Autos and Listed Property

Tab 11 Topics

Business Vehicles—Quick Facts

For business vehicles placed in service	2020	2019	2018	2017	2016
Passenger Autos—Unloaded Gross Vehicle Weight 6,000 lbs. or Less					
Depreciation limits (Section 280F limits)[1,2,3]					
Placed in service year if special depreciation allowed	$ 18,100	$ 18,100[4]	$ 18,000[5]	$ 11,160	$ 11,160
Placed in service year if no special depreciation allowed	10,100	10,100	10,000	3,160	3,160
Second-year limit	16,100	16,100	16,000	5,100	5,100
Third-year limit	9,700	9,700	9,600	3,050	3,050
All years thereafter	5,760	5,760	5,760	1,875	1,875
Leased auto income inclusion applies when FMV exceeds	$ 50,000	$ 50,000	$ 50,000	$ 19,000	$ 19,000
Trucks and Vans—Loaded Gross Vehicle Weight 6,000 lbs. or Less					
Depreciation limits (Section 280F limits)[1,2,3]					
Placed in service year if special depreciation allowed	$ 18,100	$ 18,100[4]	$ 18,000[5]	$ 11,560	$ 11,560
Placed in service year if no special depreciation allowed	10,100	10,100	10,000	3,560	3,560
Second-year limit	16,100	16,100	16,000	5,700	5,700
Third-year limit	9,700	9,700	9,600	3,450	3,350
All years thereafter	5,760	5,760	5,760	2,075	2,075
Leased auto income inclusion applies when FMV exceeds	$ 50,000	$ 50,000	$ 50,000	$ 19,500	$ 19,500
Heavy Vehicles—Over 6,000 lbs. (unloaded GVW for autos, loaded GVW for trucks and vans) and GVW 14,000 lbs. or less					
Section 179 expensing limit—per vehicle[6]	$ 25,900	$ 25,500	$ 25,000	$ 25,000	$ 25,000
Depreciation limit (annual Section 280F limit)	N/A	N/A	N/A	N/A	N/A
Vehicles Not Subject to Depreciation Limits					
Autos with unloaded gross vehicle weight (GVW) more than 6,000 lbs., trucks and vans with GVW (loaded) more than 6,000 lbs., and qualified nonpersonal-use vehicles are not subject to the Section 280F depreciation limits.					
Standard Mileage Rates					
Business miles	57.5¢	58¢	54.5¢	53.5¢	54¢
Depreciation component of business standard mileage rate	27¢	26¢	25¢	25¢	24¢
Charitable miles	14¢	14¢	14¢	14¢	14¢
Medical or moving miles	17¢	20¢	18¢	17¢	19¢

Section 280F Limit Applies When (Vehicles Placed in Service in 2020)

Description	Basis equals or exceeds:[7]	
	Auto	Truck or Van
Qualifies for 100% special depreciation	$18,100	$ 18,100
Doesn't qualify for special depreciation *or* taxpayer elects out	$50,500	$ 50,500

1 If any personal use, the limits must be reduced to reflect actual business/investment-use percentage.
2 The limits are not reduced if the vehicle is used for less than a full year, but are reduced for a short tax year.
3 This limit applies to the sum of any special depreciation allowance, MACRS depreciation, and Section 179 expense claimed.
4 For vehicles acquired before 9/28/17 and placed in service during 2019, the 1st year limit is $14,900.
5 For vehicles acquired before 9/28/17 and placed in service during 2018, the first-year limit is $16,400.
6 Overall limit on Section 179 expensing also applies.
7 Assumes half-year convention applies.

Deducting Vehicle Expenses

See also IRS Pubs. 463 and 535

Taxpayers eligible to deduct vehicle expenses can compute their deduction using either the standard mileage rate method or the actual expense method.

Information needed to deduct expenses:

- Total miles driven for year.
- Total business/investment miles driven for year.
- Date vehicle placed in service.
- Basis in automobile (if actual cost method used).

Five or More Vehicles Used at the Same Time

Taxpayers who own or lease five or more vehicles used for business at the same time (such as in fleet operations) cannot use the standard mileage rate. This rule does not apply to taxpayers who use the vehicles at different times for business.

Example # 1: Marcia owns three cars and two vans that she uses at different times to call on her customers. She can use the standard mileage rate for all five vehicles because she does not use them all at the same time.

Example # 2: Tony and his employees use his four pickup trucks in his landscaping business. During the year, he traded in two of his old trucks for two newer ones. Tony can use the standard mileage rate for all six of the trucks he owned during the year, since he didn't use five or more at the same time.

Example #3: Chris owns a repair shop and an insurance business. He and his employees use his two pickup trucks and a van for the repair shop. Chris alternates between his two cars for the insurance business. No one else uses the cars for business purposes. Chris can use the standard mileage rate for the pickup trucks, van, and the cars because he never has five or more vehicles used for business at the same time.

Depreciating Vehicles

Depreciation Limits for Passenger Autos

Depreciation (including the Section 179 deduction) for *passenger autos* is limited by annual caps under IRC Sec. 280F. The depreciation limit is based on the year the vehicle is first placed in service.

See the *Business Vehicles—Quick Facts* on Page 11-1.

Passenger auto. A passenger auto is any four-wheeled vehicle that is made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (GVW). *Exception:* Vehicles described at *Qualified nonpersonal-use vehicles* on Page 11-8 are not passenger automobiles.

Trucks and vans. Trucks and vans are also subject to Section 280F limits. A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van and has a loaded GVW of 6,000 pounds or less.

Comparison of Standard Mileage Rate and Actual Cost Methods (2020)[1]

	Standard Mileage Rate Method	Actual Cost Method
Available to	• Self-employed individuals using a car for business (including rental activities), certain taxpayers entitled to deduct unreimbursed employee travel expenses as an adjustment to income, and employees requesting expense reimbursements under an accountable plan (business mileage rate). • Individuals using a car for charitable, medical, or certain military-related moving purposes (charitable, medical, or moving rate). • Taxpayers who use the car for hire (such as a taxi). *Exceptions:* Not available to taxpayers who: • Use five or more cars simultaneously in their business. • Claimed depreciation using a method other than SL, a Section 179 deduction, or special depreciation allowance for the car. • Previously claimed actual car expense for a car they lease. • Are using an employer-provided vehicle for business. • Are rural mail carriers and receive a qualified reimbursement.	Any taxpayer using a car for business (including rental activities), charitable, medical, or certain military-related moving purposes. Taxpayers can convert from the standard mileage rate method to the actual cost method any year. If the vehicle is not fully depreciated, the taxpayer must use SL depreciation based on remaining useful life.
Calculating the deduction	Multiply the following rates per mile by the number of miles driven: • Business—57.5¢ per mile. • Charitable—14¢ per mile. • Medical—17¢ per mile. • Certain military-related moves—17¢ per mile. No additional deductions are allowed for the actual costs of owning and operating the car (such as depreciation or lease payments, maintenance, repairs, tires, gasoline, oil, insurance, and registration fees).	Determine percentage of use (based on miles driven) for business, charitable, medical, or certain military-related moving purposes. Apply that percentage to actual expenses of owning and operating the vehicle, including: gasoline and oil, tires, lease payments, garage rent, maintenance and repairs, insurance, registration fees and licenses, and basis for depreciation/Section 179 expensing. *Exception:* For charitable, medical, or certain military-related moving use may deduct actual out-of-pocket costs directly attributable to use. No portion of depreciation, Section 179, insurance, or general maintenance expenses can be deducted.
Additional deductible expenses	• Parking fees and tolls for business, charitable, medical, or certain military-related moving use. • Business percentage of interest and personal property taxes. (Employees must treat all interest as personal interest.) • Nonbusiness percentage of personal property taxes (itemized deduction).	
Depreciation and Section 179 rules	• Basis reduced (but not below zero) for business miles driven: *Year* / *Cents per mile*: 2003–2004 16¢; 2005–2006 17; 2007 19; 2008–2009 21; 2010 23¢; 2011 22; 2012–2013 23; 2014 22; 2015–2016 24¢; 2017–2018 25; 2019 26; 2020 27 • No Section 179 expense or special depreciation allowance available.	• Generally, 200% DB five-year recovery period. But, can elect SL over five years (ADS) or 150% DB over five years (AMT method). See Tab 10 for MACRS depreciation tables. • Annual depreciation and first-year Section 179 expense limited under IRC Sec. 280F for passenger autos, trucks and vans.[2] • If used 50% or less for business, must use SL/five-year recovery period. No Section 179 expense or special depreciation allowance available.

[1] These methods are available for cars, which includes a van, pickup, or panel truck.

Note: See Rev. Proc. 2019-46 for detailed definitions and discussion of using standard mileage rates. Annual mileage rates are published in an IRS Notice. See Notice 2020-5 for 2020 amounts.

[2] Additional $8,000 (100% business use) special depreciation allowance may be available in first year placed in service (if qualifying property).

See the table *Business Vehicles—Quick Facts* on Page 11-1 for the limits that apply to vehicles placed in service during 2016–2020.

Special use vehicles. These vehicles are not subject to the Section 280F depreciation limits. This category includes the following:

1) An ambulance, hearse or combination ambulance-hearse used in a trade or business.
2) A vehicle used in the trade or business of transporting persons or property for compensation or hire (for example, a taxicab).
3) Qualified non-personal use vehicles. See *Qualified nonpersonal-use vehicles* on Page 11-8.

Deduction Limits for Vehicles Placed in Service in 2020		
Description	Sec. 280F Depreciation Limit[1]	Maximum Sec. 179 Deduction
Car—GVW (unloaded) up to 6,000 lbs.	$ 10,100[2]	$ 10,100[2]
Truck or van—GVW (loaded) up to 6,000 lbs.	$ 10,100[2]	$ 10,100[2]
• Car—GVW (unloaded) over 6,000 lbs. but GVW not over 14,000 lbs. • Truck or van—GVW (loaded) over 6,000 lbs. but not over 14,000 lbs.	N/A	$ 25,900[3]
Vehicles described in the preceding row that: • Are designed to seat more than nine passengers behind the driver seat (for example, a hotel shuttle van), • Have an open cargo area or covered box that is at least six feet long and not readily accessible from the passenger compartment (for example, a pick-up with full-size cargo bed) or • Have an integral enclosure fully enclosing the driver compartment and load carrying device, do not have seating behind the driver's seat and have no body section protruding more than 30 inches ahead of the windshield (for example, a delivery van).	N/A	$1,040,000[4]
Truck or van—GVW (loaded) over 14,000 lbs.	N/A	$1,040,000[4]

[1] First year limit; reduce by any Section 179 expense claimed.
[2] Plus $8,000 if vehicle qualifies for special (bonus) depreciation.
[3] Per vehicle limit. Also subject to annual overall limit ($1,040,000 for 2020).
[4] Annual limit for all assets expensed.

Section 179 Limit for Heavy Vehicles

Any four-wheeled vehicle primarily designed to carry passengers over public streets, roads or highways that is not subject to the Section 280F depreciation limits and is rated at 14,000 pounds GVW or less is subject to a $25,900 limit on the Section 179 deduction [IRC Sec. 179(b)(5)].

Thus, cars with an unloaded GVW over 6,000 pounds (over 6,000 loaded GVW if a truck or van) and that are rated at no more than 14,000 pounds GVW are subject to the limit. For exceptions, see the table *Deduction Limits for Vehicles Placed in Service in 2020* on Page 11-3.

Note: Even though these vehicles are not subject to the 280F depreciation limits, they are still listed property.

The $25,900 limit is per vehicle. It is not pro-rated for vehicles with less than 100% business use.

Website: GVWs for many vehicles can be found at **www.motortrend.com/intellichoice/** and **www.carsdirect.com/new_cars/search**. These amounts might also be found on a label attached to the inside edge of the driver's door or at the manufacturer's website.

Calculating Vehicle Depreciation

Step 1: Determine the business/investment use percentage by dividing business/investment miles driven during the year by total miles driven.

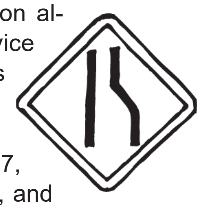
Step 2: Multiply the Section 280F limit for the year by the business/investment use percentage. This is the maximum amount that can be claimed as depreciation (including any Section 179 deduction) for the year.

Step 3: Determine the Section 179 deduction. The Section 179 deduction can only be claimed in the year the vehicle is placed in service and only if qualified business use is more than 50%.

Step 4: Determine the special depreciation allowance, if applicable. The special allowance may only be claimed in the year the vehicle is placed in service and the vehicle (to be bonus eligible) must be used more than 50% in a qualified business use.

Step 5: Determine MACRS depreciation based on a five-year recovery period. If qualified business use is 50% or less, depreciation must be calculated SL. See the table *Vehicle Depreciation—MACRS Percentages* on Page 11-3.

Special (bonus) depreciation and the Section 280F limit. The special depreciation rate is generally 100% for qualifying assets (including passenger autos) purchased and placed in service after September 27, 2017 and before January 1, 2023.



For passenger autos and light trucks, bonus depreciation increases the maximum first-year depreciation deduction allowed by $8,000 for vehicles placed in service through 2026. However, if the vehicle was purchased prior to September 28, 2017, the additional first-year depreciation deduction is $8,000 for vehicles placed in service in 2017, $6,400 for vehicles placed in service in 2018, and $4,800 for vehicles placed in service in 2019 [IRC Sec. 168(k)(2)(F)(iii)]. No additional first year depreciation deduction is allowed or allowable for qualified property acquired by the taxpayer before September 28, 2017, and placed in service after 2019 [IRC Sec. 168(k)(8)(D)(i)].

Vehicle Depreciation—MACRS Percentages

These rates are for a five-year recovery period. Apply the applicable rate to the vehicle's basis for depreciation each year of the recovery period. Basis for depreciation is the original basis multiplied by the business/investment use percentage, reduced by any Section 179 deduction, special depreciation allowance, and credits.

	200% DB—Used more than 50% for business[1]					Straight Line—Used 50% or less for business or SL elected				
Year	HY	MQ1	MQ2	MQ3	MQ4	HY	MQ1	MQ2	MQ3	MQ4
1	20.00%	35.00%	25.00%	15.00%	5.00%	10.00%	17.50%	12.50%	7.50%	2.50%
2	32.00	26.00	30.00	34.00	38.00	20.00	20.00	20.00	20.00	20.00
3	19.20	15.60	18.00	20.40	22.80	20.00	20.00	20.00	20.00	20.00
4	11.52	11.01	11.37	12.24	13.68	20.00	20.00	20.00	20.00	20.00
5	11.52	11.01	11.37	11.30	10.94	20.00	20.00	20.00	20.00	20.00
6	5.76	1.38	4.26	7.06	9.58	10.00	2.50	7.50	12.50	17.50

[1] Incorporates the switch from the 200% declining-balance (DB) method to the straight-line (SL) method when that method provides a greater deduction. Taxpayers can elect to use the 150% DB or the SL method with a five-year recovery period.

TCJA Safe Harbor for 100% Special (Bonus) Depreciation

When allowable depreciation exceeds the first year limitation under IRC Sec. 280F, the amount that cannot be currently deducted becomes unrecovered basis, which cannot be deducted until after the end of the vehicle's recovery period [IRC Sec. 280F(a)(1)(B)]. Unrecovered basis can be deducted after the end of the recovery period, subject to the Section 280F limit for that year (or years). See *Depreciation After Recovery Period Ends* on Page 11-4.

Under the unrecovered basis rule, claiming 100% special depreciation results in all of the vehicle's basis in excess of the first year Section 280F limit becoming unrecovered basis, which cannot be depreciated until after the end of the vehicle's recovery period. To mitigate this result, the IRS allows taxpayers who claimed 100% special depreciation that was limited by IRC Sec. 280F to elect a safe harbor accounting method for computing depreciation and unrecovered basis for years after the placed-in-service year (Rev. Proc. 2019-13).

Under the safe harbor calculation in Rev. Proc. 2019-13, the taxpayer deducts the lesser of the Section 280F limitation for that year or the remaining adjusted depreciable basis (original basis of the vehicle less first-year depreciation claimed, including bonus depreciation) multiplied by the standard annual depreciation rate for the year. For less expensive vehicles, the maximum allowable deductions for Year 2 and beyond under the safe harbor calculation will be lower than the normal Section 280F limits for those years. For more expensive vehicles, the maximum allowable deductions for Year 2 and beyond under the safe harbor calculation will be limited to the normal Section 280F amounts.

Note: The safe harbor does not apply to any vehicle for which the taxpayer elected out of 100% special depreciation or elected the Section 179 deduction, or for any vehicle placed in service after 2022.

Example: Mary, a self-employed consultant, purchased and placed in service an automobile in 2019 for $60,000. She used the automobile exclusively for her business. In 2019, she claimed the full $18,100 deduction allowed under Section 280F for her vehicle. Beginning in 2020, she will begin depreciating the remaining adjusted depreciable basis of $41,900 ($60,000 original cost less $18,100 first-year depreciation) using the standard MACRS tables covering automobiles, subject to the Section 280F limitation. As such, her depreciation deduction for 2020 will be $13,408 [the lesser of $13,408 ($41,900 × 32%) or $16,100 (the Section 280F limitation for year 2 for vehicles placed in service in 2019)].

Variation: The purchase price of the automobile was $80,000. In this case, Mary's 2020 depreciation deduction will be $16,100 [the lesser of $19,808 ($61,900 × 32%) or $16,100 (the Section 280F limitation for year 2 for vehicles placed in service in 2019)].

Electing the safe-harbor accounting method. This method is elected by applying it to deduct depreciation on a vehicle subject to the Section 280F limits for the first year after the placed-in-service year (Rev. Proc. 2019-13).

Business Use 50% or Less

Passenger automobiles (see *Passenger auto* on Page 11-2) used 50% or less for business purposes are not eligible for Section 179 expense or eligible to be qualifying property for bonus depreciation purposes and must be depreciated over five years using the SL method. The half-year or mid-quarter conventions still apply. See the table *Vehicle Depreciation—MACRS Percentages* on Page 11-3.

Investment use. Investment use is not counted for determining whether a vehicle meets the more-than-50% business-use test (to qualify for accelerated depreciation and Section 179 expensing). But, the combined business/investment percentage is used to compute the depreciable portion of the vehicle's basis.

Example #1: An auto is used 40% in a trade or business and 25% for investment. *Method:* SL depreciation must be used based on 65% business/investment use.

Example #2: An auto is used 80% in a trade or business and 10% for investment. *Method:* Accelerated depreciation (200% DB) may be used and calculated based on 90% business/investment use.

Electing Straight-Line Depreciation

Even if business use exceeds 50%, a taxpayer may elect to depreciate an auto under the five-year SL method instead of using 200% declining balance. Electing SL depreciation avoids the recapture of excess deductions if business use drops to 50% or less in a later year. The election is made by entering "SL" in column (g) of Part V, Form 4562. The election applies to all five-year property placed in service in the year the election is made.

Depreciation After Recovery Period Ends

If depreciation for any year exceeds the Section 280F limit (adjusted for the business/investment use percentage) and the vehicle continues to be used for business or investment, depreciation can continue after the recovery period ends, subject to the Section 280F limits for each subsequent year.

The Section 280F limit depends on when the car is placed in service. Beyond the six tax-year recovery period, unrecovered basis must be determined to arrive at the depreciation deduction each year. Unrecovered basis is the unadjusted basis less the recovery deductions that would have been available had the business/investment use percentage been 100% each year. This rule denies taxpayers deductions for personal use in prior years.

Example: In May 2014, Jim bought and placed in service a used car costing $31,500. The car was five-year MACRS property. Jim did not claim a Section 179 deduction (and did not qualify for bonus depreciation since it was used property). He used the car exclusively for business during the recovery period (2014 through 2019). His depreciation deductions were as follows:

Year	*MACRS Depreciation Percentage*	*MACRS Depreciation Amount*	*Section 280F Limit*	*Depreciation Allowed*
2014	20.00%	$ 6,300	$3,160	$ 3,160
2015	32.00	10,080	5,100	5,100
2016	19.20	6,048	3,050	3,050
2017	11.52	3,629	1,875	1,875
2018	11.52	3,629	1,875	1,875
2019	5.76	1,814	1,875	1,875
Total		$31,500		$16,935

At the end of 2019, Jim's unrecovered basis in the car was $14,565 ($31,500 – $16,935). If in 2020 and later years he continues to use the car 100% for business, he can deduct each year the lesser of $1,875 or his remaining unrecovered basis.

Variation: Assume Jim's business use of the car was only 60%. Then, the Section 280F limits (and thus his depreciation deductions) would have been reduced each year. However, when figuring his unrecovered basis in the car after 2019, he must still reduce his basis by the depreciation allowable as if the business use had been 100%. So, Jim's unrecovered basis at the beginning of 2020 would still be $14,565 ($31,500 – $16,935).

If his business use remained at 60%, Jim's depreciation expense for 2020 would be the lesser of $1,125 ($1,875 × 60%) or $8,739 (60% of his remaining unrecovered basis of $14,565). However, even though he deducts $1,125 of depreciation, his unrecovered basis is reduced by $1,875 (the depreciation deduction that would be allowed if 100% business use).