

Depreciation: Special Rules on Pickups, SUVs, Other Autos and Listed Property^{*}

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Introduction

There are special rules for depreciation on vehicles and other listed property. These rules generally mean that these assets may incur less rapid types of depreciation and smaller amounts of depreciation expense in early years. Listed property are items that are used for both business and personal purposes. According to the IRS, this includes passenger automobiles, other property used as a means of transportation (light duty and heavy duty pickups and SUVs), computers and peripheral equipment, or other similar property the Treasury Department specifies in the regulations. Computers and peripheral equipment avoid the listed property designation when used exclusively at a regular place of business.

Special Rules

If the asset is used less than 100% in the business, the maximum depreciation allowance is reduced proportionately. If the asset is used 50% or less, the Internal Revenue Code (IRC) Section 179 deduction is not allowed and depreciation is limited to straight line depreciation. A log or account book must be kept in order to verify the business-use percentage. An exception to this rule applies to vehicles used in the farm operation that are used during the normal business day. This election allows a 75% business use and needs to be made for the initial tax year of the vehicle. Once this election is made it cannot be changed in order to use a different method.

The maximum depreciation and IRC Section 179 expense allowance for four-wheeled vehicles (6,000 pounds or less – this includes light pickup trucks), referred to as luxury cars, placed in service in 2010 is \$3,060 for the first year and \$4,900 for the second year (both are increased

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from the 2009 limit). Unchanged for 2010 are the \$2,850 limit for the third year and the \$1,775 limit for each succeeding year (see the table below). If the business-use percentage is less than 100%, these limits are reduced accordingly on a prorated basis.

Note. These first-year limits are increased by \$8,000 if the taxpayer does not elect out of the 50% Additional First Year Depreciation in 2008, 2009 and 2010. Also there were higher limits in the first year if bonus depreciation was used in 2001 through 2004.

Sport-utility vehicles weighing more than 6,000 pounds but no more than 14,000 pounds are limited to a maximum IRC Section 179 expense of \$25,000 each. The balance of the cost is depreciable under MACRS rules without any further restrictions.

Starting in the year 2003, pickups and vans have depreciation caps that are different from those of other automobiles, as shown in the table below. The 2010 limit for pickups and vans for the first year is increased by \$100 from 2009.

Depreciation Limitations for Passenger Autos, Pickups, and Vans

<u>Year Placed in Service</u>	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>Later Years</u>
1998	\$3,160	\$5,000	\$2,950	\$1,775
1999	3,060	5,000	2,950	1,775
2000	3,060	4,900	2,950	1,775
2001–2002 regular	3,060	4,900	2,950	1,775
2001–2002 with 30% bonus starting 9/11/01	7,660	4,900	2,950	1,775
2003 regular for cars	3,060	4,900	2,950	1,775
2003 regular for pickups and vans	3,360	5,400	3,250	1,975
2003 additional for 30% bonus	4,600			
2003 additional for 50% bonus starting 5/6/03*	7,650			
2004 regular for cars	2,960	4,800	2,850	1,675
2004 regular for pickups and vans	3,260	5,300	3,150	1,875
2004 only additional for 50% bonus*	7,650			
2005 regular for cars	2,960	4,700	2,850	1,675
2005 regular for pickups and vans	3,260	5,200	3,150	1,875
2006 regular for cars	2,960	4,800	2,850	1,775
2006 regular for pickups and vans	3,260	5,200	3,150	1,875
2007 regular for cars	3,060	4,900	2,850	1,775
2007 regular for pickups and vans	3,260	5,200	3,050	1,875
2008 regular for cars	2,960	4,800	2,850	1,775
2008 regular for pickups and vans	3,160	5,100	3,050	1,875
2008 only additional for 50% bonus	8,000			
2009 regular for cars	2,960	4,800	2,850	1,775
2009 regular for pickups and vans	3,060	4,900	2,950	1,775
2009 only additional for 50% bonus	8,000			
2010 regular for cars	3,060	4,900	2,950	1,775
2010 regular for pickups and vans	3,160	5,100	3,050	1,875
2010 only additional for 50% bonus	8,000			

*Note: This limitation applies even if the taxpayer elects 30% bonus depreciation. For details, see the discussion that follows.

**Note: Regular cars include light pickups.

IRS Publications

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IRS Publication 946: How to Depreciate Property. This publication specifically covers depreciation with great detail.

IRS Publication 225, Farmer’s Tax Guide. This publication addresses many of the issues for depreciation including separate sections for: Depreciation, Chapter 7; Basis of Assets, Chapter 6; and Dispositions of Property Used in Farming, Chapter 9.

Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

Fact sheets that might be of particular interest include:

- Depreciation: An Introduction
- Depreciation: Class Life
- Depreciation: Cost Recovery Methods and Options
- Depreciation: Election to Expense Qualifying Assets (Section 179 Deduction)
- Depreciation: Bonus or Additional First-Year Depreciation (AFYD)
- Depreciation: Alternative Minimum Tax Considerations
- Depreciation: Other Topics
- Depreciating Your Home Office

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