IRS Releases 2011 Luxury Auto Limits

The IRS has released the new 2011 luxury auto limits on depreciation.1 Here is how the luxury limits work:

On a new passenger auto placed in service in 2011, the law limits your depreciation deduction to no more than

- $11,060 in 2011;
- $4,900 in 2012;
- $2,950 in 2013; and
- $1,775 each year thereafter.

Example. You place a $40,000 car in service on May 17, 2011. With 100 percent business use, these are your deductions:

- $11,060 in 2011
- $4,900 in 2012
- $2,950 in 2013
- $1,775 in years 2014 through 2024
- $1,565 in 2025

If the car is used when you acquire it, then first-year luxury depreciation is limited to $3,060 and your slow depreciation continues until 2030.

What Does This Mean?

Cars and trucks that cost more than $40,000 and don’t qualify for Section 179 expensing are backend loaded with deductions. In other words, the big deductions could come when you sell the car, not when you buy it and place it in service.

Let’s say that you buy and place in service a $50,000 new car that you use 100 percent for business. You sell this car in 2015, when it has 105,000 miles, for $13,000.

The law limits your depreciation to $21,573 for the five years (the fifth year, the year of sale,
grants a half-year of depreciation only). Your adjusted basis on this car at the time of sale is
$28,427 ($50,000 minus $21,573 in depreciation deductions).

Your deductible loss on sale is $15,427 if you sell the car to a third party ($13,000 net sales
proceeds minus $28,427 adjusted basis).

**Mistakes to Avoid**

Before selling or trading your business vehicle, make sure you know the gain or loss. If it’s a gain,
trade, or otherwise complete a Section 1031 exchange.

If it’s a loss:

- sell to a third party;
- don’t trade;
- don’t sell to a relative; and
- don’t do an immediate, delayed, or reverse Section 1031 exchange.

**The Tables**

See Revenue Procedure 2011-21 for the new 2011 tables that apply to:

1. new and used cars placed in service in 2011,
2. new and used trucks and vans placed in service in 2011,
3. leased cars placed in service in 2011, and
4. leased trucks and vans placed in service in 2011.

**Planning note.** Trucks, vans, and SUVs with gross vehicle weight ratings (GVWRs) greater than
6,000 pounds are exempt from the luxury limits in the tables. Cars with curb weights in excess of
6,000 pounds also are exempt from the limits in the tables.

**Subscriber Resource**

The depreciation limits apply to the actual expense method for deducting your car.

To see which method, IRS or actual expenses, is best for you, use the IRS Mileage Rate v. Actual
Expenses calculator in subscriber resources. [Click here](#).