2011
Farm Income Tax School

VEHICLE DEPRECIATION
(Additional Materials)

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VEHICLES

STANDARD MILEAGE RATE - BUSINESS USE

2008	2009	2010	2011	2012
(1/1 to 6/30) **50.5¢/mile** (7/1 to 12/31) **58.5¢/mile**	55¢/mile	50¢/mile	(1/1 to 6/30) **51¢/mile** 7/1 to 12/31) **55.5¢/mile**	

If a taxpayer uses the standard mileage rate (SMR) in the first year the vehicle is used in the business, the taxpayer is considered to have made an election **not** to use MACRS depreciation.

The standard mileage rate is **not** available for use with regard to certain vehicles and/or certain vehicle usage; as follows:

(a) Vehicles used **for hire** (e.g. taxicab, ambulance, hearse, limo, etc.);

(b) **Five (5) or more vehicles (2 or more prior to 2004) used simultaneously (e.g. fleet operations); or**

(c) U.S. Postal Service employees receiving qualified reimbursements for collection and delivery of mail on a rural route.

LEASED VEHICLES - STANDARD MILEAGE RATE: The vehicle cents-per-mile valuation rule (standard mileage rate) may be used for leased vehicles for 1998 and later years; however, it may only be used if utilized for the entire lease period, including renewals; and if the fair market value (FMV) of the leased vehicle on the date it was first made available to any employee does not exceed certain dollar limits. Rev. Proc. 97-58.

VEHICLES OWNED BY ENTITIES: Vehicles owned by a "C" or "S" corporation, partnerships or other entities are generally **not** eligible for the standard mileage rate. The entity (as an employer) may utilize the standard mileage rate to compute reimbursement amounts for employee usage of corporate-owned vehicles (e.g. either direct reimbursement or through an accountable plan), but cannot utilize the standard mileage rate to compute vehicle expense deductions for the entity return.

DEPRECIATION BASIS ADJUSTMENT WHEN STANDARD MILEAGE RATE USED

2005-2006	17¢/mile
2007	19¢/mile
2008-2009	21¢/mile
2010	23¢/mile
2011	22¢/mile

Before 1990, rate applied to first 15,000 business miles. For 1990 and after, rate applies to all business miles.

NOTE: The standard mileage rate (SMR) deduction substitutes for depreciation, maintenance and repairs, tires, gas, oil, insurance, and registration fees. Parking fees and tolls attributable to business use of the vehicle, and the business use percentage of interest expense attributable to the purchase of an automobile (non-employee use only) may be deducted as additional separate expense items.

Recordkeeping: The business use portion of a vehicle is to be substantiated by mileage records or other contemporaneous documentation. IRC Reg. §1.274-5T. If the standard mileage rate (SMR) method is used, the taxpayer need only keep records substantiating the time, location, and business purpose of the mileage, and total mileage for the year. Simpler recordkeeping may be available to drivers of an established route.

NOTE - Automatic 75% qualified business use: Generally, for farmers, an automatic 75% qualified business use may be claimed in the case of a vehicle used during most of a normal business day directly in connection with the business of farming. In this case, no substantiation is required. IRC Reg. §1.274-6T(b)(1). The 75% safe harbor rate for a vehicle primarily used in farming is only available if this method is selected in the tax return for the **first year of vehicle use**. IRC Reg. §1.274-6T(d).

NOTE - Audit Effect: If a farmer elects to use a business use percentage greater than 75%, the taxpayer is not permitted during an IRS audit to drop down to the 75% safe harbor rate. The business use of that vehicle may only be determined through adequate documentation.

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MAXIMUM DEPRECIATION LIMITS

PASSENGER AUTOMOBILES: IRC §280F(a)(1)(A) limits the depreciation and the §179 deduction for "passenger automobiles". The limits are as follows:

Passenger Auto First Placed in Service				
Year	**2006**	**2007**	**2008-2009**	**2010-2011**
1st year	$2,960	$3,060	$2,960/10,960*	$3,060/11,060*
2nd year	$4,800	$4,900	$4,800	$4,900
3rd year	$2,850	$2,850	$2,850	$2,950
Later	$1,775	$1,775	$1,775	$1,775

* **New vehicles** are eligible for up to $8,000 of additional first-year depreciation under either the 50% or 100% bonus depreciation tax breaks. IRC §168(k)(2)(F).

"Passenger automobiles" include autos with a gross vehicle weight rating of 6,000 lbs. or less. **For trucks and vans, the 6,000 lb. test is applied to "loaded gross vehicle weight"**. For all other vehicles, the test is applied to "**unloaded vehicle weight**". IRC §280F(d)(5)(A).

LIGHT TRUCKS & VANS (≤ 6,000 LBS. LOADED GVWR): Generally these vehicles include passenger vehicles with an enclosed body built on a truck chassis, and vehicles commonly known as minivans or sport utility vehicles (SUVs). For 2003 and after tax returns, IRS regulations provide higher depreciable dollar limits for light trucks and vans than for passenger automobiles, to reflect their higher rate of price inflation. IRC Reg. §1.280F-6.

IRC §280F continues to place limits on the depreciation and the §179 deduction for these light trucks and vans. The limits are as follows:

Light Trucks/Vans First Placed in Service				
Year	**2008**	**2009**	**2010**	**2011**
1st year	$3,160/11,160*	$3,060/11,060*	$3,160/11,160*	$3,260/11,260*
2nd year	$5,100	$4,900	$5,100	$5,200
3rd year	$3,050	$2,950	$3,050	$3,150
Later	$1,875	$1,775	$1,875	$1,875

* **New vehicles** are eligible for up to $8,000 of additional first-year depreciation under either the 50% or 100% bonus depreciation tax breaks. IRC §168(k)(2)(F).

NOTE (GVWR): The gross vehicle weight rating (GVWR) for a vehicle is generally found on either the back edge of the driver's door or on the frame for that door. The certification label provides the gross vehicle weight rating (GVWR) for that vehicle, plus the weight of passengers and cargo. Passenger cars also have a vehicle capacity label located near the GVWR label, that provides the maximum passenger and luggage weight for the vehicle. By subtracting the total passenger and cargo weight from the GVWR, the **unloaded gross vehicle weight** for the vehicle can be determined.

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VEHICLES ABOVE 6,000 LBS.: Vehicles are **not** "passenger automobiles" or "light trucks or vans" and are **exempt** from the IRC §280F "passenger automobile" depreciation limits shown in the above charts. These vehicles would be eligible for regular MACRS depreciation and the IRC §179 election to expense (except SUVs and certain vehicles acquired on or after 10-22-04 – See IRC §179 limitations discussed below), **if trade or business usage is greater than 50%**.

IRC §179 EXPENSE LIMITATION ON SUV/ETC. ACQUISITIONS AFTER 10/22/04 (over 6,000 lbs.-- $25,000 Limit): The American Jobs Creation Act of 2004 sought to limit a perceived tax abuse involving the acquisition of over 6,000 lb. passenger vehicles for trade or business usage. Congress felt that taxpayers had been acquiring the vehicles in order to be eligible to claim the expanded IRC §179 expense elections. Accordingly, the ability to claim an IRC §179 expense deduction for such vehicles is now **limited to $25,000 per year**. IRC §179(b)(6). **NOTE:** All other IRC §179 limitations continue to apply (e.g. phase-out limits, etc.).

While the legislation refers to "sport utility vehicles" (SUVs), the statutory definition extends to any vehicle primarily designed for use on public roadways which is **not** subject to the IRC §280F limits (e.g. any car, truck or van **over** the 6,000 lb. definition).

The definition of an "SUV" subject to the $25,000 IRC §179 limit **excludes** three categories of vehicles:

(a) Any vehicle designed to have a seating capacity of more than nine (9) persons behind the driver's seat (e.g. hotel shuttle van, etc.);

(b) Any vehicle equipped with a **cargo area of at least 6 feet in interior length which is an open area** (or is designed for use as an open area but is enclosed by a cap), and is not readily accessible directly from the passenger department (e.g. pickup with a 6 foot or greater cargo area); **and**

(c) Any vehicle which has an integral enclosure (fully enclosing the driver compartment and load carrying device), does not have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield (e.g. electrician's or plumber's van weighing over 6,000 lbs.).

NOTE: If a vehicle meets one of these three exceptions and exceeds 6,000 lbs., it remains eligible for the full IRC §179 expense deduction ($250,000 for 2008-2009; $500,000 for 2010-2011; $139,000 for 2012 (inflation adjusted from $125,000)).

ADDITIONAL FIRST-YEAR DEPRECIATION ON NEW SUV/ETC. VEHICLES (over 6,000 lbs.: New vehicles with a GVWR of greater than 6,000 lbs. are **not subject to any depreciation limits** with respect to 50%/100% additional first-year depreciation, regardless of cost.

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QUALIFIED NONPERSONAL USE VEHICLES (QNUVs): A QNUV is defined as any truck or van that, by reason of its design (e.g., those that have permanent shelving, exterior advertising, etc.), is not likely to be used more than a de minimis amount for personal purposes. IRC Reg. §1.274-5T(k)(2)&(7). These vehicles can include specially modified trucks or vans that have a gross vehicle weight rating (GVWR) of **less than 6,000 lbs.**

Final regulations under IRC §280F followed the proposed regulations (issued in 2003), and totally exempted these vehicles (regardless of weight) from the §280F luxury vehicle depreciation limits, effective for QNUVs placed in service after 7/6/03. **Surprisingly, the final regulations also expanded the proposed regulations to extend the exemption for QNUVs placed in service before 7/6/03. IRC Regs. §1.280F-6(c)(3)(iii) & (f)(1). Accordingly, all QNUVs (regardless of weight) are not subject to the IRC §280F luxury vehicle depreciation limits for prior years.**

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NOTE - FORM 4562 REPORTING: All of the above vehicles are still "**listed property**" and information reporting on Form 4562, Part V (pg. 2) applies. IRC §280F(d)(4). Excluded from the definition of "listed property" are qualified non-personal use vehicles with a GVWR in excess of 14,000 pounds.

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REV. PROC. 2011-26 ELECTION – ADDITIONAL FIRST-YEAR DEPRECIATION FOR VEHICLES

PROBLEM/ISSUE: Under the December, 2010 Tax Relief Act **new vehicles** acquired and placed in service between 9/9/10 and 12/31/11 are eligible for 100% additional first-year depreciation. However, the September, 2010 Small Business Jobs Act had previously restored eligibility for 50% additional first-year depreciation to new vehicles acquired and placed in service during this time frame. Whether the 50% or 100% additional first-year depreciation rules are in effect and applied, IRC §280F limits the amount of additional first-year depreciation that may be claimed on new passenger vehicles, light trucks and vans to $8,000.

Query: Which additional first-year rules apply? Is the taxpayer eligible to claim either method?

Rev. Proc. 2011-26 provides guidance on how the 100% additional first-year depreciation rules work when applied to vehicles subject to the IRC §280F depreciation limits; and, also provides guidance on implementing the retroactive extension of 50% additional first-year depreciation. If 100% additional first-year depreciation is claimed, the taxpayer obtains no greater depreciation expense deduction in the year of acquisition then would have been obtained if 50% additional first-year depreciation was claimed. However, a technical glitch in the way the depreciation limits are calculated for Years 2-6 (after claiming 100% bonus depreciation in Year 1) causes the depreciation limits for Years 2-6 to be zero, with any remaining depreciation not allowed until Year 7. A safe-harbor calculation method provided in Rev. Proc. 2011-26 may be elected so that the taxpayer is deemed to have only claimed 50% additional first-year depreciation. The election to use the safe-harbor depreciation calculation method is made by simply using that method to calculate the allowable Year 2 deduction on the taxpayer's return. See Section 3.03(5)(c)(ii) of Rev. Proc. 2011-26.

PRACTITIONER'S NOTE: For less expensive vehicles, the maximum allowable deductions for Year 2 and beyond under the safe-harbor calculation method can turn out to be lower than the "normal" maximum allowances under IRC §280F. For more expensive vehicles, the maximum allowable deductions for Year 2 and beyond under the safe-harbor calculation method will turn out to be the "normal" maximum allowances listed above.

Rev. Proc. 2011-26 (Section 3.04(5), Example 5) provides a comparative application of the safe-harbor depreciation calculation method when unrecovered basis exists after IRC §280F depreciation limits are applied in the year of acquisition.

EXAMPLE 5: In December 2010, X, a calendar-year taxpayer, purchased and placed in service for use in its business a new passenger automobile that cost $20,000. The passenger automobile is 5-year property under IRC §168(3), and is eligible for the 100% additional first-year depreciation deduction. X does not claim any IRC §179 deduction for the passenger automobile. For 2010, X deducts $11,060 for the 100% additional first-year depreciation for this property, which is the depreciation limitation for 2010 under IRC §280F(a)(1)(A)(i). X adopts the safe-harbor method of accounting provided in Section 3.03(5)(c)(ii) of Rev. Proc. 2011-26.

Under the safe-harbor method of accounting, X is **deemed** to have claimed the 50% additional first-year depreciation deduction for purposes of determining the unrecovered basis and the remaining adjusted depreciable basis of the passenger automobile. Accordingly, for 2010, the total depreciation allowable for the passenger automobile is deemed to be $12,000 (50% x unadjusted depreciable basis of $20,000) + (20% x remaining adjusted depreciable basis of $10,000). Thus, the unrecovered basis for the passenger automobile for 2010 is $940 ($12,000 deemed depreciation allowable less the $11,060 depreciation deduction for 2010), and that amount is recovered by X beginning the 2016 taxable year (Year 7), subject to the limitation under IRC §280F(a)(1)(B)(ii).

For 2011, the total depreciation allowable for the passenger automobile is deemed to be $3,200 (32% x the remaining adjusted depreciable basis of $10,000). Because this amount is less than the depreciation limitation of $4,900 for 2011, X deducts $3,200 as depreciation on his return for the 2011 taxable year.

VEHICLE DEPRECIATION - 2011

Vehicle Type	Weight	Depreciation Method	§280F Limitations	§179 Limitation	New Property 50% or 100% Bonus Depreciation Limitation	Form 4562 (Part V) Listed Property
Passenger vehicles	≤6,000 lbs. GVWR – unloaded	MACRS unless bus. usage ≤ 50% – then ADS – SL 5 yrs.	Yes (when cost exceeds $15,300)	§280F limits apply	§280F limits apply (when cost exceeds $22,120)	Yes
Light trucks/vans	≤6,000 lbs. GVWR – loaded	MACRS unless bus. usage ≤ 50% – then ADS – SL 5 yrs.	Yes (when cost exceeds $16,300)	§280F limits apply	§280F limits apply (when cost exceeds $22,520)	Yes
Qualified Non-personal use vehicles (QNUV) (assume 100% business use) Any truck or van that by reason of its design (perm. shelving, ext. advertising, etc.) is likely to be used no more than a de minimis amount for personal purposes. Regs. §1.274-5T(k) .	Does not matter	MACRS	No (exempt from §280F limitations) Regs. §1.280F-6(c)(3)	No limit	No limit	Yes Unless > 14,000 lbs. GVWR
Vehicles (SUVs) over 6,000 lbs. – not passenger vehicles or light trucks/vans IRC §179(b)(6) **NOTE:** Includes short-box pickups (< 6 ft. in interior length)	> 6,000 lbs. GVWR – unloaded ≤14,000 lbs.	MACRS unless bus. usage ≤ 50% – then ADS – SL 5 yrs.	No (exempt from §280F limitations)	$25,000 total Limited to bus. usage % None if ≤ 50% bus. usage	Limited to bus. usage % None if ≤ 50% bus. usage	Yes
Pickups – cargo area must be ≥ 6 ft. in interior length	> 6,000 lbs. GVWR - loaded ≤14,000 lbs.	MACRS unless bus. usage ≤ 50% – then ADS – SL 5 yrs.	No (exempt from §280F limitations)	No limit Limited to bus. usage % None if ≤ 50% bus. usage	Limited to bus. usage % None if ≤ 50% bus. usage	Yes
Other vehicles – assume 100% business use	> 14,000 lbs. GVWR - loaded	MACRS	No (exempt from §280F limitations)	No limit	No limit	No

NOTE – Passenger Vehicles: The IRS has ruled that a trade of a passenger vehicle for an SUV, light-duty truck or crossover vehicle is an exchange of like-kind property. Ltr. Ruls. 200450005 and 200912004.

SPORT UTILITY & OTHER VEHICLES EXCEEDING 6,000 LBS. GROSS VEHICLE WEIGHT

Vehicles exceeding the 6,000 lb. gross vehicle weight rating escape the "passenger automobile" definition of IRC §280F and are **exempt** from the IRC §280F depreciation limits. In addition, if trade or business use exceeds 50%, these vehicles are eligible for the IRC §179 election to expense (except as limited by the 2004 Tax Act).

EXAMPLE: John purchased a **used** 2011 Chevrolet 4WD Pickup **(6-ft box)** for use in his farm trade or business in August, 2011. This was the only trade or business equipment John purchased during the tax year. The cost of the vehicle was $38,000; and John anticipated trade or business use would approximate 75%. The maximum depreciation John could claim on his 2011 return is calculated below:

Depreciable basis ($38,000 x 75%)	$28,500
LESS: §179 deduction	(**28,500**)
Remaining basis to depreciate	$ 0
First year MACRS rate	x 15%
First year MACRS depreciation	$ **0**

The entire depreciable basis is deductible in the year of acquisition.

EXAMPLE: Assume the same facts as above except that John purchased a used 2011 Chevrolet Suburban:

Depreciable basis ($38,000 x 75%)	$28,500
LESS: §179 deduction (limited by 2004 Tax Act)	(**25,000**)
Remaining basis to depreciate	$3,500
First year MACRS rate	x 15%
First year MACRS depreciation	$ **525**
Remaining basis to depreciate	$2,975

89.56% of the depreciable basis is deductible in the year of acquisition.

NOTE: Even though vehicles with greater than a 6,000 lb. gross vehicle weight rating fall outside the definition of "passenger automobiles", IRC §280F(d)(4) classifies them as "other listed property, (i.e. property used as a means of transportation). Therefore they are still within the IRC §280F(d)(4) definition of "**listed property**" and are subject to the business usage substantiation rules. (Form 4562, Part V).

NOTE -- BUSINESS USAGE 50% OR LESS: If trade or business usage is 50% or less, straight-line depreciation (ADS - over 5 yrs.) must be utilized. The vehicle will **not** be eligible for the IRC §179 election to expense or (if new) 50%/100% additional first-year depreciation

RESEARCH SOURCE – 2011 VEHICLES EXCEEDING 6,000 LBS. GVWR:
www.autosite.com and www.edmunds.com.

VEHICLE DEPRECIATION DEDUCTIONS

A. **GENERAL:** Depreciation deductions may be claimed for farm or non-farm vehicles using the MACRS half-year or mid-quarter conventions, where appropriate, subject to the limitations set forth in IRC §280F, discussed below.

If trade or business usage is 50% or less, the depreciation deduction is limited to the **lesser** of:

(1) The amount computed using straight-line depreciation over 5 years multiplied by the business use percentage; **or**

(2) The IRC §280F limitations on "luxury" vehicles (discussed below) multiplied by the business use percentage. See IRC §§ 280F(a)(2), 280F(b)(1), and 168(g).

The IRC §179 expense election is also available in the year a vehicle is acquired, if trade or business usage is greater than 50%, subject to the limitations of IRC §280F.

QUALIFIED BUSINESS USE: For purposes of the greater than 50% business use test, qualified business use is defined as any trade or business use. Qualified business use does not include use for the production of income (IRC §212 investment use). However, once the 50% qualified business use requirement has been met, business and investment use may be combined to compute any allowable depreciation deduction for a tax year.

NOTE: If a shareholder-employee owns over 5% of the employer's stock and uses a company vehicle for personal purposes (even if this use is properly reported on Form W-2), such compensatory use apparently does **not** count as business use for purposes of:

(1) The more-than-50% business-use requirement to be eligible for accelerated MACRS depreciation, **or**

(2) The more-than-50% business-use requirement to be eligible for the IRC 179 deduction. IRC §280F(b),(d)(1)&(6). IRC Reg. 1.179-1(d).

B. **IRC §280F LIMITATIONS ON VEHICLE DEPRECIATION DEDUCTIONS:** IRC §280F sets limitations on depreciation deductions for passenger automobiles and other "listed property".

IRC §280F(b) limits the rate of depreciation on listed property to straight-line (ADS) rates if trade or business use is 50% or less. **If trade or business use starts out above 50% and later drops to 50% or below, in any year subsequent to the year of acquisition, IRC §280F(b)(2) also requires the taxpayer to recapture any depreciation (including IRC §179 expense and additional 30%/50%/100% first year depreciation) claimed in excess of what the straight-line rate would have been for the earlier years.**

This amount is reported as income for both income and self-employment tax purposes, and is also added back to basis. For each subsequent year thereafter, the depreciation allowable is the straight-line amount over the remainder of the 5-year period, calculated as if the vehicle had been depreciated on the straight-line method from the year of purchase. No depreciation recapture is required if business use drops below 50% if after the sixth year. IRC Reg. §1.280F-3(b).

NOTE: Once business usage falls to 50% or below, the taxpayer must continue to use straight-line depreciation even if business usage later increases to greater than 50%.

IRC §280F(a)(1)(A) sets statutory limitations on the depreciation deductions that a taxpayer may claim for "luxury" vehicles for a tax year. These limits are subject to adjustments for inflation; and new limitation amounts are issued each

year. For 2010-2011, "luxury" vehicle depreciation limitations will apply to vehicles with a cost above $15,300.

SEE: MAXIMUM DEPRECIATION LIMITS CHART

NOTE: The luxury vehicle limitations do not permanently deprive business users from recovering vehicle acquisition costs. These limitations merely postpone a portion of the depreciation deduction to later years by placing a cap on the amount of depreciation that may be claimed in any one year. A taxpayer that loses part of an otherwise allowable depreciation deduction may take the deduction after the conclusion of the normal recovery period, as long as the deduction taken does not exceed the IRC §280F deduction limits for the applicable year.

YEAR OF DISPOSITION: Under IRC §280F, in the year of disposition, depreciation is calculated under the MACRS half-year convention **but the full luxury auto depreciation limit still applies**. The luxury auto limit is only reduced in the case of a short tax year. IRC Reg. §1.280F-2(i)(2).

EXAMPLE: Kevin owns a motor repair shop which he operates as a sole proprietor. In April, 2011, he bought a **used** 2010 Chevrolet Malibu for $26,500 which he anticipates using between 40% and 60% for business use. Kevin would like to know how large a depreciation deduction he can claim on his 2011 Form 1040, Schedule C if (1) he is able to claim 40% business use; or (2) he is able to claim 60% business use. He does **not** want to claim IRC §179 expensing.

40% Business Use:

Lesser of (1) or (2): **ANSWER = $1,060**

(1) ADS (straight-line depr.) $26,500 x 40% bus. x 10%	$1,060
(2) IRC §280F passenger automobile limit $3,060 x 40%	$1,224

60% Business Use (Without IRC §179 Election):

Lesser of (1) or (2): **ANSWER = $1,836**

(1) MACRS depr. (200% DB) $26,500 x 60% bus. x 20%	$5,300
(2) IRC §280F passenger automobile limit $3,060 x 60%	$1,836

C. **IRC §179 ELECTION TO EXPENSE CONSIDERATIONS & LIMITATIONS:** If a new or used vehicle is purchased during the tax year and utilized greater than 50% of the time for trade or business purposes, the taxpayer is eligible for the IRC §179 election to expense, as limited by IRC §280F. The usage of the IRC §179 election to expense reduces the maximum amount of depreciation that may be taken for the vehicle for that year on a dollar-for-dollar basis.

This means that if a taxpayer elects to expense the maximum amount allowed by IRC §280F by utilizing the IRC §179 election, no further depreciation is allowed in the year of acquisition. The expense election under IRC §179 also reduces the taxpayer's basis in the vehicle for purposes of further depreciation deductions.

EXAMPLE: Mary purchases a **used vehicle** (less than 6,000 lbs.) in February, 2011 for $20,000. The vehicle is used 100% by Mary in her non-farm trade or business. Mary elects under IRC §179 to deduct $2,500 of the cost of the vehicle on her 2011 return. After reducing the cost basis of the vehicle by $2,500, she determines that her maximum depreciation deduction for 2011 would be $3,500 ((20,000 - 2,500) x 20%). However, under IRC §280F, the depreciation deduction

may not exceed $3,060. As a result, the maximum additional depreciation that Mary may claim for 2011 is $560 ($3,060 - $2,500).

NOTE: When qualified trade or business use of the vehicle is 50% or less, no IRC §179 election is allowed.

NOTE: The cost of a vehicle for purposes of the IRC §179 deduction does not include that portion of the basis that is determined by reference to the basis of another vehicle or any other property held by the taxpayer at any time. Thus, only the **boot price paid** on a new/used vehicle will be eligible for the IRC §179 deduction when a vehicle is traded in on a another vehicle.

D. **CONVERSION FROM PERSONAL TO BUSINESS USE -- TAX BASIS COMPUTATION:** If a taxpayer converts a vehicle from personal use to business use, the taxpayer's basis in the vehicle is the smaller of (1) the adjusted basis of the vehicle; **or** (2) the vehicle's fair market value on the date of conversion.

EXAMPLE: Mark purchased a used vehicle in 2008 for $16,000. The vehicle was utilized solely for personal use until January, 2011 when he began to use the car in his business. Business use during 2011 was 70%. Mark's adjusted basis in the vehicle in January, 2011 was $16,000; and the vehicle's fair market value was $9,500. For purposes of computing Mark's allowable depreciation for 2011, the business basis of the car is $6,650 (9,500 x 70%).

E. **VEHICLE TRADES -- TAX BASIS COMPUTATION (100% BUSINESS USAGE):** When a taxpayer trades a business vehicle that was used 100% in the trade or business, rather than selling it, the basis of the new vehicle is the adjusted basis of the old auto **plus** any additional boot paid. As a result of the IRC §280F luxury auto depreciation limitations, after a few trades, the taxpayer's basis in the currently owned vehicle may build up to ridiculous levels. This is caused by the fact that the economic depreciation exceeds the allowable tax depreciation for the vehicles that were traded along the way. As long as the taxpayer continues to trade vehicles, the difference is reflected in "excess" tax basis in the current vehicle.

TAX PLANNING: SALE OF VEHICLE AFTER BASIS BUILDUP: Basis buildup can be avoided by selling rather than trading vehicles. With a sale, the taxpayer is able to deduct the excess of economic depreciation over allowable tax depreciation in the form of an IRC §1231 loss. This is generally preferable to rolling an unrecognized loss into the basis of the next car.

F. **VEHICLE TRADES -- TAX BASIS COMPUTATION (LESS THAN 100% BUSINESS USAGE):** If a vehicle used less than 100% in the trade or business is traded for another vehicle, a more complicated two-step computation must be used to determine the business basis of the new vehicle. In such a case, one basis number will be used for depreciation purposes and another for gain/loss purposes.

For gain/loss purposes, the adjusted basis in the traded vehicles reflects only the actual depreciation deductions allowed. IRC §1016(a)(2). However, for depreciation purposes, a trade-in adjustment to basis will be made for the personal use of the vehicle by the taxpayer. It is assumed that the vehicle being traded has been used 100% in the trade or business regardless of the actual business use percentage IRC §280F(d)(2). Thus, the unrecovered basis of the traded vehicle reflects a reduction for the full amount of depreciation that would have been allowed for 100% business use.

G. **VEHICLE - INTEREST EXPENSE:** Vehicle interest expense is deductible by self-employed individuals (to the extent of business usage); however, **no** interest expense deduction is permitted to an employee, regardless of the percentage of business use.

(Revised 11/11)

DETERMINATION OF BASIS OF A VEHICLE USED PARTLY FOR BUSINESS AND PARTLY FOR PERSONAL USE

Cost of the old vehicle $

LESS: Depreciation claimed on old vehicle:

	SMR	**OR**	**ACTUAL COST**
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$

ACTUAL DEPRECIATION (OLD)(SMR or Actual) (_____)

Adjusted basis of old vehicle $

ADD: Boot for new vehicle

Basis of new vehicle before adjustment $

Trade-in Adjustment: (adjustment for personal use depreciation):

Depreciation on old vehicle if business use @ 100%:

	SMR	**OR**	**ACTUAL COST**
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$
Year _____	$_____		$

Total (SMR or Actual) $

LESS: Actual depr. old vehicle (see above) (_____)

Personal use depreciation (excess over actual depr. allowed) $

LESS: Lesser of personal use depr. or adjusted basis of old vehicle (_____)

Unadjusted basis of new vehicle $

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To determine basis to be used for business depreciation portion:

Unadjusted basis $_____ x _____% used in business = $_____.

Source: IRC Reg. §1.280F-2T(g)(2), IRS Announcement 93-48.

(Revised 11/11)

DETERMINATION OF BASIS OF A VEHICLE USED PARTLY FOR BUSINESS AND PARTLY FOR PERSONAL USE

ACTUAL EXPENSE EXAMPLE: In March, 2011, Mark traded his 2008 SUV (>6,000 lbs.) for a new model. He used the old SUV 75% for business use; and anticipates using the new SUV 75% for business use. Mark claimed actual expenses for the business use of the old SUV since 2008. No §179 deduction or additional first-year depreciation was claimed for the 2008 SUV.

Mark paid $22,800 for the 2008 SUV in June, 2008. He paid an additional $9,800 boot when he acquired the new SUV. Mark was allowed one-half of the regular depreciation deduction amount for his old SUV for 2011, the year of disposition.

Mark figures the unadjusted basis for depreciating his new SUV as follows:

Cost of old SUV		$22,800
LESS: Total depreciation allowed on the business cost of old SUV, $17,100 ($22,800 x 75%):		
2011 - $17,100 x 11.52% x ½ yr.	$ 985	
2010 - $17,100 x 19.2%	3,283	
2009 - $17,100 x 32%	5,472	
2008 - $17,100 x 20%	3,420	(13,160)
Adjusted basis of old SUV		$9,640
PLUS: Additional cost for new SUV		9,800
Basis of new SUV before trade-in adj.		$19,440
Trade-in adjustment:		
Depreciation at 100% business use:		
2011 - $22,800 x 11.52% x ½ yr.	$1,313	
2010 - $22,800 x 19.2%	4,378	
2009 - $22,800 x 32%	7,296	
2008 - $22,800 x 20%	4,560	
Total	$17,547	
LESS: Actual depreciation allowed	(13,160)	
Excess of 100% over actual amount	$4,387	
LESS: Lesser of excess amount or adj. basis of old SUV ($9,640)		(4,387)
Unadjusted basis of new SUV for depreciation		$15,053

DETERMINATION OF BASIS OF A VEHICLE USED PARTLY FOR BUSINESS AND PARTLY FOR PERSONAL USE

STANDARD MILEAGE RATE EXAMPLE: Rob paid $15,000 for a used car that he placed in service in 2009. He used it partly for business in 2009 (9,000 business miles of 15,000 total miles) and 2010 (12,000 business miles of 16,000 total miles). He used the standard mileage rate in both years to claim business expenses for the vehicle.

On January 1, 2011, Rob traded this vehicle for a new car and paid an additional $6,000 boot. Rob figures the unadjusted basis for his new car as follows:

Cost of old car		$15,000
LESS: Total depreciation allowed:		
2010 - 12,000 mi. x 23¢	$2,760	
2009 - 9,000 mi. x 21¢	1,890	(4,650)
Adjusted basis of old car		$10,350
PLUS: Additional boot for new car		6,000
Basis of new car before trade-in adj.		$16,350

Trade-in adjustment:

Depreciation at 100% business use:		
2010 - 16,000 mi. x 23¢	$3,680	
2009 - 15,000 mi. x 21¢	3,150	
Total	$6,830	
LESS: Actual depreciation allowed	(4,650)	
Excess of 100% over actual amount	$2,180	
LESS: Lesser of excess amount or adj. basis of old car ($10,350)		(2,180)
Unadjusted basis of new car for Depreciation		$14,170

VEHICLE LEASE EXPENSES
INCOME INCLUSION ADJUSTMENT

Generally, for leased vehicles, the taxpayer may deduct the business percentage of the lease expense as a trade or business expense. IRC §162(a)(3). An "income inclusion" adjustment is subtracted from this deduction if a "luxury" vehicle (2011 FMV = $18,500 or greater for passenger vehicles; $19,000 for light trucks/vans) is leased for thirty days or more during the tax year. IRC §280F(c).

The income inclusion adjustment is required in an attempt to achieve approximate parity with the depreciation limitations that apply to purchased "luxury" vehicles. Thus, the taxpayer's net trade or business deduction for a leased vehicle is the business percentage of annual lease expenses, **reduced** by the business percentage of the income inclusion amount for the year from the IRS table.

The income inclusion adjustment begins when the fair market value of the vehicle exceeds $18,500 for passenger vehicles ($19,000 for light trucks/vans) first leased in 2011. The inclusion amount increases with the fair market value of the vehicle and varies with the year of the lease (e.g. 1st yr., 2nd yr., etc.).

EXAMPLE: Monica leased a Lexus on July 15, 2011 under a three-year lease. The lease rental paid for the remainder of the year was $4,433. The fair market value of the vehicle at the start of the lease was $48,750. Business usage of the vehicle was 75%.

Business lease expense (4,433 x 75%)	$3,325
LESS: Income inclusion amt. (($33 x 169/365) x 75%)	(11)
Net trade or business lease deduction	$3,314

Monica's other out-of-pocket expenses of operating the Lexus in 2011 (e.g. gas, maintenance, etc.) are also 75% deductible.

NOTE: Rev. Proc. 2011-21 provides 2011 inclusion values for vehicles with a fair market value up to $240,000. Separate tables apply for passenger vehicles and light trucks/vans under 6,000 lbs. For inclusion values for passenger vehicles and light trucks/vans acquired in 2010, see Rev. Proc. 2010-18; for 2009, see Rev. Proc. 2009-24; and for 2008, see Rev. Proc. 2008-22.

NOTE: If a leased vehicle has a gross vehicle weight rating of greater than 6,000 lbs., it is exempt from the income inclusion rules.

(Revised 11/11)

LEASED VEHICLES

Price-Based Inclusion Table
for Cars First Leased in 2011

REV. PROC. 2011-21 TABLE 5 DOLLAR AMOUNTS FOR PASSENGER AUTOMOBILES (THAT ARE NOT TRUCKS OR VANS) WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2011						
Fair Market Value of Passenger Automobile		**Tax Year During Lease**				
Over	**Not Over**	**1st**	**2nd**	**3rd**	**4th**	**5th & later**
$18,500	$19,000	3	8	11	13	16
19,000	19,500	4	9	13	15	18
19,500	20,000	4	10	15	17	20
20,000	20,500	5	11	16	19	23
20,500	21,000	5	12	18	21	25
21,000	21,500	6	13	19	24	26
21,500	22,000	6	14	21	26	29
22,000	23,000	7	16	23	29	32
23,000	24,000	8	18	27	32	37
24,000	25,000	9	20	30	36	42
25,000	26,000	10	23	33	40	46
26,000	27,000	11	25	36	44	51
27,000	28,000	12	27	40	48	55
28,000	29,000	13	29	43	52	60
29,000	30,000	14	31	47	55	65
30,000	31,000	15	34	49	60	69
31,000	32,000	16	36	53	63	73
32,000	33,000	17	38	56	68	77
33,000	34,000	18	40	60	71	82
34,000	35,000	19	42	63	75	87
35,000	36,000	20	45	66	79	91
36,000	37,000	21	47	69	83	96
37,000	38,000	22	49	73	87	100
38,000	39,000	23	51	76	91	105
39,000	40,000	24	53	80	94	110
40,000	41,000	25	56	82	99	114
41,000	42,000	26	58	86	102	119
42,000	43,000	27	60	89	107	123
43,000	44,000	28	62	93	110	128
44,000	45,000	29	64	96	114	133
45,000	46,000	30	67	98	119	137
46,000	47,000	31	69	102	122	141
47,000	48,000	32	71	105	127	145
48,000	49,000	33	73	109	130	150
49,000	50,000	34	76	111	134	155

*For the last year of the lease, use the dollar amount for the preceding year.

Effective for automobiles that are first placed in service during calendar year 2011 and to leased automobiles that are first leased during calendar year 2011.

LEASED VEHICLES

Price-Based Inclusion Table
for Trucks/Vans First Leased in 2011

REV. PROC. 2011-21 TABLE 6 DOLLAR AMOUNTS FOR TRUCKS AND VANS WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2011						
Fair Market Value of Truck or Van		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th & later
$19,000	$19,500	3	7	9	12	13
19,500	20,000	3	8	11	14	15
20,000	20,500	4	9	13	15	18
20,500	21,000	4	10	15	17	20
21,000	21,500	5	11	16	20	22
21,500	22,000	5	12	18	22	24
22,000	23,000	6	14	20	24	29
23,000	24,000	7	16	24	28	32
24,000	25,000	8	18	27	32	37
25,000	26,000	9	20	31	36	41
26,000	27,000	10	23	33	40	46
27,000	28,000	11	25	37	43	51
28,000	29,000	12	27	40	48	55
29,000	30,000	13	29	43	52	60
30,000	31,000	14	31	47	56	64
31,000	32,000	15	34	49	60	69
32,000	33,000	16	36	53	63	74
33,000	34,000	17	38	56	68	78
34,000	35,000	18	40	60	71	83
35,000	36,000	19	43	62	76	87
36,000	37,000	20	45	66	79	92
37,000	38,000	21	47	69	83	97
38,000	39,000	22	49	73	87	101
39,000	40,000	23	51	76	91	105
40,000	41,000	24	54	79	95	109
41,000	42,000	25	56	82	99	114
42,000	43,000	26	58	86	103	118
43,000	44,000	27	60	89	107	123
44,000	45,000	28	62	93	110	128
45,000	46,000	29	65	95	115	132
46,000	47,000	30	67	99	118	137
47,000	48,000	31	69	102	123	141
48,000	49,000	32	71	106	126	146
49,000	50,000	33	73	109	130	151

*For the last year of the lease, use the dollar amount for the preceding year.

Effective for trucks/vans that are first placed in service during calendar year 2011 and to leased trucks/vans that are first leased during calendar year 2011.

EMPLOYER-PROVIDED VEHICLES
(Vehicle cents-per-mile valuation rule)

IRC Reg. §1.61-21(e)(1) provides that the vehicle cents-per-mile valuation rule **(standard mileage rate)** may be utilized to calculate the benefit provided in the case of an employer-provided passenger automobile if the following conditions are met:

(1) The employer reasonably expects the vehicle will be **regularly used in the employer's trade or business** throughout the calendar year (or such shorter period as the vehicle may be owned or leased by the employer);

(2) The vehicle is **actually driven at least 10,000 miles during the tax year**. If the employer does not own or lease the vehicle during a portion of the year, the 10,000 mile threshold is to be reduced proportionately to reflect the period when the employee did not own or lease the vehicle (e.g. acquisition on July 1, 2011 = 5,000 mile requirement);

(3) The **use** of the vehicle during the tax year is **primarily by employees**. **NOTE:** Use of the vehicle by an individual (other than the employee) whose use would be taxed to the employee is not considered use by the employee; **and**

(4) **The fair market value (FMV) of the vehicle on the date it was first made available to any employee of the employer for personal use did not exceed certain dollar limits prescribed by IRC Reg. §1.61-21(e)(1). For passenger automobiles first made available in calendar year 2011, the fair market value may not exceed $15,300; for light trucks or vans the fair market value may not exceed $16,200. Rev. Proc. 2011-4.**

Under this rule, the value of the benefit provided to the employee in the calendar year is the standard mileage rate multiplied by the total number of miles the vehicle was driven by the employee for personal purposes. **An adjustment to the standard mileage rate is allowed for employee-provided business use fuel at 5.5¢ per mile**.

No Employee-Provided Business Fuel:

Employee's 2011 benefit = (51¢ x ___ miles personal use) (1-1-2011 to 6-30-2011)
(55.5¢ x __ miles personal use) (7-1-2011 to 12-31-2011)

All Employee-Provided Business Fuel (Non-Reimbursed):

Employee's 2011 benefit = ((51¢-5.5¢) x ___ miles personal use) (1-1-2011 to 6-30-2011)
((55.5¢-5.5¢) x __ miles personal use) (7-1-2011 to 12-31-2011)

NOTE: Once the vehicle cents-per-mile valuation rule has been adopted for a vehicle by an employer, the rule must generally be used by the employer for subsequent years in which the vehicle qualifies for use of the rule.

NOTE – ALTERNATE VALUATION METHODS IF FAIR MARKET VALUE (FMV) EXCEEDS LIMITS: If the fair market value of the passenger automobile first made available for 2011 exceeds $15,300 ($16,200 for light trucks and vans), an employer may use the (1) general valuation rules of IRC Regs. 1.61-21(b) to determine the value of the benefit of the vehicle's use to the employee; (2) the special valuation rules of IRC Regs. 1.61-21(d) (automobile lease valuation); **or** (3) the commuting valuation rules of IRC Regs. §1.61-21(f), presuming applicable requirements are met.

NOTE: If an employer provides an employee with a vehicle that is available to the employee for personal use, the value of the personal use must generally be included in the employee's income and wages. IRC Regs. §1.61-21.

IRC REG. §1.61-21(d)(2)(iii)
OPTIONAL VEHICLE
ANNUAL LEASE VALUE TABLE

Automobile Fair Market Value at Beginning of Year	Annual Lease Value
$ 0 - 999	$ 600
1,000 - 1,999	850
2,000 - 2,999	1,100
3,000 - 3,999	1,350
4,000 - 4,999	1,600
5,000 - 5,999	1,850
6,000 - 6,999	2,100
7,000 - 7,999	2,350
8,000 - 8,999	2,600
9,000 - 9,999	2,850
10,000 - 10,999	3,100
11,000 - 11,999	3,350
12,000 - 12,999	3,600
13,000 - 13,999	3,850
14,000 - 14,999	4,100
15,000 - 15,999	4,350
16,000 - 16,999	4,600
17,000 - 17,999	4,850
18,000 - 18,999	5,100
19,000 - 19,999	5,350
20,000 - 20,999	5,600
21,000 - 21,999	5,850
22,000 - 22,999	6,100
23,000 - 23,999	6,350
24,000 - 24,999	6,600
25,000 - 25,999	6,850
26,000 - 27,999	7,250
28,000 - 29,999	7,750
30,000 - 31,999	8,250
32,000 - 33,999	8,750
34,000 - 35,999	9,250
36,000 - 37,999	9,750
38,000 - 39,999	10,250
40,000 - 41,999	10,750
42,000 - 43,999	11,250

EXAMPLE: XYZ Corporation owns a 2006 automobile which is utilized by corporate officers for corporate business. The President of the corporation also drives the vehicle for personal and family use. The personal use comprises approximately 30% of the total vehicle usage determined on a mileage basis.

If the fair market value of the vehicle on the first day of the corporation's tax year is $11,300, the value of the non-owner usage would be calculated as follows:

Annual Lease Value from Table	$3,350
Annual Lease Cost to Non-Owner (Corporate President -- $3,350 x 30%)	$1,005

(Revised 11/11)