EXAMPLE 6.52

Wilder Manufacturing, Inc. purchased used equipment in August 2021 at a total cost of $1,640,000. The property is five-year depreciable property and is eligible for both the Code Section 179 deduction and 100 percent bonus depreciation. The company opted to take both of these deductions. Its 2021 depreciation deduction will be computed as follows:

Original cost of the property	$1,640,000
Code Section 179 deduction	(1,050,000)
Remaining cost	$ 590,000
Bonus depreciation (100 percent)	(590,000)
Add Section179 deduction per above	1,050,000
Total deduction for 2021	$1,640,000

Note that the company could have deducted the full $1,640,000 under the bonus depreciation rules without claiming a deduction under Code Sec. 179.

¶6845 contains an update from the IRS that came in after the Book went to print. The printed book, Instructor's Manual, Testbank, and Slides do not reflect the updated numbers.

¶6845 DEPRECIATION OF AUTOMOBILES

Limitations on Depreciation of Automobiles

Calculation of depreciation expense for business-use automobiles is subject to a complex set of rules. In general, automobiles are classified as five-year property, and are eligible for both bonus depreciation and MACRS depreciation. However, the annual depreciation deductions for automobiles is subject to strict limits referred to as the "luxury automobile depreciation limitations." Under Code Sec. 280F, limitations are imposed on the amount of depreciation that may be claimed in each year of the life of a business-use automobile as indicated in Table 8. These limitations are adjusted each year for inflation using the automobile component of the chained consumer price index for all urban customers (C-CPI-U). The following rates apply to automobiles placed in service in 2021.

Table 8. DEPRECIATION LIMITS FOR BUSINESS-USE AUTOMOBILES

	Passenger Cars
First year (year in which auto is first placed in service)	$18,200
Second year	$16,400
Third year	$9,800
Fourth, fifth and all succeeding years until basis is fully recovered	$5,860

Note: vehicles can be depreciated beyond five years if they continue to be used for business purposes and the total cost has not yet been fully recovered as of the end of the fifth year.

Note that the first-year limitation includes $8,000 for bonus depreciation for newly acquired vehicles (including used automobiles). The auto depreciation amounts were substantially increased by the TCJA for automobiles purchased after 2017. Automobiles with a gross vehicle weight (GVW) in excess of 6,000 pounds are not considered to be passenger cars, nor are ambulances, taxis or limousines. Accordingly, cars and trucks with a GVW in excess of 6,000 pounds are not subject to these limitations.

Note that the amounts in Table 8 reflect the maximum amount that can be claimed with respect to an automobile. The taxpayer's allowable deduction will equal the lesser of the limitation for the particular year or the amount calculated using MACRS and/or bonus depreciation. To compute the amount allowed under MACRS in years following the year placed in service, the IRS has provided "safe harbor" provisions under which the taxpayer treats the remaining cost of the automobile after deducting the amount allowed in the first year, as the "cost" of the car for purposes of computing depreciation for years 2-5 (or beyond if necessary to fully recover the cost of the car). Rev. Proc. 2019-13, 2019-9 IRB (2/13/2019).

EXAMPLE 6.53

In July, 2021, Genevieve purchased a new car which she used 100 percent for business purposes. She paid $60,000 for the car. For 2021, she is allowed to deduct a maximum of $18,200 with respect to the car. (Table 8). For the period 2021-2026, her depreciation deductions will be determined as indicated in the following chart. Note that for years after 2026, Genevieve may continuing depreciating the car at a rate of $2,408 per year until the cost is fully recovered, assuming she continues to use it 100% for business purposes.

Original cost of the car	$60,000
Year 1 deduction (2021) using 100% bonus depreciation	18,200
Remaining basis of the car	$41,800
MACRS depreciation 2022 (Table 5, year 2, five-year assets – 32%)	13,376
MACRS depreciation 2023 (Table 5, year 3, five-year assets – 19.2%)	8,026
MACRS depreciation 2024 (Table 5, year 4, five-year assets – 11.52%)	4,815
MACRS depreciation 2025 (Table 5, year 5, five-year assets – 11.52%)	4,815
MACRS depreciation 2026 (Table 5, year 6, five-year assets – 5.76%)	2,408
Total depreciation deductions, 2021-2026	$ 51,640

Section 179

While Code Sec. 179 can be used to expense a portion of the cost of automobiles in the year of acquisition, the deduction is treated as depreciation expense and is generally subject to the luxury automobile depreciation limitations summarized in Table 8. Code Sec. 280(d)(1). Thus, taxpayers usually do not claim a Sec. 179 deduction with respect to autos because it does not increase the allowable deduction.

As noted above, however, the limitations of Sec. 280F do not apply to automobiles, trucks or vans with gross vehicle weights in excess of 6,000 pounds. Prior to 2004, these vehicles could be fully expensed under Sec. 179, subject only to the overall limitation on the annual Sec. 179 write-off. Thus, for example, a taxpayer purchasing an SUV with a gross vehicle weight in excess of 6,000 pounds in 2003 could write off the lesser of the cost of the vehicle or $100,000 in that year. This provision generated substantial criticism as it provided an incentive to automobile manufacturers to make SUVs bigger and heavier and thus less fuel efficient. In response to these criticisms, the *American Jobs Creation Act of 2004* implemented an additional limitation on the Code Sec. 179 deduction for passenger automobiles with GVWs between 6,000 and 14,000 pounds.

The maximum amount that can be deducted under Sec. 179 with respect to the purchase of an automobile with GVW between 6,001 and 14,000 pounds is $26,200. Code Sec. 179(b)(5). Because the limitation is intended to apply only to non-commercial vehicles, it does not apply to vehicles designed to have a seating capacity of more than 9 persons behind the driver's seat (e.g., buses), vehicles with a cargo area of at least 6 feet in interior length (e.g., commercial trucks), or vehicles that have seating rearward of the driver's seat (e.g., delivery vans).

If a taxpayer purchases a qualified SUV at a cost greater than $26,200, the amount spent above $26,200 may be depreciated under the bonus and MACRS depreciation rules. Because the limitations under Code Sec. 280F apply only to vehicles with GVWs of 6,000 pounds or less, depreciation of the excess cost (over $26,200) of an eligible vehicle is not subject to the luxury auto limitations.

EXAMPLE 6.54

Assume it is 2024, and bonus depreciation has dropped to 60%. Gabrielle purchased a new SUV for $70,000. The vehicle has a gross vehicle weight of 8,000 pounds and is therefore eligible for the Sec. 179 deduction. In addition, because its GVW exceeds 6,000 pounds, the SUV is not subject to the luxury auto depreciation limitations of Code Sec. 280F. Assuming the vehicle is used 100% for business, Gabrielle will be able to deduct the following amount in 2024:

Original cost of the SUV	$70,000
Code Sec. 179 deduction*	(26,200)
Remaining basis	$43,800
Bonus depreciation (60%)	(26,280)
Depreciable basis for MACRS	17,520
MACRS depreciation (Table 5, 20%)	3,504
Add: Sec. 179 deduction	26,200
Bonus depreciation	26,280
Total deduction 2024	**$55,984**

* We don't know what the inflation-adjusted deduction under Sec. 179 for automobiles will be in 2024.

The language of Code Sec. 179(b)(5) provides that the $26,200 limitation applies to the cost of each SUV purchased and placed in service during the tax year. Thus, if a taxpayer purchases more than one qualified vehicle in a given year, a $26,200 deduction under Code Sec. 179 will be available for *each* vehicle purchased.

EXAMPLE 6.55

Assume again that it is 2024, when bonus depreciation has dropped to 60%, Mendoza Corp purchased two new SUVs for $35,000 each (total expenditure $70,000). The vehicles each have a GVW of 8,000 pounds and are therefore eligible for the Sec. 179 deduction. As in the example above, the remaining cost of each vehicle after taking the Sec. 179 deduction is eligible for both bonus and MACRS depreciation. Assuming the vehicles are both used 100% for business, Mendoza will be able to deduct the following amount in 2024:

Original cost of the SUVs	$70,000
Code Sec. 179 deduction (26,200 x 2)*	(52,400)
Remaining basis	$17,600
Bonus depreciation (60%)	(10,560)
Depreciable basis for MACRS	7,040
MACRS depreciation (Table 5, 20%)	1,408
Add: Sec. 179 deduction	52,400
Bonus depreciation	10,560
Total deduction 2024	**$64,368**

* The inflation-adjusted deduction amount will likely be higher in 2024.

¶6855 PROPERTY CONVERTED FROM PERSONAL TO BUSINESS USE

As noted above, conversion of property from business to non-business use will create tax issues with respect to depreciation and Code Sec. 179 deductions previously claimed. However, it is also relatively common for taxpayers to convert property from personal use to business use. For example, a taxpayer may move to another city and decide to convert his or her personal residence into rental property. Similarly, a taxpayer starting her own business may convert a personal use auto to business use property in connection with the new business.

In such cases, Reg. §1.167(g)-1 provides that the tax basis of the asset for tax purposes will be equal to the lesser of the fair market value of the property at the date of conversion to business (or investment)