

CHOOSING THE RIGHT DEPRECIATION METHOD FOR YOU



Depreciation is one of the most misunderstood areas in accounting—but avoiding it could cost you money. Here's what business owners need to know and when to connect with your controller or accounting advisor for guidance.

Why Depreciation Matters

- It's not optional: Even if you choose not to claim depreciation, the IRS still requires you to adjust your asset's cost basis as if you had. Failing to deduct depreciation results in higher taxable income during the asset's life without an offsetting adjustment when it's sold.
- It affects cash flow: Depreciation spreads the cost of long-term assets (like equipment or vehicles) over their useful lives, reducing taxable income each year.
- It improves accuracy: Including depreciation in financial statements helps reflect the true value of your business assets, and is important to lenders, investors, and buyers.

Common Financial Statement Depreciation Methods

Straight-Line Depreciation

- Spreads an asset's cost evenly over its useful life.
- Best for assets that lose value at a steady rate (e.g., office furniture, machinery).
- Example: A \$10,000 asset lasting 10 years = \$1,000 in depreciation per year.

Accelerated Depreciation

- Front-loads deductions to the early years of an asset's life.
- Common methods include Double Declining Balance and 150% Declining Balance.
- Best for assets that lose value faster up front (e.g., vehicles, tech equipment).

Units-of-Production Depreciation

- Depreciation is based on how much an asset is used rather than how long it lasts.
- Ideal for equipment that wears out with production volume (e.g., manufacturing tools).

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Tax Depreciation and MACRS

While businesses may choose reasonable methods like those described above for their financial statements, IRS rules govern how they calculate tax depreciation. For tax purposes, most businesses must use the Modified Accelerated Cost Recovery System (MACRS):

- Provides IRS-defined recovery periods and depreciation rates for each asset type.
- Found in IRS Publication 946.
- Some assets may qualify for immediate expensing under Section 179 if the business has taxable income, first year bonus depreciation, or the de minimis safe harbor for low cost purchases (\$5,000 for most businesses with audited or SEC financial statements; \$2,500 for other businesses).

When to Talk to Your Accountant

- You've purchased new long-term assets or plan major capital investments.
- You're unsure which depreciation method applies.
- You want to align tax depreciation with financial statement reporting.
- You're planning to sell a depreciated asset or restructure your fixed assets.

Strengthen Your Financial Strategy

Depreciation affects more than your books—it influences your cash flow, tax position, and overall business strategy. CRI's controller and advisory professionals can help you review your depreciation methods, uncover opportunities for improvement, and strengthen your financial foundation.

[Contact your CRI advisor](#) to get started. Our team can help you determine the right approach for your operations and avoid costly mistakes.

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