

IRS issues 2010 depreciation dollar limits for business autos, light trucks and vans

Rev Proc 2010-18, 2010-9 IRB

IRS has released the inflation-adjusted depreciation limits for business autos, light trucks and vans (including minivans) placed in service in 2010, and the annual income inclusion amounts for such vehicles first leased in 2010. The maximum annual depreciation deduction limits for autos, light trucks and vans are generally \$100 higher than what they were for vehicles that were placed in service last year (but the dollar limit for autos for years beyond the third year remains the same as last year; and the limit for light trucks and vans for the second year placed in service is \$200 higher).

Year-by-year limits. There are two sets of dollar limits for vehicles placed in service in 2010: (1) one for passenger autos that are not trucks or vans and are subject to the luxury-auto limits of Code Sec. 280F (they are rated at 6,000 pounds unloaded gross vehicle weight or less); and (2) another for light trucks or vans (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis) that are subject to the luxury-auto limits (they are rated at 6,000 pounds gross (loaded) vehicle weight or less). (Code Sec. 280F(d)(5)(A))

The following annual depreciation dollar caps applies for autos (not trucks or vans) that are placed in service in calendar year 2010:

- ... \$3,060 for the placed in service year;
- ... \$4,900 for the second tax year;
- ... \$2,950 for the third tax year; and
- ... \$1,775 for each succeeding year.

Compared to the figures for autos first placed in service in 2009, the figures in the preceding table for autos are \$100 higher for the first, second and third tax years, and the same for all other years.

The following annual depreciation dollar caps applies for light trucks or vans that are placed in service in calendar year 2010:

- ... \$3,160 for the placed in service year;
- ... \$5,100 for the second tax year;
- ... \$3,050 for the third tax year; and
- ... \$1,775 for each succeeding year.

Compared to the figures for light trucks or vans placed in service in 2009, the figures in the preceding table for light trucks and vans are \$100 higher for the first tax year, \$200 higher for the second tax year, and \$100 higher for the third tax year and for all other years.

Caution: The dollar limits must be reduced proportionately if business/investment use of a vehicle is less than 100%.

Observation: Heavy SUVs—those that are built on a truck chassis and are rated at more than 6,000 pounds gross (loaded) vehicle weight—are exempt from the luxury-auto dollar caps because they fall outside of the Code Sec. 280F(d)(5) definition of a passenger auto. Under Code Sec. 179(b)(6), not more than \$25,000 of the cost of a heavy SUV placed in service after Oct. 22, 2004 may be expensed under Code Sec. 179. The balance of the heavy SUV's cost may be depreciated under the regular rules that apply to 5-year MACRS property (e.g., a 20% first-year depreciation allowance if the half-year convention applies for the placed in service year).

Observation: For vehicles that qualified, the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5)—like the Economic Stimulus Act of 2008 before it—increased the otherwise applicable first-year depreciation limit for autos, light trucks and vans by \$8,000. Specifically, under Code Sec. 168(k)(2)(F)(i) as amended by ARRA, unless a taxpayer elected out, autos, light duty trucks or vans subject to the Code Sec. 280F luxury-auto limits were qualified property under Code Sec. 168(k) (i.e., eligible for 50% bonus first-year depreciation under ARRA); if acquired and placed in service in 2009, the regular first-year dollar limit for these vehicles was increased by \$8,000. However, unless retroactively extended by Congress this increase doesn't apply to vehicles placed in service in calendar year 2010.

Lease income inclusion tables. A taxpayer that leases a business auto may deduct the part of the lease payment representing business/investment use. If business/investment use is 100%, the full lease cost is deductible. So that auto lessees can't avoid the effect of the luxury auto limits, however, they must include a certain amount in income during each year of the lease to partially offset the lease deduction. (Code Sec. 280F(c)) The income inclusion amount varies with the initial fair market value of the leased auto and the year of the lease, and is adjusted for inflation each year.

Tables 3 and 4 of Rev Proc 2010-18, Sec. 4.02, carry the income inclusion tables for passenger autos, and light trucks and vans with a lease term beginning in 2010.

Observation: The income inclusion amounts for vehicles first leased this year are somewhat lower than they were for vehicles first leased last year. For example, for an auto with a fair market value over \$37,000 but not over \$38,000, and first leased in 2009, the income inclusion amounts were \$51 for the first tax year during the lease, \$112 for the second tax year, \$166 for the third, \$199 for the fourth, and \$228 for the fifth and later lease years. If an auto in the same fair market value range is first leased in 2010, the income inclusion amounts are \$44 for the first tax year during the lease, \$96 for the second tax year, \$143 for the third, \$170 for the fourth, and \$198 for the fifth and later lease years.

References: For business auto depreciation limits, see FTC 2d/FIN ¶ L-10001; United States Tax Reporter ¶ 280F4; TaxDesk ¶ 267,620. For income inclusion amounts for business auto lessees, see FTC 2d/FIN ¶ L-10200; United States Tax Reporter ¶ 280F4; TaxDesk ¶ 267,631.