in tax years beginning on or between January 1, 1985, and December 31, 1986. Recovery property is tangible property that can be depreciated. This property must be used in a trade or business or be held for the production of income. Recovery property doesn't include any motion picture film or videotape.

Example: Beth purchased her personal residence in 1983. In 1986, she converted it to rental property. The residence is considered to be placed in service in 1983. Thus, the rental property isn't considered recovery property for Oregon purposes. Beth may use any method allowed under 1980 federal law to figure her Oregon depreciation.

Luxury car limit and record-keeping requirements

Oregon law follows current federal law regarding the luxury car depreciation limits and record-keeping requirements. For assets placed in service on or after January 1, 1985, there is no difference for Oregon. No adjustment to your Oregon return is required.

For corporations—Asset Depreciation Range (ADR) depreciation or amortization in excess of or less than Oregon allowance

The election to use ADR for Oregon applies only to assets placed in service in tax years beginning on or after October 4, 1977, and before January 1, 1985. If you are still using ADR depreciation for assets placed in service in tax years beginning before October 4, 1977 for federal purposes, you have an Oregon adjustment.

Assets placed in service on or after January 1, 1981, and before January 1, 1985

You may use any method allowed under 1980 federal tax law. The most common depreciation methods are explained below.

Straight-line. You may use the straight-line method for any depreciable property. Do not depreciate beyond the asset's useful life. Do not depreciate below the salvage value.

Declining balance. You may use the declining balance method only for certain kinds of property. Only the property below qualifies.

Qualifying property	Qualifying percentage
Real property	
• New residential rental property	200%
• Other new real property	250%
• Used residential property, 20 or more years of useful life	125%
Personal property (with three or more years of useful life)	
• New tangible personal property	200%
• Used tangible personal property	150%

Don't subtract salvage value from your cost or other basis. But, the total depreciation taken in earlier years plus the current year's depreciation can't exceed a reasonable salvage value.

Did you sell or trade the property during the tax year? Then you may take only a part of a year's depreciation. Figure your depreciation based on the number of months you had the property.

Telephone numbers

Hours: Representatives are available 7:30 A.M.–5:10 P.M. Monday–Friday, except Wednesday when the hours are 9:00 A.M.–5:10 P.M. Closed on holidays. From March 18–April 15, representatives are available 7 A.M.–7 P.M., Monday–Friday.

Call: Salem (503) 378-4988
Toll-free within Oregon 1-800-356-4222

The toll-free number is only available from January through April. Our Internet address is: <http://www.dor.state.or.us>

TTY (hearing or speech impaired only): The year-round toll-free number within Oregon is 1-800-886-7204. In Salem, the number is (503) 945-8617. These numbers are answered by machine only and are not for voice use.

A line is available all year for those who speak Spanish. The number in Salem is (503) 945-8618. Habla Español? Las personas que necesitan asistencia en español pueden llamar al número en Salem (503) 945-8618.

In compliance with the Americans with Disabilities Act (ADA), this information is available in alternative formats by calling (503) 378-4988.