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26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability
(Also: Part I, §§ 168, 280F; § 1.168(k)-1)

Rev. Proc. 2019-13

SECTION 1. PURPOSE

This revenue procedure provides a safe harbor method of accounting for determining depreciation deductions for passenger automobiles that qualify for the 100-percent additional first year depreciation deduction under § 168(k) of the Internal Revenue Code, as amended by § 13201 of the Tax Cuts and Jobs Act, Public Law 115-97, 131 Stat. 2054 (December 22, 2017) (the “Act”), and that are subject to the depreciation limitations under § 280F(a), as amended by § 13202(a)(1) of the Act.

SECTION 2. BACKGROUND

.01 Section 13201 of the Act amended § 168(k) to extend and modify the additional first year depreciation deduction for qualified property acquired and placed in service by the taxpayer after September 27, 2017, and generally placed in service by the taxpayer before January 1, 2027. Section 168(k)(1) provides that, in the case of qualified property, the depreciation deduction allowed under § 167(a) for the taxable

year in which the property is placed in service includes an allowance equal to the applicable percentage of the property's adjusted basis. Pursuant to § 168(k)(6)(A), the applicable percentage is 100-percent for qualified property acquired and placed in service after September 27, 2017, and placed in service before January 1, 2023 (hereinafter, referred to as “100-percent additional first year depreciation deduction”). The applicable percentage is phased down by 20 percentage points each year for qualified property placed in service after December 31, 2022, through December 31, 2026.

.02 Section 168(k)(7) provides that a taxpayer may elect out of the additional first year depreciation deduction with respect to any class of property that is qualified property placed in service during the taxable year.

.03 Section 168(k)(10) allows a taxpayer to elect to deduct 50-percent, instead of 100-percent, additional first year depreciation for all qualified property acquired after September 27, 2017, by the taxpayer and placed in service by the taxpayer during its first taxable year that includes September 28, 2017.

.04 For owners of passenger automobiles, § 280F(a), as modified by § 13202(a) of the Act, imposes dollar limitations on the depreciation deduction for the year the taxpayer places the passenger automobile in service and for each succeeding year. For a passenger automobile that is qualified property under § 168(k) and for which the 100-percent additional first year depreciation deduction is allowable, § 168(k)(2)(F)(i) increases the first year limitation amount under § 280F(a)(1)(A)(i) by \$8,000. On April 30, 2018, the Treasury Department and the Internal Revenue Service (IRS) published

Rev. Proc. 2018-25, 2018-18 I.R.B. 543, which provides the dollar limitation amounts provided in § 280F(a)(1)(A)(i) that apply to passenger automobiles first placed in service by the taxpayer during calendar year 2018.

.05 Under § 280F(a)(1)(B), the unrecovered basis of any passenger automobile is treated as an expense for the first taxable year after the recovery period, subject to the limitation under § 280F(a)(1)(B)(ii). Under that section, the unrecovered basis that may be treated as an expense in any succeeding taxable year may not exceed \$5,760.

.06 Section 280F(d)(1) provides that any deduction allowable under § 179 for a passenger automobile is subject to the limitations of § 280F(a) in the same manner as if it were a depreciation deduction allowable under § 168.

.07 Section 280F(d)(7) provides that the limitations of § 280F(a) will be adjusted for inflation for any passenger automobile placed in service by the taxpayer after 2018.

SECTION 3. SCOPE AND DEFINITIONS

.01 Scope. This revenue procedure applies to a passenger automobile (other than a leased passenger automobile):

(1) That is acquired and placed in service by the taxpayer after September 27, 2017;

(2) That is qualified property under § 168(k) for which the 100-percent additional first year depreciation deduction is allowable;

(3) That has an unadjusted depreciable basis, as defined in section 3.02(5) of this revenue procedure, exceeding the first year limitation amount under § 280F(a)(1)(A)(i); and

(4) For which the taxpayer did not elect to treat the cost or a portion of the cost as an expense under § 179.

.02 Definitions. Solely for purposes of this revenue procedure, the following definitions apply:

(1) Adjusted depreciable basis is the unadjusted depreciable basis, as defined in section 3.02(5) of this revenue procedure, of the passenger automobile reduced by the depreciation deductions allowable under the safe harbor method of accounting provided in section 4.03 of this revenue procedure.

(2) Applicable optional depreciation table is based on the depreciation system, depreciation method, recovery period, and convention applicable to the passenger automobile for its placed-in-service year, as provided in section 8 of Rev. Proc. 87-57, 1987-2 C.B. 687, 693. See Appendix A in IRS Publication 946 for the applicable optional depreciation tables.

(3) Passenger automobile is defined in § 280F(d)(5).

(4) Remaining adjusted depreciable basis is the unadjusted depreciable basis, as defined in section 3.02(5) of this revenue procedure, of the passenger automobile reduced by the first year limitation amount allowable under section 4.03(2) of this revenue procedure.

(5) Unadjusted depreciable basis is defined in § 1.168(b)-1(a)(3) of the Income Tax Regulations, except that there is no reduction by reason of an election to expense any portion of the basis under § 179.

(6) Unrecovered basis is defined in § 280F(d)(8).

SECTION 4. SAFE HARBOR FOR SECTION 280F(a) LIMITATIONS ON PASSENGER AUTOMOBILES

.01 In general. If the unadjusted depreciable basis of a passenger automobile for which the 100-percent additional first year depreciation deduction is allowable exceeds the first year limitation amount under § 280F(a)(1)(A)(i), the excess amount is the unrecovered basis of the passenger automobile for purposes of § 280F(a)(1)(B)(i) and, therefore, is treated as a deductible expense in the first taxable year succeeding the end of the recovery period subject to the limitation under § 280F(a)(1)(B)(ii). For example, if a calendar-year taxpayer places in service in December 2018 a passenger automobile that costs \$50,000 and is qualified property for which the 100-percent additional first year depreciation deduction is allowable, the 100-percent additional first year depreciation deduction and any § 179 deduction for this property is limited to \$18,000 under § 280F(a)(1)(A)(i) (see Table 2 of Rev. Proc. 2018-25) and the excess amount of \$32,000 is recovered by the taxpayer beginning in 2024, subject to the annual limitation of \$5,760 under § 280F(a)(1)(B)(ii).

.02 Safe harbor method of accounting. To mitigate the anomalous result that occurs in the taxable years subsequent to the placed-in-service year and before the first taxable year succeeding the end of the recovery period for a passenger automobile within the scope of this revenue procedure, the Treasury Department and the IRS provide a safe harbor method of accounting under section 4.03 of this revenue procedure. A taxpayer adopts this safe harbor method of accounting by applying it to deduct depreciation of its passenger automobile on its federal tax return for the first

taxable year succeeding the placed-in-service year of the passenger automobile. To use the safe harbor method of accounting, the taxpayer must comply with section 4.03 of this revenue procedure. If a taxpayer's taxable year is less than 12 months, the depreciation deductions determined under section 4.03 of this revenue procedure must be adjusted for a short taxable year (for further guidance, see Rev. Proc. 89-15, 1989-1 C.B. 816).

.03 Operation of the safe harbor. For a taxpayer with a passenger automobile within the scope of this revenue procedure, the safe harbor method of accounting operates as follows:

- (1) The taxpayer must use the applicable optional depreciation table for computing the depreciation deductions for the passenger automobile;
- (2) For the placed-in-service year of the passenger automobile, the taxpayer deducts the first year limitation amount under § 280F(a)(1)(A)(i). See Table 2 of Rev. Proc. 2018-25 for the first year limitation amount under § 280F(a)(1)(A)(i) for a passenger automobile placed in service in calendar year 2018 for which the 100-percent additional first year depreciation deduction is allowable. For a passenger automobile placed in service after 2018, further guidance will be issued to provide the limitation amounts under § 280F(a)(1) for the applicable placed-in-service year;
- (3) For the 12-month taxable year subsequent to the placed-in-service year and for each succeeding 12-month taxable year in the recovery period, the taxpayer determines the depreciation deduction for the passenger automobile by multiplying the remaining adjusted depreciable basis of the passenger automobile by the annual

depreciation rate for each taxable year subsequent to the placed-in-service year specified in the applicable optional depreciation table, subject to the limitation amounts under § 280F(a)(1)(A);

(4) The adjusted depreciable basis of the passenger automobile as of the beginning of the first taxable year succeeding the end of the recovery period is treated as a deductible depreciation expense for the first taxable year succeeding the end of the recovery period, subject to the limitation under § 280F(a)(1)(B)(ii). Any excess is treated as a deductible depreciation expense for the succeeding taxable years, subject to the limitation under § 280F(a)(1)(B)(ii); and

(5) If § 280F(b) applies to the passenger automobile in a taxable year subsequent to the placed-in-service year, the safe harbor method of accounting ceases to apply beginning for the first year in which § 280F(b) applies. Any passenger automobile that is not predominantly used in a qualified business use, as defined in § 280F(d)(6)(B) and (C), for any taxable year is subject to § 280F(b) for such taxable year and any subsequent taxable year.

.04 Examples. The following examples illustrate the application of the safe harbor method of accounting.

(1) Example 1 -- Application of § 280F(a) safe harbor method of accounting. In 2018, X, a calendar-year taxpayer, purchased and placed in service for use in its business a new passenger automobile that costs \$60,000. The passenger automobile is 5-year property under § 168(e), is qualified property under § 168(k) for which the 100-percent additional first year depreciation deduction is allowable, and is used 100

percent in X's trade or business. X does not claim a § 179 deduction for the passenger automobile and does not make an election under § 168(b), (g)(7), or (k). X depreciates the passenger automobile under the general depreciation system by using the 200-percent declining balance method, a 5-year recovery period, and the half-year convention. X adopts the safe harbor method of accounting provided in section 4.03 of this revenue procedure. As a result:

(a) X must use the applicable optional depreciation table that corresponds with the 200-percent declining balance method of depreciation, a 5-year recovery period, and the half-year convention, for determining the depreciation deductions for the passenger automobile (see Table A-1 in Appendix A of IRS Publication 946);

(b) For 2018, X deducts depreciation of \$18,000 for the passenger automobile, which is the depreciation limitation for 2018 under § 280F(a)(1)(A)(i) (see Table 2 in Rev. Proc. 2018-25). As a result, the remaining adjusted depreciable basis of the passenger automobile as of January 1, 2019, is \$42,000 (\$60,000 unadjusted depreciable basis less \$18,000 depreciation deduction claimed for 2018);

(c) For 2019 through 2023, the total depreciation allowable for the passenger automobile for each taxable year is determined by multiplying the annual depreciation rate in the applicable optional depreciation table by the remaining adjusted depreciable basis of \$42,000, subject to the limitation under § 280F(a)(1)(A) for that year. Accordingly, for 2019, the total depreciation allowable for the passenger automobile is \$13,440 (32 percent multiplied by the remaining adjusted depreciable basis of \$42,000). Because this amount is less than the depreciation limitation of \$16,000 for 2019 (see

Table 2 in Rev. Proc. 2018-25), X deducts \$13,440 as depreciation on its federal income tax return for the 2019 taxable year. For 2020, the total depreciation allowable for the passenger automobile is \$8,064 (19.20 percent multiplied by \$42,000). Because this amount is less than the depreciation limitation of \$9,600 for 2020 (see Table 2 in Rev. Proc. 2018-25), X deducts \$8,064 as depreciation on its federal income tax return for the 2020 taxable year. Below is a table showing the depreciation allowable for the passenger automobile under the safe harbor method of accounting for the 2018 through 2023 taxable years. X deducts these amounts.

| Taxable year | Depreciation limitations under Table 2 of Rev. Proc. 2018-25 | Depreciation deduction under the safe harbor |
|--------------|--------------------------------------------------------------|----------------------------------------------|
| 2018 | \$18,000 | \$18,000 |
| 2019 | \$16,000 | \$13,440 (\$42,000 x .32) |
| 2020 | \$ 9,600 | \$ 8,064 (\$42,000 x .1920) |
| 2021 | \$ 5,760 | \$ 4,838 (\$42,000 x .1152) |
| 2022 | \$ 5,760 | \$ 4,838 (\$42,000 x .1152) |
| 2023 | \$ 5,760 | \$ 2,419 (\$42,000 x .0576) |
| TOTAL | | \$51,599 |

(d) As of January 1, 2024 (the beginning of the first taxable year succeeding the end of the recovery period), the adjusted depreciable basis of the passenger automobile is \$8,401 (\$60,000 unadjusted depreciable basis less the total depreciation allowable of \$51,599 for 2018-2023 (see above table)). Accordingly, for the 2024 taxable year, X deducts depreciation of \$5,760 for the passenger automobile (the lesser of the adjusted depreciable basis of \$8,401 as of January 1, 2024, or the § 280F(a)(1)(B)(ii) limitation of \$5,760).

(e) As of January 1, 2025, the adjusted depreciable basis of the passenger automobile is \$2,641 (\$8,401 adjusted depreciable basis as of January 1, 2024, less the depreciation claimed of \$5,760 for 2024). Accordingly, for the 2025 taxable year, X deducts depreciation of \$2,641 for the passenger automobile (the lesser of the adjusted depreciable basis of \$2,641 as of January 1, 2025, or the § 280F(a)(1)(B)(ii) limitation of \$5,760).

(2) Example 2 -- Section 179 deduction claimed. The facts are the same as in Example 1, except X elects to treat \$18,000 of the cost of the passenger automobile as an expense under § 179. As a result, this passenger automobile is not within the scope of this revenue procedure pursuant to section 3.01(4) of this revenue procedure. Accordingly, the safe harbor method of accounting in section 4.03 of this revenue procedure does not apply to the passenger automobile. For 2018, the 100-percent additional first year depreciation deduction and the § 179 deduction for this passenger automobile is limited to \$18,000 under § 280F(a)(1)(A)(i) (see Table 2 of Rev. Proc. 2018-25). Therefore, for 2018, X deducts \$18,000 for the passenger automobile under § 179, and X deducts the excess amount of \$42,000 beginning in 2024, subject to the annual limitation of \$5,760 under § 280F(a)(1)(B)(ii).

(3) Example 3 – Section 168(k)(7) election made. The facts are the same as in Example 1, except X makes an election under § 168(k)(7) to not claim the 100-percent additional first year depreciation deduction for 5-year property placed in service during 2018. As a result, the 100-percent additional first year depreciation deduction is not allowable for the passenger automobile. Accordingly, the passenger automobile is not

within the scope of this revenue procedure pursuant to section 3.01(2) of this revenue procedure, and the safe harbor method of accounting in section 4.03 of this revenue procedure does not apply to the passenger automobile. For 2018 and subsequent taxable years, X determines the depreciation deductions for the passenger automobile in accordance with the general depreciation system of § 168(a), subject to the § 280F(a) limitations.

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2018-25 is amplified as provided in section 4.03 of this revenue procedure.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective on February 13, 2019.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Jaime C. Park of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure contact Ms. Park on (202) 317-7005 (not a toll free call).