

§ 1.168(b)–1 Definitions.

(a) *Definitions.* For purposes of section 168 and the regulations thereunder, the following definitions apply:

(1) *Depreciable property* is property that is of a character subject to the allowance for depreciation as determined under section 167 and the regulations thereunder.

(2) *MACRS property* is tangible, depreciable property that is placed in service after December 31, 1986 (or after July 31, 1986, if the taxpayer made an election under section 203(a)(1)(B) of the Tax Reform Act of 1986; 100 Stat. 2143), and subject to section 168, except for property excluded from the application of section 168 as a result of section 168(f) or as a result of a transitional rule.

(3) *Unadjusted depreciable basis* is the basis of property for purposes of section 1011 without regard to any adjustments described in section 1016(a)(2) and (3). This basis reflects the reduction in basis for the percentage of the taxpayer's use of property for the taxable year other than in the taxpayer's trade or business (or for the production of income), for any portion of the basis the taxpayer properly elects to treat as an expense under section 179, and for any adjustments to basis provided by other provisions of the Internal Revenue Code and the regulations thereunder (other than section 1016(a)(2) and (3)) (for example, a reduction in basis by the amount of the disabled access credit pursuant to section 44(d)(7)). For property subject to a lease, *see* section 167(c)(2).

(4) *Adjusted depreciable basis* is the unadjusted depreciable basis of the property less the adjustments described in section 1016(a)(2) and (3).

(b) *Effective date.* This section applies as of the date of publication of the final regulations in the **Federal Register**.

3. Section 1.168(i)–0 is amended by revising the entry for § 1.168(i)–1(h)(2) to read as follows:

§ 1.168(i)–0 Table of contents for the general asset account rules.

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§ 1.168(i)–1

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(h) * * *

(2) Change in use results in a different recovery period and/or depreciation method.

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4. Section 1.168(i)–1 is amended by:

1. Revising paragraph (b)(1).

2. Amending paragraph (c)(2)(ii) by:

a. Removing the language “and” from the end of paragraph (c)(2)(ii)(C).

b. Removing the period “.” from the end of paragraph (c)(2)(ii)(D) and adding “; and” in its place.

c. Adding paragraph (c)(2)(ii)(E).

3. Removing the language “(h)(1) (conversion to personal use)” from paragraphs (d)(2) and (i) and adding “(h) (changes in use)” in its place.

4. Removing the language “the change in use occurs and” from the last sentence of paragraph (h)(1) and adding “the change in use occurs (the year of change) and” in its place.

5. Revising paragraph (h)(2).

6. Removing the language “(h)(1)” from paragraph (j) and adding “(h)” in its place.

7. Removing the language “(h)(1)” from paragraph (k)(1) and adding “(h)” in its place.

8. Revising paragraph (l).

The addition and revisions read as follows:

§ 1.168(i)–1 General asset accounts.

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(b) * * *

(1) *Unadjusted depreciable basis* is the basis of an asset for purposes of section 1011 without regard to any adjustments described in section 1016(a)(2) and (3). This basis reflects the reduction in basis for the percentage of the taxpayer's use of property for the taxable year other than in the taxpayer's trade or business (or for the production of income), for any portion of the basis the taxpayer properly elects to treat as an expense under section 179, and for any adjustments to basis provided by other provisions of the Internal Revenue Code and the regulations thereunder (other than section 1016(a)(2) and (3)) (for example, a reduction in basis by the amount of the disabled access credit pursuant to section 44(d)(7)). For property subject to a lease, *see* section 167(c)(2).

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(c) * * *

(2) * * *

(ii) * * *

(E) Assets subject to paragraph (h)(2)(iii)(A) of this section (change in use results in a shorter recovery period and/or a more accelerated depreciation method) for which the depreciation allowance for the year of change is not determined by using an optional depreciation table must be grouped into a separate general asset account.

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(h) * * *

(2) *Change in use results in a different recovery period and/or depreciation method—(i) No effect on general asset account election.* A change in the use described in § 1.168(i)–4(d) (change in

use results in a different recovery period and/or depreciation method) of an asset in a general asset account shall not cause or permit the revocation of the election made under this section.

(ii) *Asset is removed from the general asset account.* Upon a change in the use described in § 1.168(i)–4(d), the taxpayer must remove the asset from the general asset account as of the first day of the year of change and must make the adjustments to the general asset account described in paragraphs (e)(3)(iii)(C)(2) through (4) of this section. If, however, the result of the change in use is described in § 1.168(i)–4(d)(3) (change in use results in a shorter recovery period and/or a more accelerated depreciation method) and the taxpayer elects to treat the asset as though the change in use had not occurred pursuant to § 1.168(i)–4(d)(3)(ii), no adjustment is made to the general asset account upon the change in use.

(iii) *New general asset account is established—(A) Change in use results in a shorter recovery period and/or a more accelerated depreciation method.* If the result of the change in use is described in § 1.168(i)–4(d)(3) (change in use results in a shorter recovery period and/or a more accelerated depreciation method) and adjustments to the general asset account are made pursuant to paragraph (h)(2)(ii) of this section, the taxpayer must establish a new general asset account for the asset in the year of change in accordance with the rules in paragraph (c) of this section, except that the adjusted depreciable basis of the asset as of the first day of the year of change is included in the general asset account. For purposes of paragraph (c)(2) of this section, the applicable depreciation method, recovery period, and convention are determined under § 1.168(i)–4(d)(3)(i).

(B) *Change in use results in a longer recovery period and/or a slower depreciation method.* If the result of the change in use is described in § 1.168(i)–4(d)(4) (change in use results in a longer recovery period and/or a slower depreciation method), the taxpayer must establish a separate general asset account for the asset in the year of change in accordance with the rules in paragraph (c) of this section, except that the unadjusted depreciable basis of the asset, and the greater of the depreciation of the asset allowed or allowable in accordance with section 1016(a)(2), as of the first day of the year of change are included in the newly established general asset account. Consequently, this general asset account as of the first day of the year of change will have a beginning balance for both the unadjusted depreciable basis and the