**Special depreciation allowance.** A special depreciation allowance is available for new personal property placed in service in 2016. See Vehicle Depreciation Limitations (Section 280F), page 10-1. The special depreciation allowance is determined after any Section 179 deduction but before regular depreciation is computed. See Special Depreciation Allowance, page 9-9.

**Note:** The 50% and 100% special depreciation allowance does not apply to section 280F property. Instead, the section 280F limits are increased by $5,800 for the first year. The increased amount is then phased down to $6,400 for new property in 2018 and $4,800 for new property in 2019.

**Safe harbor rule for 100% special depreciation.** If 100% special depreciation was taken on an auto placed in service in 2010 or 2011, Revenue Procedure 2011-26 created a safe harbor method of accounting for the allowable depreciation deduction in subsequent years.

**Maximum depreciation for vehicles.** The combined Section 179, special depreciation, and regular MACRS depreciation deduction is limited to the maximum allowable first-year limit. See Vehicle Depreciation Limitations (Section 280F), page 10-1.

**Did You Know?** A depreciation deduction cannot be claimed for listed property other than passenger automobiles after the recovery period ends. There is no recovered basis at the end of the recovery period because the taxpayer is considered to have used the property 100% for business and investment purposes during all of the recovery period.

**Example:** In May 2010, June bought and placed in service a car costing $31,500. The car was 5-year property under GDS (MACRS). She did not elect a Section 179 deduction and elected not to claim any special depreciation allowance for the car. June used the car exclusively for business during the recovery period (2010 through 2015). June’s depreciation is figured as shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
<th>Amount</th>
<th>Limit</th>
<th>Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>20.0%</td>
<td>$6,300</td>
<td>$3,060</td>
<td>$3,060</td>
</tr>
<tr>
<td>2011</td>
<td>32.0</td>
<td>10,080</td>
<td>4,900</td>
<td>4,900</td>
</tr>
<tr>
<td>2012</td>
<td>19.2</td>
<td>6,048</td>
<td>2,950</td>
<td>2,950</td>
</tr>
<tr>
<td>2013</td>
<td>11.52</td>
<td>3,629</td>
<td>1,775</td>
<td>1,775</td>
</tr>
<tr>
<td>2014</td>
<td>11.52</td>
<td>3,629</td>
<td>1,775</td>
<td>1,775</td>
</tr>
<tr>
<td>2015</td>
<td>5.76</td>
<td>1,814</td>
<td>1,775</td>
<td>1,775</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$16,235</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

At the end of 2015, June had an unrecovered basis of $15,265 ($31,500 – $16,235). If in 2016 and later years June continues to use the car 100% for business, she can deduct each year the lesser of $1,775 or her remaining unrecovered basis.

If June’s business use of the car had been less than 100% during any year, her depreciation deduction would have been less than the maximum amount allowable for that year. However, in figuring her unrecovered basis in the car, she would still reduce her basis by the maximum amount allowable as if the business use had been 100%. For example, if June had used her car 60% for business instead of 100%, her allowable depreciation deductions would have been $9,741 ($16,235 × 60%), but she still would have to reduce her basis by $16,235 to determine her unrecovered basis.

**Depreciation After End of Recovery Period**

If the section 280F depreciation limits apply, there may be unrecovered basis in the car at the end of the 5-year MACRS recovery period. If the taxpayer continues to use the car for business, depreciation continues after the end of the recovery period.

The unrecovered basis equals the cost of the vehicle minus depreciation that would have been allowable if the car was used 100% for business. Depreciation is allowed in each succeeding tax year until the full basis in the car is recovered. The maximum amount deductible each year is determined by the date the car is placed in service and the business-use percentage.
How to report. Depreciation recapture is reported on Part IV, Form 4797, and then carried as other income to the form or schedule the depreciation was originally deducted on. For a Schedule C business, depreciation recapture is reported on line 6, Other Income, which will also increase SE tax for the year of recapture.

Leased Autos
The standard mileage rate is allowed for a leased auto if the standard mileage rate is used for the entire lease term. If the taxpayer uses the actual expense method, the business percentage of each lease payment is deductible as a current deduction.

Inclusion amount. If the lease is for a term of 30 days or more, and the taxpayer deducts actual lease payments rather than the standard mileage rate, a lease inclusion amount may be required for each tax year of the lease. The inclusion amount serves the same purpose as the section 280F depreciation limitation rules on luxury autos. The deductible amount of the lease for the year is reduced by the lease inclusion amount. See Lease Inclusion Tables, page 10-2.

For each tax year during the lease, determine the inclusion amount by the following steps.
1) Locate the lease inclusion table that applies. Find the line that includes the FMV of the car on the first day of the lease term. Go across the line to the column for the tax year in which the car is used under the lease to find the inclusion amount. For the last tax year of the lease, use the dollar amount for the preceding year.
2) Prorate the dollar amount for the number of days of the lease term included in the tax year.
3) Multiply the prorated amount from (2) by the business percentage for the year. Use this inclusion amount to reduce the total lease deduction for the year.

Example: Amber took out a lease on a car on January 17, 2016. The lease term is three years. The car had a FMV of $32,250 on the first day of the lease term. She uses the car 75% for business each year. Using the lease inclusion table found on page 10-2, Amber calculates her lease inclusion amount each year as follows.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Table Amount</th>
<th>Proration</th>
<th>Business Percentage</th>
<th>Inclusion Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$30</td>
<td>350/366</td>
<td>75%</td>
<td>$22</td>
</tr>
<tr>
<td>2017</td>
<td>$65</td>
<td>365/365</td>
<td>75%</td>
<td>$49</td>
</tr>
<tr>
<td>2018</td>
<td>$98</td>
<td>365/365</td>
<td>75%</td>
<td>$74</td>
</tr>
<tr>
<td>2019</td>
<td>$116</td>
<td>16/365</td>
<td>75%</td>
<td>$4</td>
</tr>
</tbody>
</table>

Fair market value (FMV). The FMV is the price at which the auto would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all the necessary facts. Sales of similar autos around the same date may help to determine FMV.

Converting Personal Use Auto to Business Use
If a vehicle was used 100% for personal use in its first year owned by a taxpayer, and then used at least partially for business in a later year, the basis for depreciation is the lesser of the FMV or the adjusted basis in the vehicle on the date of conversion. The vehicle is considered first placed in service on the date of conversion.

Standard mileage rate. The lesser of FMV or adjusted basis rule does not apply when the standard mileage rate is elected.

Mileage records. Use the mileage records after the conversion to determine the business use percentage for that period. Then multiply that percentage by the number of months the car is used for business and then divide that result by 12.

Converting Business Use Auto to Personal Use
If a vehicle is no longer used for business, it is not a taxable transaction until the car is sold or otherwise disposed of.

Exception: If MACRS, the Section 179 deduction, or the special depreciation allowance was claimed, and the vehicle is still within its MACRS recovery period, a drop in business use to 50% or less will trigger depreciation recapture. See Depreciation Recapture, page 10-7.

Sale of Business Auto
If a vehicle used for business is sold, the portion of any gain that represents depreciation allowed, including Section 179 and the special depreciation allowance, is recaptured as ordinary income. See Sales of Business Property (Form 4797), Tab 6, for depreciation recapture rules.

Depreciation allowed is the actual amount that is deductible under section 280F.

Example: Edy purchased a car for $30,000 on June 1, 2014, and used it 90% for business in 2014, 2015, and 2016 before selling it on July 1, 2016. Assume no Section 179 or special depreciation was taken. Depreciation allowed is calculated as follows.

2014: $30,000 \times 90\% \times 20\% = $5,400
Limited to $3,160 \times 90\% = $2,844

2015: $30,000 \times 90\% \times 32\% = $8,640
Limited to $5,100 \times 90\% = $4,590

2016: $30,000 \times 90\% \times 19.2\% \times 50\% = $2,592
Limited to $3,050 \times 90\% \times 50\% = $1,373

Total depreciation allowed or allowable equals $8,807. Edy’s basis for purposes of the sale equals $21,193 ($30,000 minus $8,807).

Depreciation in year of sale. Under general MACRS rules, depreciation in the year of sale is generally 50% of the total MACRS deduction that would have been allowed if there was no sale. An exception to this is if the car was originally placed in service under the mid-quarter convention rules. See Conventions, page 9-5.

Section 280F limit in year of sale. The depreciation limitation under section 280F in the year of sale is the same as if the car was not sold during the year. The MACRS depreciation is 50% of the normal amount that would have been allowed during the year if the car was not sold.

Business Auto Trade-In Rules
If a car is traded in on another car, the taxpayer has two options for treatment of the disposition.
1) The taxpayer can elect to treat the transaction as a tax-free disposition of the old car and the purchase of the new car. The old car is treated as disposed of at the time of the trade-in. The depreciable basis of the new car is the adjusted basis of the old car, figured as if 100% of the car’s use had been for business purposes, plus any additional amount paid for the new car. The depreciation deduction is then figured for the new car, beginning with the date it is placed in service.