

Other Changes Relating to Cost Recovery and Property Transactions

TCJA makes the following additional changes with respect to cost recovery and property transactions:

- (1) allows for expensing of certain costs of replanting citrus plants lost by reason of casualty;
- (2) shortens the alternative depreciation system (ADS) recovery period for residential rental property from 40 to 30 years;
- (3) allows an electing real property trade or business to use the ADS recovery period in depreciating real and qualified improvement property;
- (4) shortens the recovery period from 7 to 5 years for certain machinery or equipment used in a farming business;
- (5) repeals the required use of the 150-percent declining balance method for depreciating property used in a farming business (i.e., for 3-, 5-, 7-, and 10-year property);
- (6) excludes various types of self-created property from the definition of a "capital asset", including: patents, inventions, models or designs (whether or not patented), and secret formula and processes;
- (7) specifies situations in which a contribution to the capital of a corporation is includable in the gross income of a corporation (i.e., contributions by a customer or potential customer, and contributions by governmental entities and civic groups); and
- (8) tweaks the carried interest rule to provide that a profits interest must be held for three years, rather than one year, in order to receive favorable long-term capital gain treatment.