

Prop. Reg. Section 1.168-2(l)(4)

Amount of deduction for recovery property.

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(l) Definitions. For purposes of section 168 and §§ 1.168-1 through 1.168-6 –

- (1) Disposition. The term "disposition" means the permanent withdrawal of property from use in the taxpayer's trade or business or use for the production of income. Withdrawal may be made in several ways, including sale, exchange, retirement, abandonment, or destruction. A disposition does not include a transfer of property by gift or by reason of the death of the taxpayer. See § 1.168-5(f) (3) and (4). A disposition also does not include the retirement of a structural component of 15-year real property. The manner of disposition (e.g, ordinary retirement, abnormal retirement) is not a consideration. For rules relating to nonrecognition transactions see section 168(f) (7) and (10) and the regulations thereunder. For rules relating to the recognition of gain or loss on dispositions, see § 1.168-6.
- (2) Placed in service. The term "placed in service" means the time that property is first placed by the taxpayer in a condition or state of readiness and availability for a specifically assigned function, whether for use in a trade or business, for the production of income, in a tax-exempt activity, or in a personal activity. In the case of a building which is intended to house machinery and equipment, such readiness and availability shall be determined without regard to whether the machinery or equipment which the building houses, or is intended to house, has been placed in service. However, in an appropriate case, as, for example, where the building is essentially an item of machinery or equipment, or the use of the building is so closely related to the use of the machinery or equipment that it clearly can be expected to be replaced or retired when the property it initially houses is replaced or retired, the determination of readiness or availability of the building shall be made by taking into account the readiness and availability of such machinery or equipment. For a building which becomes available for use in separate stages, see paragraph (e)(3) of this section.
- (3) Recovery year. The term "recovery year" means the taxable year during which recovery property is placed in service by the taxpayer and each subsequent taxable year for which a deduction is allowable to the taxpayer under this section with respect to such property.
-  (4) Recovery period. The term "recovery period" means the actual period of years assigned, or elected by the taxpayer, for the computation under this section of the recovery allowance with respect to the unadjusted basis of the recovery property (e.g., 3 years, 5 years, 12 years, present class life). The recovery period does not include any year after the end of the period assigned or elected, even though under paragraph (c), (g)(3), or (m)

of this section a year following the recovery period may be a recovery year (as defined in subparagraph (3)).

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