Sections 1.280F–2T(f) and 1.280F–4T(b) also provide special rules for improvements to passenger automobiles and other listed property that qualify as capital expenditures.

(c) Effective dates—(1) In general. This section and §§1.280F–2T through 1.280F–6 apply to property placed in service or leased after June 18, 1984, in taxable years ending after that date. Section 1.280F–7 applies to property leased after December 31, 1986, in taxable years ending after that date.

(2) Exception. This section and §§1.280F–2T through 1.280F–6 shall not apply to any property:

(i) Acquired pursuant to a binding contract in effect on June 18, 1984, and at all times thereafter, or under construction by the taxpayer on that date, but only if the property is placed in service before January 1, 1985 (January 1, 1987, in the case of 15-year real property), or

(ii) Leased pursuant to a binding contract in effect on June 18, 1984, and at all times thereafter, but only if the lessee first uses such property under the lease before January 1, 1985 (January 1, 1987, in the case of 15-year real property).

(3) Leased passenger automobiles. Section 1.280F–5T(e) generally applies to passenger automobiles leased after April 2, 1985, and before January 1, 1987, in taxable years ending after April 2, 1985. Section 1.280F–7T(e) generally applies to passenger automobiles leased after April 2, 1985, in taxable years ending after that date. Section 1.280F–7T(e) does not apply to any passenger automobile that is leased pursuant to a binding contract, which is entered into no later than April 2, 1985, and which is in effect at all times thereafter, but only if the automobile is used under the lease before August 1, 1985. If §1.280F–7T(e) does not apply to a passenger automobile, see paragraph (c) (1) and (2) of this section. Section 1.280F–7(a) applies to passenger automobiles leased after December 31, 1986, in taxable years ending after that date.

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section 168(a) shall not exceed $6,000. See paragraph (b)(3) of this section for the adjustment to this limitation.

(3) Adjustment to limitation by reason of automobile price inflation adjustment. The limitations on the allowable recovery deductions prescribed in paragraph (b) (1) and (2) of this section are increased by the automobile price inflation adjustment (as defined in section 280F(d)(7)) for the calendar year in which the automobile is placed in service.

(4) Coordination with section 179. For purposes of section 280F(a) and this section, any deduction allowable under section 179 relating to the election to expense certain depreciable trade or business assets (as defined in section 280F(a)(1)) is treated as if that deduction were a recovery deduction under section 168. Thus, the amount of the section 179 deduction is subject to the limitations described in paragraph (b) (1) and (2) of this section.

(3) Deduction limited to $6,000 for any taxable year. The amount that may be treated as a deductible expense under this paragraph (c) in the first taxable year succeeding the recovery period shall not exceed $6,000. Any excess shall be treated as an expense for the succeeding taxable years. However, in no event may any deduction in a succeeding taxable year exceed $6,000. The limitation on amounts deductible as an expense under this paragraph (c) with respect to any passenger automobile is increased by the automobile price inflation adjustment (as defined in section 280F(d)(7)) for the calendar year in which such automobile is placed in service.

(4) Deduction treated as a section 168 recovery deduction. Any amount allowable as an expense in a taxable year after the recovery period by reason of this paragraph (c) shall be treated as a recovery deduction allowable under section 168. However, a deduction is allowable by reason of this paragraph (c) with respect to any passenger automobile only to the extent that a deduction under section 168 would be allowable with respect to the automobile for that year. For example, no recovery deduction is allowable for a year during which a passenger automobile is disposed of or is used exclusively for personal purposes.

(4) Additional reduction in limitations by reason of personal use of passenger automobile or by reason of a short taxable year. See paragraph (i) of this section for rules regarding the additional reduction in the limitations prescribed by paragraphs (a) through (c) of this
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section by reason of the personal use of a passenger automobile or by reason of a short taxable year.

(e) Examples. The provisions of paragraphs (a) through (c) of this section may be illustrated by the following examples. For purposes of these examples, assume that all taxpayers use the calendar year and that no short taxable years are involved.

Example 1. (i) On July 1, 1984, B purchases for $15,000 and places in service a passenger automobile which is 3-year recovery property under section 168. In 1984, B does not elect under section 179 to expense a portion of the cost of the automobile. The automobile is used exclusively in B's business during taxable years 1984 through 1990.

(ii) The maximum amount of B's investment tax credit is $1,000 (i.e., the lesser of $1,000 or $6,000×$4,500). B's unadjusted basis for purposes of section 168 is $44,500 (i.e., $45,000 reduced under section 48(q)(1) by $500). B selects the use of the accelerated recovery percentages under section 168(b)(1).

(iii) The maximum amount of B's recovery deduction for 1984 is $4,000 (i.e., the lesser of $4,000 or $.25×$44,500); for 1985, $6,000 (i.e., the lesser of $6,000 or $.37×$44,500); for 1986, $6,000 (i.e., the lesser of $6,000 or $.38×$44,500); and for 1986, $6,000 (i.e., the lesser of $6,000 or $.37×$45,000).

(iv) At the beginning of taxable year 1987, B's unrecovered basis in the automobile is $29,500 (i.e., $45,000−$15,000). Under paragraph (c) of this section, B may expense $6,000 of the unrecovered basis per year.

Example 2. (i) On July 1, 1984, C purchases for $15,000 and places in service a passenger automobile which is 3-year recovery property under section 168. The automobile is used exclusively in C's business during taxable years 1984 through 1993. In 1984, C elects to use the optional recovery percentages under section 168(b)(3) based on a 5-year recovery period.

(ii) The maximum amount of C's recovery deduction for 1984 is $4,000 (i.e., the lesser of $4,000 or $.10×$50,000); for taxable years 1985 through 1988, $6,000 per year (i.e., the lesser of $6,000 or $.20×$50,000). C's recovery deduction for 1989 is $5,000 (i.e., the lesser of $.10×$50,000 or $6,000).

(iii) On July 1, 1990, B purchases for $15,000 and places in service a passenger automobile on July 1, 1990. Under paragraph (c) of this section, C is not allowed a deduction for 1990 or for any succeeding taxable year because no deduction would be allowable under section 168 based on these facts.

Example 3. Assume the same facts as in Example 2, except that C disposes of the passenger automobile on July 1, 1990. Under paragraph (c) of this section, C is not allowed a deduction for 1990 or for any succeeding taxable year because no deduction would be allowable under section 168 based on these facts.

Example 4. (i) On July 1, 1984, D purchases for $15,000 and places in service a passenger automobile which is 3-year recovery property under section 168. The automobile is used exclusively in D's business during taxable years 1984 through 1987. In 1984, D elects under section 179 to expense $5,000 of the cost of the property.

(ii) The maximum amount of D's investment tax credit is $600 (i.e., the lesser of $.06×$10,000 or $1,000).

(iii) G's unadjusted basis for purposes of section 168 is $9,700 (i.e., $15,000 minus the sum of $5,000 (the amount of the expense elected under section 179) and $300 (one-half of the investment tax credit under section 48(q)(1))). Under paragraph (b)(4) of this section, the allowable deduction under section 179 is treated as a recovery deduction under section 168 for purposes of this section. Thus, the maximum amount of G's section 179 deduction is $4,000 (i.e., the lesser of $4,000 or $5,000+.25×$9,700). G is entitled to no further recovery deduction under section 168 for purposes of this section. The amount of G's 1985 and 1986 recovery deductions are $3,686 (i.e., the lesser of $.38×$9,700 or $6,000) and $3,589 (i.e., the lesser of $.37×$9,700 or $6,000), respectively. At the beginning of 1987, G's unrecovered basis in the automobile is $3,425 (i.e., $14,700−$11,275).

Example 5. (i) On July 1, 1984, D purchases for $55,000 and places in service a passenger automobile which is 3-year recovery property under section 168. The automobile is used exclusively in D's business during taxable years 1984 through 1993. In 1984, D elects under section 179 to expense $5,000 of the cost of the property.

(ii) The maximum amount of D's investment tax credit is $1,000 (i.e., the lesser of $1,000 or $.06×$50,000).

(iii) D's unadjusted basis for purposes of section 168 is $40,500 (i.e., $55,000 minus the
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sum of $5,000 (the amount of the expense elected under section 179) and $500 (one-half of the investment tax credit under section 48(q)(1)). Under paragraph (b)(4) of this section, the allowable deduction under section 179 is treated as a recovery deduction under section 168 for purposes of this section. Thus, the maximum amount of D’s section 179 deduction is $4,000 (i.e., the lesser of $5,000 or $5,000 × 2/3–$49,500). D is entitled to no further recovery deduction under section 168 for 1984. The maximum amount of D’s 1985 recovery deduction is $6,000 (i.e., the lesser of $6,000 or $38 ×$49,500); and for 1986, $6,000 (i.e., the lesser of $6,000 or $37 ×$49,500).

(iv) At the beginning of 1987, D’s unrecovered basis is $38,500. D may expense the remaining unrecovered basis at the rate of $6,000 per year through 1992 and $2,500 in 1993.

Example 5. Assume the same facts as in Example 4, except that in 1993, D uses the automobile only 60 percent in his business. Under paragraph (c)(4) of this section for 1993, D may expense $1,500 (i.e., $6,000 × 0.6). D is entitled to no further deductions with respect to the automobile in any later year.

Example 6. Assume the same facts as in Example 5, except that in 1993, D uses the automobile used exclusively in F’s business during taxable years 1984 through 1992. In 1984, F elects under section 179 to expense $5,000 of the cost of the property.

(ii) F elects under section 48(q)(4) to take a reduced investment tax credit in lieu of the section 48(q)(1) basis adjustment. The maximum amount of F’s investment tax credit is $666.67 (i.e., the lesser of $1,000 or $44 ×$1,000).

(iii) F’s unadjusted basis for purposes of section 168 is $39,500 (i.e., $44,500–$5,000). F is entitled to the section 179 deduction for 1984 in the year of the exchange or conversion.

(iv) At the beginning of 1987, D’s unrecovered basis is $38,500. D may expense the remaining unrecovered basis at the rate of $6,000 per year through 1992 and $2,500 in 1993.

Example 7. (i) On July 1, 1984, F purchases a 3-year recovery property for $44,500 and places in service a passenger automobile which is 3-year recovery property under section 168. The automobile is used exclusively in F’s business during taxable years 1984 through 1992. In 1984, F elects under section 179 to expense $5,000 of the cost of the property.

(ii) F elects under section 48(q)(4) to take a reduced investment tax credit in lieu of the section 48(q)(1) basis adjustment. The maximum amount of F’s investment tax credit is $666.67 (i.e., the lesser of $1,000 or $44 ×$1,000).

(iii) F’s unadjusted basis for purposes of section 168 is $39,500 (i.e., $44,500–$5,000). F is entitled to the section 179 deduction for 1984 in the year of the exchange or conversion.

(iv) At the beginning of 1987, D’s unrecovered basis is $38,500. D may expense the remaining unrecovered basis at the rate of $6,000 per year through 1992 and $2,500 in 1993.

(f) Treatment of improvements that qualify as capital expenditures. An improvement to a passenger automobile that qualifies as a capital expenditure under section 263 is treated as a new item of recovery property placed in service in the year the improvement is made. However, the limitations in paragraph (b) of this section on the amount of recovery deductions allowable are determined by taking into account as a whole both the improvement and the property of which the improvement is a part. If that improvement also qualifies as an investment in new section 38 property under section 48(b) and § 1.48–2(b)(2), the limitation in paragraph (a)(1) of this section on the amount of the investment tax credit for that improvement is determined by taking into account any investment tax credit previously allowed for the passenger automobile (including any prior improvement considered part of the passenger automobile). Thus, the maximum credit allowable for the automobile (including the improvement) will be $1,000 (or 2/3 of $1,000, in the case of an election to take a reduced credit under section 48(q)(4)) adjusted under section 203F(d)(7) to reflect the automobile price inflation adjustment for the year the property in which the improvement is a part is placed in service).

(g) Treatment of section 1031 or section 1033 transactions—(1) Treatment of exchanged passenger automobile. For a taxable year in which a transaction described in section 1031 or section 1033 occurs, the unadjusted basis of an exchanged or converted passenger automobile shall cease to be taken into account in determining any recovery deductions allowable under section 168 as of the beginning of the taxable year in which the exchange or conversion occurs. Thus, no recovery deduction is allowable for the exchanged or converted automobile in the year of the exchange or conversion.

(2) Treatment of acquired passenger automobile—(i) In general. The acquired
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automobile is treated as new property placed in service in the year of the exchange (or in the replacement year) and that year is its first recovery year.

(ii) Limitations on recovery deductions. If the exchanged (or converted) automobile was acquired after the effective date of section 280F (as set out in §1.280F–1(c)), the basis of that automobile as determined under section 1031(d) or section 1033(b) (whichever is applicable) must be reduced for purposes of computing recovery deductions with respect to the acquired automobile (but not for purposes of determining the amount of the investment tax credit and gain or loss on the sale or other disposition of the property) by the excess (if any) of:

(A) The sum of the amounts that would have been allowable as recovery deductions with respect to the exchanged (or converted) automobile during taxable years preceding the year of the exchange (or conversion) if all of the use of the automobile during those years was use described in section 168(c), over

(B) The sum of the amounts allowable as recovery deductions during those years.

(iii) Examples. The provisions of this paragraph (g) may be illustrated by the following examples:

Example 1. (i) In 1982, F purchases and places in service a passenger automobile which is 3-year recovery property under section 168. The automobile is used exclusively in F's business.

(ii) On July 1, 1984, F exchanges the passenger automobile and $1,000 cash for a new passenger automobile ("like kind" property). Under paragraph (g)(1) of this section, no recovery deduction is allowable in 1984 for the exchanged automobile. The investment tax credit claimed is subject to recapture under section 47. Under paragraph (g)(2)(ii) of this section, E's basis in the acquired property for purposes of computing recovery deductions under section 168(b)(1), the maximum amount of E's recovery deduction for 1984 is $3,200 (i.e., the lesser of .80×$4,000 or .80×$25×$30,000).

(iii) E's unadjusted basis for purposes of section 168 is $30,000. E selects the use of the accelerated recovery percentages under section 168(b)(1). The maximum amount of E's recovery deduction for 1984 is $3,200 (i.e., the lesser of .80×$4,000 or .80×$25×$30,000).

(iv) On June 10, 1985, E exchanges the passenger automobile and $1,000 cash for a new passenger automobile ("like kind" property). Under paragraph (g)(1) of this section, no recovery deduction is allowable in 1985 for the exchanged automobile. The investment tax credit claimed is subject to recapture under section 47. Under paragraph (g)(2)(ii) of this section, E's basis in the acquired property for purposes of computing recovery deductions under section 168(b)(1), the maximum amount of E's recovery deduction for 1985 is $3,200 (i.e., the lesser of .80×$4,000 or .80×$25×$30,000).

Under paragraph (g)(2) of this section, the acquired property is treated as new recovery property placed in service in 1985. Assume that the automobile price inflation adjustment (as described under section 280F(d)(7)) is zero. E's qualified investment in the property, as determined under §1.46–3(c)(1), is $27,800. The maximum amount of E's investment tax credit is $1,000 (i.e., the lesser of $1,000 or 2⁄3×$30,000). E's unadjusted basis for purposes of section 168 is $36,300 (i.e., $27,000 reduced under section 48(q)(1) by $500). Cost recovery deductions are computed pursuant to paragraph (b) of this section.

(h) Other nonrecognition transactions. [Reserved]

(1) Limitation under this section applies before other limitations—(1) Personal use.

The limitations imposed upon the maximum amount of the allowable investment tax credit and the allowable recovery deductions (as described in paragraphs (a) through (c) of this section) must be adjusted during any taxable year in which a taxpayer makes any use of a passenger automobile other than for business/investment use (as defined in §1.280F–6(d)(3)). The limitations on the amount of the allowable investment tax credit (as described in paragraph (a) of this section) and the allowable cost recovery deductions (as described in paragraphs (b) and (c) of
this section) are redetermined by multiplying the limitations by the percentage of business/investment use (determined on an annual basis) during the taxable year.

(2) Short taxable year. The limitations imposed upon the maximum amount of recovery deductions (as described in paragraphs (a) through (c) of this section) must be adjusted during any taxable year in which a taxpayer has a short taxable year. In this case, the limitation is adjusted by multiplying the limitation that would have been applied if the taxable year were not a short taxable year by a fraction, the numerator of which is the number of months and part-months in the short taxable year and the denominator of which is 12.

(3) Examples. The provisions of this paragraph (i) may be illustrated by the following examples:

Example 1. On July 1, 1984, A purchases and places in service a passenger automobile and uses it 80 percent for business/investment use during 1984. Under paragraph (i)(1) of this section, the maximum amount of the investment tax credit that A may claim for the automobile is $4800 (i.e., .80 x $6,000).

Example 2. Assume the same facts as in Example 1, except that A elects under section 48(q)(4) to take a reduced investment tax credit in lieu of the section 48(q)(1) basis adjustment. Under paragraph (i)(1) of this section, the maximum amount of the investment tax credit that A may claim for the automobile is $533.33 (i.e., .80 x .67 = $1,000).

Example 3. On July 1, 1984, B purchases and places in service a passenger automobile and uses it 60 percent for business/investment use during 1984. Under paragraph (i)(1) of this section, the maximum amount of the investment tax credit that B may claim for the automobile is $600 (i.e., .60 x $1,000). B uses the car 70 percent for business/investment use during 1985 and 80 percent during 1986. Under paragraph (i)(1) of this section, the maximum amount of recovery deductions that B may claim for 1984, 1985, and 1986 are $2,400 (i.e., .70 x $4,000), $4,200 (i.e., .80 x $5,250), and $4,800 (i.e., .80 x $6,000), respectively.

Example 4. Assume the same facts as in Example 3 with the added facts that B's unrecovered basis at the beginning of 1987 is $6,000 and that B uses the automobile 85 percent for business/investment use during 1987. Under paragraph (i)(1) of this section, the maximum amount that B may claim as an expense for 1987 is $5,000 (i.e., .85 x $6,000).

Example 5. On August 1, 1984, C purchases and places in service a passenger automobile and uses it exclusively for business. Taxable year 1984 for C is a short taxable year which consists of 6 months. Under paragraph (i)(2) of this section, the maximum amount that C may claim as a recovery deduction for 1984 is $2,000 (i.e., .50 x $4,000).

Example 6. Assume the same facts as in Example 5, except that C uses the passenger automobile 50 percent for business/investment use during 1984. Under paragraph (i)(1) and (2) of this section, the maximum amount that C may claim as a recovery deduction for 1984 is $1,400 (i.e., .70 x .50 x $4,000).


§ 1.280F-3T Limitations on recovery deductions and the investment tax credit when the business use percentage of listed property is not greater than 50 percent (temporary).

(a) In general. Section 280F(b), generally, imposes limitations with respect to the amount allowable as an investment tax credit under section 46(a) and the amount allowable as a recovery deduction under section 168 in the case of listed property (as defined in §1.280F-6(b)) if certain business use of the property (referred to as “qualified business use”) does not exceed 50 percent during a taxable year. Qualified business use generally means use in a trade or business, rather than use in an investment or other activity conducted for the production of income within the meaning of section 212. See §1.280F-6(d) for the distinction between “business/investment use” and “qualified business use.”

(b) Limitation on the amount of investment tax credit—(1) Denial of investment tax credit when business use percentage is less than 50 percent. Listed property is not treated as section 38 property to any extent unless the business use percentage (as defined in section 280F(d)(6) and §1.280F-6(d)(1)) is greater than 50 percent. For example, if a taxpayer uses listed property in a trade or business in the taxable year in which it is placed in service, but the business use percentage is not greater than 50 percent, no investment tax credit is allowed for that listed property. If, in the taxable year in which listed property is placed in service, the only business/investment use (as defined in §1.280F-