

26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also Part I, §§ 280F; 1.280F-7.)

Rev. Proc. 2021-31

SECTION 1. PURPOSE

This revenue procedure provides: (1) two tables of limitations on depreciation deductions for owners of passenger automobiles placed in service by the taxpayer during calendar year 2021; and (2) a table of dollar amounts that must be used to determine income inclusions by lessees of passenger automobiles with a lease term beginning in calendar year 2021. These tables reflect the automobile price inflation adjustments required by § 280F(d)(7) of the Internal Revenue Code. For purposes of this revenue procedure, the term “passenger automobiles” includes trucks and vans.

SECTION 2. BACKGROUND

.01 For owners of passenger automobiles, § 280F(a) imposes dollar limitations on the depreciation deduction for the year the taxpayer places the passenger automobile in service and for each succeeding year. For passenger automobiles placed in service after 2018, § 280F(d)(7) requires the Internal Revenue Service to increase the amounts allowable as depreciation deductions by a price inflation adjustment amount that is determined using the automobile component of the Chained Consumer Price Index for all Urban Consumers published by the Department of Labor (“C-CPI-U”).

.02 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 (hereinafter, referred to as "§ 168(k) additional first year depreciation deduction"). 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, and is phased down 20 percent each year for property placed in service through December 31, 2026. Pursuant to § 168(k)(8)(D)(i), no § 168(k) additional first year depreciation deduction is allowed or allowable for qualified property acquired by the taxpayer before September 28, 2017, and placed in service by the taxpayer after 2019. For qualified property acquired and placed in service after September 27, 2017, § 168(k)(2)(F)(i) increases the first-year depreciation allowed under § 280F(a)(1)(A)(i) by \$8,000.

.03 Tables 1 and 2 of this revenue procedure provide depreciation limitations for passenger automobiles placed in service by the taxpayer during calendar year 2021. Table 1 provides depreciation limitations for passenger automobiles acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during calendar year 2021, for which the § 168(k) additional first year depreciation deduction applies. Table 2 provides depreciation limitations for passenger automobiles placed in service by the taxpayer during calendar year 2021 for which no § 168(k) additional first year depreciation deduction applies. The § 168(k) additional first year depreciation deduction does not apply for 2021 if the taxpayer: (1) did not use the passenger automobile during 2021 more than 50 percent for business purposes; (2) elected out of the § 168(k) additional first year depreciation deduction pursuant to § 168(k)(7) for the class of property that includes passenger automobiles; (3) acquired the passenger

automobile used and the acquisition of such property did not meet the acquisition requirements in § 168(k)(2)(E)(ii) and § 1.168(k)-2(b)(3)(iii) of the Income Tax Regulations; or (4) acquired the passenger automobile before September 28, 2017, and placed it in service after 2019.

.04 Section 280F(c)(2) requires a reduction to the amount allowable as a deduction to the lessee of a leased passenger automobile. Pursuant to § 280F(c)(3), the reduction must be substantially equivalent to the limitations on the depreciation deductions imposed on owners of passenger automobiles. Under § 1.280F-7(a), this reduction is accomplished by requiring the lessee to include in gross income an amount determined by applying a formula to a dollar amount obtained from a table.

.05 Table 3 of this revenue procedure provides the dollar amount used by lessees of passenger automobiles with a lease term beginning in 2021 to determine the income inclusion amount for those passenger automobiles. The table provides dollar amounts for a range of fair market values.

SECTION 3. SCOPE

.01 The limitations on depreciation deductions in Tables 1 and 2 in section 4.01(2) of this revenue procedure apply to passenger automobiles, other than leased passenger automobiles, that are placed in service by the taxpayer in calendar year 2021, and continue to apply for each taxable year that the passenger automobile remains in service.

.02 The dollar amount in Table 3 of this revenue procedure applies to leased passenger automobiles with a lease term beginning in calendar year 2021, and continues to apply for each taxable year during the lease.

.03 See Rev. Proc. 2016-23, 2016-16 I.R.B. 581, for passenger automobiles placed in service or leased during calendar year 2016, Rev. Proc. 2017-29, 2017-14 I.R.B. 1065, for passenger automobiles placed in service or leased during calendar year 2017, Rev. Proc. 2018-25, 2018-18 I.R.B. 543, for passenger automobiles placed in service or leased during calendar year 2018, Rev. Proc. 2019-26, 2019-24 I.R.B. 1323, for passenger automobiles placed in service or leased during calendar year 2019, and Rev. Proc. 2020-37, 2020-33 I.R.B. 381, for passenger automobiles placed in service or leased during calendar year 2020.

SECTION 4. APPLICATION

.01 Limitations on Depreciation Deductions for Certain Automobiles.

(1) Amount of the inflation adjustment. Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the C-CPI-U automobile component for October of the preceding calendar year exceeds the automobile component of the CPI (as defined in § 1(f)(4)) for October of 2017, multiplied by the amount determined under § 1(f)(3)(B). The amount determined under § 1(f)(3)(B) is the amount obtained by dividing the new vehicle component of the C-CPI-U for calendar year 2016 by the new vehicle component of the CPI for calendar year 2016, where the C-CPI-U and the CPI for calendar year 2016 means the average of such amounts as of the close of the 12-month period ending on August 31, 2016. Section 280F(d)(7)(B)(ii) defines the term "C-CPI-U automobile component" as the automobile component of the Chained Consumer Price Index for All Urban Consumers as described in § 1(f)(6). The product of the October 2017 CPI new vehicle component (144.868) and the amount determined under § 1(f)(3)(B) (0.694370319) is 100.592.

The new vehicle component of the C-CPI-U released in November 2020 was 102.878 for October 2020. The October 2020 C-CPI-U new vehicle component exceeded the product of the October 2017 CPI new vehicle component and the amount determined under § 1(f)(3)(B) by 2.286 (102.878 - 100.592). The percentage by which the C-CPI-U new vehicle component for October 2020 exceeds the product of the new vehicle component of the CPI for October of 2017 and the amount determined under § 1(f)(3)(B) is 2.273 percent ($2.286/100.592 \times 100\%$), the automobile price inflation adjustment for 2021 for passenger automobiles. The dollar limitations in § 280F(a) are therefore multiplied by a factor of 0.02273, and the resulting increases, after rounding to the nearest \$100, are added to the 2018 limitations to give the depreciation limitations applicable to passenger automobiles for calendar year 2021. This adjustment applies to all passenger automobiles that are placed in service in calendar year 2021.

(2) Amount of the limitation. Tables 1 and 2 of this revenue procedure contain the depreciation limitation for each taxable year for passenger automobiles a taxpayer placed in service during calendar year 2021. Use Table 1 for a passenger automobile to which the § 168(k) additional first year depreciation deduction applies that is acquired by the taxpayer after September 27, 2017, and placed in service by the taxpayer during calendar year 2021; use Table 2 for a passenger automobile for which no § 168(k) additional first year depreciation deduction applies.

REV. PROC. 2021-** TABLE 1	
DEPRECIATION LIMITATIONS FOR PASSENGER AUTOMOBILES ACQUIRED AFTER SEPTEMBER 27, 2017, AND PLACED IN SERVICE DURING CALENDAR YEAR 2021, FOR WHICH THE § 168(k) ADDITIONAL FIRST YEAR DEPRECIATION DEDUCTION APPLIES	
<u>Tax Year</u> 1st Tax Year	<u>Amount</u> \$ 18,200

2nd Tax Year	\$ 16,400
3rd Tax Year	\$ 9,800
Each Succeeding Year	\$ 5,860

REV. PROC. 2021-** TABLE 2

DEPRECIATION LIMITATIONS FOR PASSENGER AUTOMOBILES
PLACED IN SERVICE DURING CALENDAR YEAR 2021 FOR WHICH NO § 168(k)
ADDITIONAL FIRST YEAR DEPRECIATION DEDUCTION APPLIES

<u>Tax Year</u>	<u>Amount</u>
1st Tax Year	\$ 10,200
2nd Tax Year	\$ 16,400
3rd Tax Year	\$ 9,800
Each Succeeding Year	\$ 5,860

.02 Inclusions in Income of Lessees of Passenger Automobiles.

A taxpayer must follow the procedures in § 1.280F-7(a) for determining the inclusion amounts for passenger automobiles with a lease term beginning in calendar year 2021. In applying these procedures, lessees of passenger automobiles should use Table 3 of this revenue procedure.

REV. PROC. 2021-** TABLE 3

DOLLAR AMOUNTS FOR PASSENGER AUTOMOBILES
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2021

Fair Market Value of Passenger Automobile		Tax Year During Lease				
		1 st	2 nd	3 rd	4 th	5 th & later
Over	Not Over					
\$51,000	\$52,000	0	0	1	0	1
52,000	53,000	1	1	1	2	2
53,000	54,000	1	2	2	3	4
54,000	55,000	1	3	3	5	5
55,000	56,000	2	3	5	6	6
56,000	57,000	2	4	6	7	8
57,000	58,000	2	5	7	8	10
58,000	59,000	3	5	8	10	11
59,000	60,000	3	6	9	11	13
60,000	62,000	3	7	11	13	15

REV. PROC. 2021-** TABLE 3						
DOLLAR AMOUNTS FOR PASSENGER AUTOMOBILES						
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2021						
Fair Market Value of Passenger Automobile		Tax Year During Lease				
Over	Not Over	1 st	2 nd	3 rd	4 th	5 th & later
62,000	64,000	4	9	13	15	18
64,000	66,000	5	10	15	18	21
66,000	68,000	5	12	17	21	24
68,000	70,000	6	13	20	23	27
70,000	72,000	7	14	22	26	30
72,000	74,000	7	16	24	29	33
74,000	76,000	8	18	26	31	36
76,000	78,000	9	19	28	34	39
78,000	80,000	9	21	30	37	42
80,000	85,000	11	23	34	41	48
85,000	90,000	12	27	40	47	55
90,000	95,000	14	30	45	55	62
95,000	100,000	16	34	50	61	70
100,000	110,000	18	40	58	71	81
110,000	120,000	21	47	70	83	97
120,000	130,000	25	54	81	96	112
130,000	140,000	28	62	91	110	127
140,000	150,000	31	69	103	123	141
150,000	160,000	35	76	114	136	157
160,000	170,000	38	84	124	149	172
170,000	180,000	41	91	135	163	187
180,000	190,000	45	98	146	176	202
190,000	200,000	48	106	157	188	218
200,000	210,000	51	113	168	202	232
210,000	220,000	55	120	179	215	247
220,000	230,000	58	128	190	227	263
230,000	240,000	61	135	201	241	278
240,000	and over	65	142	212	254	293

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to passenger automobiles placed in service during calendar year 2021 or with a lease term beginning in calendar year 2021.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Bernard P. Harvey of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Mr. Harvey at (202) 317-4640 (not a toll-free number).