

IRS ISSUES 2005 DEPRECIATION DOLLAR LIMITS FOR BUSINESS AUTOS, LIGHT TRUCKS AND VANS

IRS has released the inflation-adjusted depreciation limits for business autos, light trucks and vans (including minivans) placed in service in 2005, and the annual income inclusion amounts for such vehicles first leased in 2005. The maximum annual depreciation deduction for these vehicles is the same as for vehicles that were placed in service last year, except the second-year dollar limit is \$100 less. The new IRS guidance also carries the depreciation limits and lease inclusion amounts for electric autos.

■ **Year-by-year limits**

There are two sets of dollar limits for non-electric vehicles placed in service in 2005. One is for passenger autos which are not trucks or vans and are subject to the luxury-auto limits (they are rated at 6,000 pounds unloaded gross vehicle weight or less). The other is for light trucks or vans (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis). Light trucks or vans are subject to the luxury-auto limits if they are rated at 6,000 pounds gross (loaded) vehicle weight or less. Certain non-personal-use vehicles are exempt from the luxury auto limits regardless of their weight.

Following are the annual depreciation dollar caps for vehicles which are subject to the luxury-auto limits and placed in service in calendar year 2005.

For autos (not trucks or vans):

- \$2,960 for the placed in service year;
- \$4,700 for the second tax year;
- \$2,850 for the third tax year; and
- \$1,675 for each succeeding year.

For light trucks or vans (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis):

- \$3,260 for the placed in service year;
- \$5,200 for the second tax year;
- \$3,150 for the third tax year; and
- \$1,875 for each succeeding year.

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

Observation: Heavy SUVs - those which 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 definition of a passenger auto. Not more than \$25,000 of the cost of a heavy SUV placed in service after October 22, 2004 and used 100% for business 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).

■ **New lease income inclusion tables**

A taxpayer who 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. 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 4 and 5 of Revenue Procedure carry the income inclusion tables for passenger autos, light trucks and vans with a lease term beginning in 2005. The lease income inclusion tables don't apply at all unless the FMV of a passenger auto exceeds \$15,200 (down from \$17,500 for 2004) and \$16,700 for trucks and vans (down from \$18,000 for 2004).

Observation: This means more passenger autos, trucks and vans will be subject to the lease income inclusion rules.

Observation: The lease inclusion amounts for vehicles first leased in 2005 are slightly higher than they were for vehicles first leased in 2004.

■ **Electric autos**

The depreciation dollar caps for qualifying electric autos placed in service in 2005 are roughly triple the limits for passenger autos. The dollar limits are \$8,880 for the 1st year, \$14,200 for the 2nd, \$8,450 for the 3rd and \$5,125 for each succeeding year. Electric autos are subject to a different lease income inclusion table in the Revenue Procedure.

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