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Reg. Section 1.179-3

Carryover of disallowed deduction.

- (a) In general. Under section 179(b)(3)(B), a taxpayer may carry forward for an unlimited number of years the amount of any cost of section 179 property elected to be expensed in a taxable year but disallowed as a deduction in that taxable year because of the taxable income limitation of section 179(b)(3)(A) and § 1.179-2(c) ("carryover of disallowed deduction"). This carryover of disallowed deduction may be deducted under section 179(a) and § 1.179-1(a) in a future taxable year as provided in paragraph (b) of this section.
- (b) Deduction of carryover of disallowed deduction—
- (1) In general. The amount allowable as a deduction under section 179(a) and § 1.179-1(a) for any taxable year is increased by the lesser of—
- (i) The aggregate amount disallowed under section 179(b)(3)(A) and § 1.179-2(c) for all prior taxable years (to the extent not previously allowed as a deduction by reason of this section); or
- (ii) The amount of any unused section 179 expense allowance for the taxable year (as described in paragraph (c) of this section).
- (2) Cross references. See paragraph (f) of this section for rules that apply when a taxpayer disposes of or otherwise transfers section 179 property for which a carryover of disallowed deduction is outstanding. See paragraph (g) of this section for special rules that apply to partnerships and S corporations and paragraph (h) of this section for special rules that apply to partners and S corporation shareholders.
- (c) Unused section 179 expense allowance. The amount of any unused section 179 expense allowance for a taxable year equals the excess (if any) of—
- (1) The maximum cost of section 179 property that the taxpayer may deduct under section 179 and § 1.179-1 for the taxable year after applying the limitations of section 179(b) and § 1.179-2; over
- (2) The amount of section 179 property that the taxpayer actually elected to expense under section 179 and § 1.179-1(a) for the taxable year.
- (d) Example. The following example illustrates the provisions of paragraphs (b) and (c) of this section.

Example. A, a calendar-year taxpayer, has a \$ 3,000 carryover of disallowed deduction for an item of section 179 property purchased and placed in service in 1991. In 1992, A purchases and places in service an item of section 179 property costing \$ 25,000. A's 1992 taxable income from the active conduct of all A's trades or businesses is \$ 100,000. A elects, under section 179(c) and § 1.179-5, to expense \$ 8,000 of the cost of the item of section 179 property purchased in 1992. Under paragraph (b) of this section, A may deduct \$ 2,000 of A's carryover of disallowed deduction from 1991 (the lesser of A's total outstanding carryover of disallowed deductions (\$ 3,000), or the amount of any unused section 179 expense allowance for 1992 (\$ 10,000 limit less \$ 8,000 elected to be expensed, or \$ 2,000)). For 1993, A has a \$ 1,000 carryover of disallowed deduction for the item of section 179 property purchased and placed in service in 1991.

(e) Recordkeeping requirement and ordering rule. The properties and the apportionment of cost that will be subject to a carryover of disallowed deduction are selected by the taxpayer in the year the properties are placed in service. This selection must be evidenced on the taxpayer's books and records and be applied consistently in subsequent years. If no selection is made, the total carryover of disallowed deduction is apportioned equally over the items of section 179 property elected to be expensed for the taxable year. For this purpose, the taxpayer treats any section 179 expense amount allocated from a partnership (or an S corporation) for a taxable year as one item of section 179 property. If the taxpayer is allowed to deduct a portion of the total carryover of disallowed deduction under paragraph (b) of this section, the taxpayer must deduct the cost of section 179 property carried forward from the earliest taxable year.

(f) Dispositions and other transfers of section 179 property.—

(1) In general. Upon a sale or other disposition of section 179 property, or a transfer of section 179 property in a transaction in which gain or loss is not recognized in whole or in part (including transfers at death), immediately before the transfer the adjusted basis of the section 179 property is increased by the amount of any outstanding carryover of disallowed deduction with respect to the property. This carryover of disallowed deduction is not available as a deduction to the transferor or the transferee of the section 179 property.

(2) Recapture under section 179(d)(10). Under § 1.179-1(e), if a taxpayer's section 179 property is subject to recapture under section 179(d)(10), the taxpayer must recapture the benefit derived from expensing the property. Upon recapture, any outstanding carryover of disallowed deduction with respect to the property is no longer available for expensing. In determining the amount subject to recapture under section 179(d)(10) and § 1.179-1(e), any outstanding carryover of disallowed deduction with respect to that property is not treated as an amount expensed under section 179.

(g) Special rules for partnerships and S corporations—

(1) In general. Under section 179(d)(8) and § 1.179-2(c), the taxable income limitation applies at the partnership level as well as at the partner level. Therefore, a partnership may have a carryover of disallowed deduction with respect to the cost of its section 179 property. Similar rules apply to S corporations. This paragraph (g) provides special rules that apply when a partnership or an S corporation has a carryover of disallowed deduction.

- (2) Basis adjustment. Under § 1.179-1(f)(2), the basis of a partnership's section 179 property must be reduced to reflect the amount of section 179 expense elected by the partnership. This reduction must be made for the taxable year for which the election is made even if the section 179 expense amount, or a portion thereof, must be carried forward by the partnership. Similar rules apply to S corporations.
- (3) Dispositions and other transfers of section 179 property by a partnership or an S corporation. The provisions of paragraph (f) of this section apply in determining the treatment of any outstanding carryover of disallowed deduction with respect to section 179 property disposed of, or transferred in a nonrecognition transaction, by a partnership or an S corporation.
- (4) Example. The following example illustrates the provisions of this paragraph (g).

Example. ABC, a calendar-year partnership, owns and operates a restaurant business. During 1992, ABC purchases and places in service two items of section 179 property -- a cash register costing \$ 4,000 and office furniture costing \$ 6,000. ABC elects to expense under section 179(c) the full cost of the cash register and the office furniture. For 1992, ABC has \$ 6,000 of taxable income derived from the active conduct of its restaurant business. Therefore, ABC may deduct only \$ 6,000 of section 179 expenses and must carry forward the remaining \$ 4,000 of section 179 expenses at the partnership level. ABC must reduce the adjusted basis of the section 179 property by the full amount elected to be expensed. However, ABC may not allocate to its partners any portion of the carryover of disallowed deduction until ABC is able to deduct it under paragraph (b) of this section.

(h) Special rules for partners and S corporation shareholders—

- (1) In general. Under section 179(d)(8) and § 1.179-2(c), a partner may have a carryover of disallowed deduction with respect to the cost of section 179 property elected to be expensed by the partnership and allocated to the partner. A partner who is allocated section 179 expenses from a partnership must reduce the basis of his or her partnership interest by the full amount allocated regardless of whether the partner may deduct for the taxable year the allocated section 179 expenses or is required to carry forward all or a portion of the expenses. Similar rules apply to S corporation shareholders.
- (2) Dispositions and other transfers of a partner's interest in a partnership or a shareholder's interest in an S corporation. A partner who disposes of a partnership interest, or transfers a partnership interest in a transaction in which gain or loss is not recognized in whole or in part (including transfers of a partnership interest at death), may have an outstanding carryover of disallowed deduction of section 179 expenses allocated from the partnership. In such a case, immediately before the transfer the partner's basis in the partnership interest is increased by the amount of the partner's outstanding carryover of disallowed deduction with respect to the partnership interest. This carryover of disallowed deduction is not available as a deduction to the transferor or transferee partner of the section 179 property. Similar rules apply to S corporation shareholders.
- (3) Examples. The following examples illustrate the provisions of this paragraph (h).

Example 1.

- (i) G is a general partner in GD, a calendar-year partnership, and is engaged in the active conduct of GD's business. During 1991, GD purchases and places section 179 property in service and elects to expense a portion of the cost of the property under section 179. GD allocates \$ 2,500 of section 179 expenses and \$ 15,000 of taxable income (determined without regard to the section 179 deduction) to G. The income was derived from the active conduct by GD of a trade or business.
- (ii) In addition to being a partner in GD, G conducts a business as a sole proprietor. During 1991, G purchases and places in service office equipment costing \$ 25,000 and a computer costing \$ 10,000 in connection with the sole proprietorship. G elects under section 179(c) and § 1.179-5 to expense \$ 7,500 of the cost of the office equipment. G has a taxable loss (determined without regard to the section 179 deduction) derived from the active conduct of this business of \$ 12,500.
- (iii) G has no other taxable income (or loss) derived from the active conduct of a trade or business during 1991. G's taxable income limitation for 1991 is \$ 2,500 (\$ 15,000 taxable income allocated from GD less \$ 12,500 taxable loss from the sole proprietorship). Therefore, G may deduct during 1991 only \$ 2,500 of the \$ 10,000 of section 179 expenses. G notes on the appropriate books and records that G expenses the \$ 2,500 of section 179 expenses allocated from GD and carries forward the \$ 7,500 of section 179 expenses with respect to the office equipment purchased by G's sole proprietorship.
- (iv) On January 1, 1992, G sells the office equipment G's sole proprietorship purchased and placed in service in 1991. Under paragraph (f) of this section, immediately before the sale G increases the adjusted basis of the office equipment by \$ 7,500, the amount of the outstanding carryover of disallowed deduction with respect to the office equipment.

Example 2.

- (i) Assume the same facts as in Example 1, except that G notes on the appropriate books and records that G expenses \$ 2,500 of section 179 expenses relating to G's sole proprietorship and carries forward the remaining \$ 5,000 of section 179 expenses relating to G's sole proprietorship and \$ 2,500 of section 179 expenses allocated from GD.
- (ii) On January 1, 1992, G sells G's partnership interest to A. Under paragraph (h)(2) of this section, immediately before the sale G increases the adjusted basis of G's partnership interest by \$ 2,500, the amount of the outstanding carryover of disallowed deduction with respect to the partnership interest.