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New Rules Will Effect Automobile Depreciation

Passenger vehicles have been subject to fairly low depreciation limits for almost 20 years. The rules apply even if you use the vehicle 100% of the time for business.

Known as the luxury automobile depreciation limits, the rules apply to automobiles with an unloaded gross vehicle weight of no more than 6,000 pounds that costs slightly more than \$15,000 and up (in other words, almost every automobile—including some you probably wouldn't consider luxurious). The limits also apply to vans, SUVs, and trucks costing more than \$15,000 that have a gross loaded (rather than unloaded) vehicle weight rating of no more than 6,000 pounds.

When the depreciation limits apply, the basic rule is that you can claim no more than \$3,060 of depreciation in the year you acquire the vehicle, a maximum of \$4,900 in the next year, \$2,950 in the third year, and a miserly \$1,775 each year after that until the vehicle is fully depreciated. (These amounts are subject to change each year based on inflation.) Special rules apply to business vehicles that are leased or that run on electricity. In addition, the limits are reduced to the extent a vehicle isn't used 100% of the time for business.

Fortunately, beginning with a law change last year, a second one in the spring of this year, and an IRS pronouncement that came out a few weeks ago, the depreciation limits have been liberalized considerably (at least for some vehicles). As a result of all of these changes, we thought it might be helpful to give you a rundown of the current rules, starting with what hasn't changed.

Preowned Automobiles

If you buy a used automobile this year and use it in your business, nothing has changed. The maximum depreciation you can claim on that vehicle for 2003 is \$3,060, and then \$4,900 next year, \$2,950 the following year, and no more than \$1,775 in each subsequent year you own it.

New Automobiles

The same isn't true for an automobile that you bought new in 2003. It qualifies for a potentially higher first year limit (and then the same limits as listed above apply in the second and later years). If the vehicle was acquired before May 6, 2003, the first year depreciation limit can be as high as \$7,660 (depending on the cost of the car and how much it's used for business). For purchases after May 5, 2003, the first-year limit can be as high as \$10,710 (again, depending on the cost of the car and its business use percentage).

Light Trucks and Vans

Light trucks and vans have their own set of depreciation limits starting this year. If such a vehicle is acquired used in 2003, one set of limits apply. If the vehicle is purchased new in 2003, one of two other sets of limits apply, depending on the specific date the vehicle was acquired. The following table summarizes these rules for light trucks and vans acquired during 2003.

Tax Year	Light Trucks and Vans Acquired Used	Acquired New Before 5/6/03	Acquired New After 5/5/03
1st Tax Year (i.e., 2003)	\$ 3,360	\$ 7,960	\$ 11,010
2nd Tax Year	\$ 5,400	\$ 5,400	\$ 5,400
3rd Tax Year	\$ 3,250	\$ 3,250	\$ 3,250
Each Succeeding Year	\$ 1,975	\$ 1,975	\$ 1,975

Note: For the purpose of these limits, light trucks and vans *include* passenger vehicles such as minivans and sport utility vehicles (SUVs)—if they're built on a truck chassis and their gross (loaded) vehicle weight rating (GVWR) is no more than 6,000 pounds.

Heavier Trucks and Vans

As we mentioned at the start of this letter, the luxury automobile depreciation limits do not apply to trucks and vans (including minivans and SUVs built on a truck chassis), if the GVWR of the vehicle is more than 6,000 pounds. Instead, these vehicles are subject to the normal depreciation rules (that apply to machinery, equipment, furniture, etc.). This also means that the vehicle is eligible for the up to \$100,000 expensing election in lieu of claiming annual depreciation (assuming the taxpayer is otherwise eligible to use the expensing option). The expensing election applies regardless of whether the vehicle is acquired new or used. Thus, with the right vehicle (such as a Chevy Suburban, Ford Excursion, or Toyota Land Cruiser) that's used for business 100% of the time, you can write off the full cost of the vehicle in the year of purchase.

Perhaps you're not sure whether the truck, van, or SUV you're interested in has a GVWR above 6,000 pounds? No problem. You can look at a vehicle's specifications on any of several automotive related websites such as *Kelly Blue Book's* (www.kbb.com) or *Edmund's* (www.Edmunds.com). However, even then, you should double-check what you find by looking for a placard on the edge of the driver's side door panel of the vehicle you're interested in. On almost all vehicles, the GVWR will be marked on this placard.

More Questions?

If you have questions about the tax issues of buying a new vehicle or writing off the business costs of the one you have now, please call us and we'll be glad to help.