

# Publication 463

## Travel, Gift, and Car Expenses

For use in preparing

**2024** Returns

Volume 2 of 4



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## 2.

### Meals and Entertainment

You can no longer take a deduction for any expense related to activities generally considered entertainment, amusement, or recreation. You can continue to deduct 50% of the cost of business meals if you (or your employee) are present and the food or beverages aren't considered lavish or extravagant.



*If food or beverages are provided during or at an entertainment event, and the food and beverages were purchased separately from the entertainment or the cost of the food and beverages was stated separately from the cost of the entertainment on one or more bills, invoices, or receipts, you may be able to deduct the separately stated costs as a meal expense. For more information, see Regulations section 1.274-11(d)(2), Example 2.*

# Entertainment

## Entertainment—Defined

Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips.

Entertainment may also include meeting personal, living, or family needs of individuals, such as providing meals, a hotel suite, or a car to customers or their families.

***Deduction may depend on your type of business.*** Your kind of business may determine if a particular activity is considered entertainment. For example, if you are a dress designer and have a fashion show to introduce your new designs to store buyers, the show generally isn't considered entertainment.

This is because fashion shows are typical in your business. But, if you are an appliance distributor and hold a fashion show for the spouses of your retailers, the show is generally considered entertainment.

**Separating costs.** If you have one expense that includes the costs of entertainment and other services (such as lodging or transportation), you must allocate that expense between the cost of entertainment and the cost of other services. You must have a reasonable basis for making this allocation. For example, you must allocate your expenses if a hotel includes entertainment in its lounge on the same bill with your room charge.

## **Exceptions to the Rules**

In general, entertainment expenses are nondeductible.

However, there are a few exceptions to the general rule, including:

- Entertainment treated as compensation on your originally filed tax returns (and treated as wages to your employees);
- Recreational expenses for employees such as a holiday party or a summer picnic;
- Expenses related to attending business meetings or conventions of certain exempt organizations such as business leagues, chambers of commerce, professional associations, etc.; and
- Entertainment sold to customers. For example, if you run a nightclub, your expenses for the entertainment you furnish to your customers, such as a floor show, aren't subject to the nondeductible rules.

## **Examples of Nondeductible Entertainment**

**Entertainment events.** Generally, you can't deduct any expense for an entertainment event. This includes expenses for entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips.

**Entertainment facilities.** Generally, you can't deduct any expense for the use of an entertainment facility. This includes expenses for depreciation and operating costs such as rent, utilities, maintenance, and protection.

An entertainment facility is any property you own, rent, or use for entertainment.

Examples include a yacht, hunting lodge, fishing camp, swimming pool, tennis court, bowling alley, car, airplane, apartment, hotel suite, or home in a vacation resort.

## **Club dues and membership fees.**

You can't deduct dues (including initiation fees) for membership in any club organized for business, pleasure, recreation, or other social purposes.

This rule applies to any membership organization if one of its principal purposes is either:

- To conduct entertainment activities for members or their guests; or
- To provide members or their guests with access to entertainment facilities, discussed later.

The purposes and activities of a club, not its name, will determine whether or not you can deduct the dues. You can't deduct dues paid to:

- Country clubs,
- Golf and athletic clubs,
- Airline clubs,



- Hotel clubs, and
- Clubs operated to provide meals under circumstances generally considered to be conducive to business discussions.

**Gift or entertainment.** Any item that might be considered either a gift or entertainment will generally be considered entertainment. However, if you give a customer packaged food or beverages that you intend the customer to use at a later date, treat it as a gift.

## **Meals**

As discussed above, entertainment expenses are generally nondeductible. However, you may continue to deduct 50% of the cost of business meals if you (or an employee) is present and the food or beverages aren't considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant, or similar business contact.

Food and beverages that are provided during entertainment events aren't considered entertainment if purchased separately from the entertainment, or if the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts. However, the entertainment disallowance rule may not be circumvented through inflating the amount charged for food and beverages.

**Other rules for meals and entertainment expenses.** Any allowed expense must be ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your business. An expense doesn't have to be required to be considered necessary. Expenses must not be lavish or extravagant. An expense isn't considered lavish or extravagant if it is reasonable based on the facts and circumstances.

**Examples.** For each example, assume that the food and beverage expenses are ordinary and necessary expenses under section 162(a) paid or incurred during the tax year in carrying on a trade or business and aren't lavish or extravagant under the circumstances. Also assume that the taxpayer and the business contact aren't engaged in a trade or business that has any relation to the entertainment activity.

**Example 1.** Taxpayer A invites B, a business contact, to a baseball game. A purchases tickets for A and B to attend the game. While at the game, A buys hot dogs and drinks for A and B. The baseball game is entertainment as defined in Regulations section 1.274-11(b)(1)(i) and, thus, the cost of the game tickets is an entertainment expense and isn't deductible by A. The cost of the hot dogs and drinks, which are purchased separately from the game tickets, isn't an entertainment expense and isn't subject to the section

274(a)(1) disallowance. Therefore, A may deduct 50% of the expenses associated with the hot dogs and drinks purchased at the game.

**Example 2.** Taxpayer C invites D, a business contact, to a basketball game. C purchases tickets for C and D to attend the game in a suite, where they have access to food and beverages. The cost of the basketball game tickets, as stated on the invoice, includes the food and beverages. The basketball game is entertainment as defined in Regulations section 1.274-11(b)(1)(i) and, thus, the cost of the game tickets is an entertainment expense and isn't deductible by C. The cost of the food and beverages, which aren't purchased separately from the game tickets, isn't stated separately on the invoice. Thus, the cost of the food and beverages is also an entertainment expense that is subject to the section 274(a)(1) disallowance.

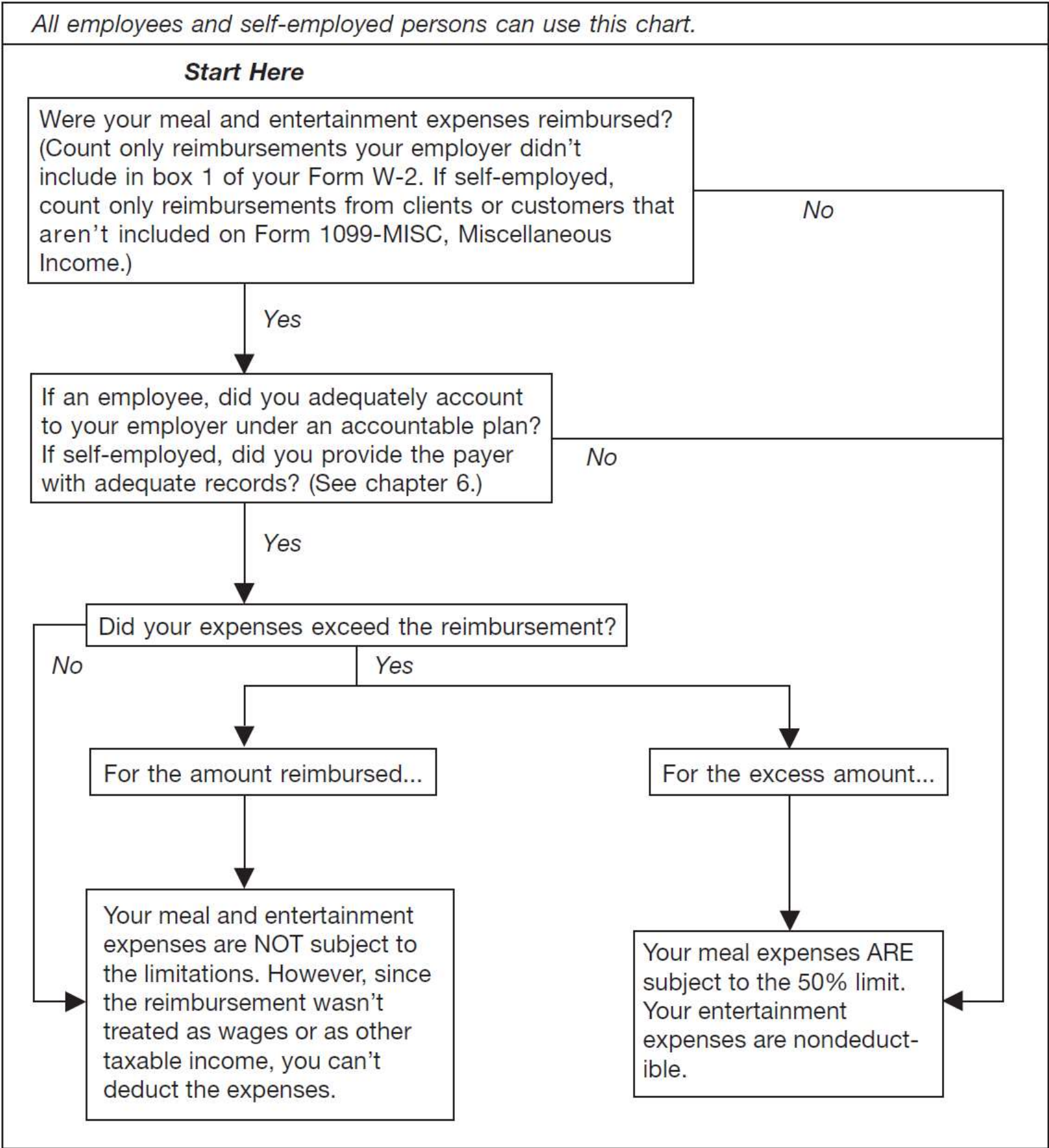
Therefore, C may not deduct any of the expenses associated with the basketball game.

**Example 3.** Assume the same facts as in *Example 2*, except that the invoice for the basketball game tickets separately states the cost of the food and beverages. As in *Example 2*, the basketball game is entertainment as defined in Regulations section 1.274-2(b)(1)(i) and, thus, the cost of the game tickets, other than the cost of the food and beverages, is an entertainment expense and isn't deductible by C. However, the cost of the food and beverages, which is stated separately on the invoice for the game tickets, isn't an entertainment expense and isn't subject to the section 274(a)(1) disallowance. Therefore, C may deduct 50% of the expenses associated with the food and beverages provided at the game.

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Figure A. Does the 50% Limit Apply to Your Expenses?

There are exceptions to these rules. See [Exceptions to the 50% Limit for Meals](#), later.



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## 50% Limit

In general, you can deduct only 50% of your business-related meal expenses, unless an exception applies. (If you are subject to the Department of Transportation's "hours of service" limits, you can deduct 80% of your business-related meal expenses. See *Individuals subject to "hours of service" limits*, later.)

The 50% limit applies to employees or their employers, and to self-employed persons (including independent contractors) or their clients, depending on whether the expenses are reimbursed.

Examples of meals might include:

- Meals while traveling away from home (whether eating alone or with others) on business, or
- Meal at a business convention or business league meeting.

**Costs to include or exclude.** Taxes and tips relating to a business meal are included as a cost of the meal and are subject to the 50% limit. However, the cost of transportation to and from the meal isn't treated as part of the cost and wouldn't be subject to the limit.

**Application of 50% limit.** The 50% limit on meal expenses applies if the expense is otherwise deductible and isn't covered by one of the exceptions discussed later. Figure A can help you determine if the 50% limit applies to you.

The 50% limit also applies to certain meal expenses that aren't business related. It applies to meal expenses you have for the production of income, including rental or royalty income. It also applies to the cost of meals included in deductible educational expenses.

**When to apply the 50% limit.** The 50% limit will apply after determining the amount that would otherwise qualify for a deduction.

You first have to determine the amount of meal expenses that would be deductible under the other rules discussed in this publication.

**Taking turns paying for meals.** If a group of business acquaintances takes turns picking up each others' meal checks primarily for personal reasons, without regard to whether any business purposes are served, no member of the group can deduct any part of the expense.

**Example 1.** You spend \$200 (including tax and tip) for a business meal. If \$110 of that amount isn't allowable because it is lavish and extravagant, the remaining \$90 is subject to the 50% limit. Your deduction can't be more than \$45 ( $50\% (0.50) \times \$90$ ).

**Example 2.** You purchase two tickets to a concert for \$200 for you and your client. Your deduction is zero because no deduction is allowed for entertainment expenses.

## **Exception to the 50% Limit for Meals**

Your meal expense isn't subject to the 50% limit if the expense meets one of the following exceptions.

***1—Expenses treated as compensation.*** In general, expenses for goods, services, and facilities, to the extent the expenses are treated by the taxpayer, with respect to entertainment, amusement, or recreation, as compensation to an employee and as wages to the employee for tax purposes.

***2—Employee's reimbursed expenses.*** If you are an employee, you aren't subject to the 50% limit on expenses for which your employer reimburses you under an accountable plan. Accountable plans are discussed in chapter 6.

### ***3—Self-employed reimbursed expenses.***

If you are self-employed, your deductible meal expenses aren't subject to the 50% limit if all of the following requirements are met.

- You have these expenses as an independent contractor.
- Your customer or client reimburses you or gives you an allowance for these expenses in connection with services you perform.
- You provide adequate records of these expenses to your customer or client.  
(See chapter 5.)

In this case, your client or customer is subject to the 50% limit on the expenses.

***Example.*** You are a self-employed attorney who adequately accounts for meal expenses to a client who reimburses you for these expenses. You aren't subject to the limitation on meal expenses. If the client can deduct the expenses, the client is subject to the 50% limit.

If you (as an independent contractor) have expenses for meals related to providing services for a client but don't adequately account for and seek reimbursement from the client for those expenses, you are subject to the 50% limit on non-entertainment-related meals and the entertainment-related meal expenses are nondeductible to you. **4—**

***Recreational expenses for employees.***

You aren't subject to the 50% limit for expenses for recreational, social, or similar activities (including facilities) such as a holiday party or a summer picnic.

***5—Advertising expenses.*** You aren't subject to the 50% limit if you provide meals to the general public as a means of advertising or promoting goodwill in the community. For example, neither the expense of sponsoring a television or radio show nor the expense of distributing free food and beverages to the general public is subject to the 50% limit.

**6—Sale of meals.** You aren't subject to the 50% limit if you actually sell meals to the public. For example, if you run a restaurant, your expense for the food you furnish to your customers isn't subject to the 50% limit.

**Individuals subject to "hours of service" limits.** You can deduct a higher percentage of your meal expenses while traveling away from your tax home if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. The percentage is 80%.

Individuals subject to the Department of Transportation's "hours of service" limits include the following persons.

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.

- Interstate truck operators and bus drivers who are under Department of Transportation regulations.
- Certain railroad employees (such as engineers, conductors, train crews, dispatchers, and control operations personnel) who are under Federal Railroad Administration regulations.
- Certain merchant mariners who are under Coast Guard regulations.



*The temporary 100% deduction for expenses that were paid or incurred after December 31, 2020, and before January 1, 2023, for food or beverages provided by a restaurant has expired. Generally, the 50% deduction continues to apply. See 50% Limit, earlier.*



# 3.

## Gifts

If you give gifts in the course of your trade or business, you may be able to deduct all or part of the cost. This chapter explains the limits and rules for deducting the costs of gifts.

**\$25 limit.** You can deduct no more than \$25 for business gifts you give directly or indirectly to each person during your tax year. A gift to a company that is intended for the eventual personal use or benefit of a particular person or a limited class of people will be considered an indirect gift to that particular person or to the individuals within that class of people who receive the gift.

If you give a gift to a member of a customer's family, the gift is generally considered to be an indirect gift to the customer.

This rule doesn't apply if you have a bona fide, independent business connection with that family member and the gift isn't intended for the customer's eventual use.

If you and your spouse both give gifts, both of you are treated as one taxpayer. It doesn't matter whether you have separate businesses, are separately employed, or whether each of you has an independent connection with the recipient. If a partnership gives gifts, the partnership and the partners are treated as one taxpayer.

**Example.** You sell products to a local company. You and your spouse gave the local company three gourmet gift baskets to thank them for their business. You and your spouse paid \$80 for each gift basket, or \$240 total. Three of the local company's executives took the gift baskets home for their families' use. You and your spouse have no independent business relationship with any of the executives' other family members.

You and your spouse can deduct a total of \$75 (\$25 limit × 3) for the gift baskets.

**Incidental costs.** Incidental costs, such as engraving on jewelry, or packaging, insuring, and mailing, are generally not included in determining the cost of a gift for purposes of the \$25 limit.

A cost is incidental only if it doesn't add substantial value to the gift. For example, the cost of gift wrapping is an incidental cost. However, the purchase of an ornamental basket for packaging fruit isn't an incidental cost if the value of the basket is substantial compared to the value of the fruit.

**Exceptions.** The following items aren't considered gifts for purposes of the \$25 limit.

1. An item that costs \$4 or less and:
  - a. Has your name clearly and permanently imprinted on the gift, and
  - b. Is one of a number of identical items you widely distribute.

Examples include pens, desk sets, and plastic bags and cases.

2. Signs, display racks, or other promotional material to be used on the business premises of the recipient.

**Gift or entertainment.** Any item that might be considered either a gift or entertainment will generally be considered entertainment. However, if you give a customer packaged food or beverages you intend the customer to use at a later date, treat it as a gift.



*If you are entitled to a reimbursement from your employer but you don't claim it, you can't claim a deduction for the expenses to which that unclaimed reimbursement applies. This type of deduction is considered a miscellaneous deduction that is no longer allowable due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a).*

## 4.

# Transportation

This chapter discusses expenses you can deduct for business transportation when you aren't traveling away from home, as defined in chapter 1. These expenses include the cost of transportation by air, rail, bus, taxi, etc., and the cost of driving and maintaining your car.

Transportation expenses include the ordinary and necessary costs of all of the following.

- Getting from one workplace to another in the course of your business or profession when you are traveling within the city or general area that is your tax home. Tax home is defined in chapter 1.
- Visiting clients or customers.
- Going to a business meeting away from your regular workplace.

- Getting from your home to a temporary workplace when you have one or more regular places of work. These temporary workplaces can be either within the area of your tax home or outside that area.

Transportation expenses don't include expenses you have while traveling away from home overnight. Those expenses are travel expenses discussed in chapter 1. However, if you use your car while traveling away from home overnight, use the rules in this chapter to figure your car expense deduction. See *Car Expenses*, later.

Daily transportation expenses you incur while traveling from home to one or more regular places of business are generally nondeductible commuting expenses.

However, there may be exceptions to this general rule. You can deduct daily transportation expenses incurred going between your residence and a temporary work station outside the metropolitan area

where you live. Also, daily transportation expenses can be deducted if (1) you have one or more regular work locations away from your residence; or (2) your residence is your principal place of business and you incur expenses going between the residence and another work location in the same trade or business, regardless of whether the work is temporary or permanent and regardless of the distance.



*If you are entitled to a reimbursement from your employer but you don't claim it, you can't claim a deduction for the expenses to which that unclaimed reimbursement applies. This type of deduction is considered a miscellaneous deduction that is no longer allowable due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a).*

## **Illustration of transportation expenses.**

Figure B above illustrates the rules that apply for deducting transportation expenses when you have a regular or main job away from your home. You may want to refer to it when deciding whether you can deduct your transportation expenses.

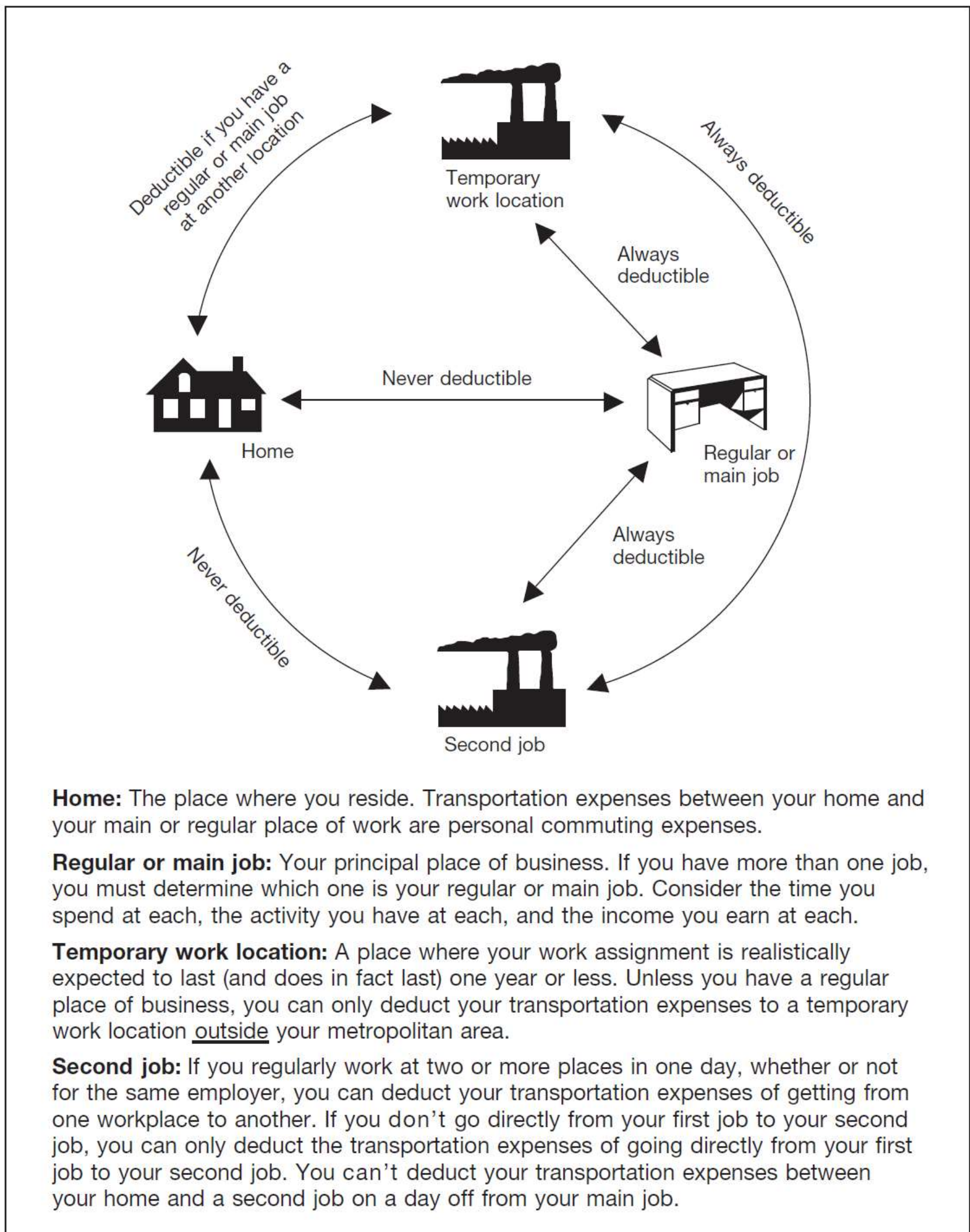
**Temporary work location.** If you have one or more regular work locations away from your home and you commute to a temporary work location in the same trade or business, you can deduct the expenses of the daily round-trip transportation between your home and the temporary location, regardless of distance.

If your employment at a work location is realistically expected to last (and does in fact last) for 1 year or less, the employment is temporary unless there are facts and circumstances that would indicate otherwise.



**Figure B. When Are Transportation Expenses Deductible?**

Most employees and self-employed persons can use this chart. (Don't use this chart if your home is your principal place of business. See *Office in the home*, later.)



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If your employment at a work location is realistically expected to last for more than 1 year or if there is no realistic expectation that the employment will last for 1 year or less, the employment isn't temporary, regardless of whether it actually lasts for more than 1 year.

If employment at a work location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to last more than 1 year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until your expectation changes. It won't be treated as temporary after the date you determine it will last more than 1 year.

If the temporary work location is beyond the general area of your regular place of work and you stay overnight, you are traveling away from home.

You may have deductible travel expenses, as discussed in chapter 1.

**No regular place of work.** If you have no regular place of work but ordinarily work in the metropolitan area where you live, you can deduct daily transportation costs between home and a temporary work site outside that metropolitan area.

Generally, a metropolitan area includes the area within the city limits and the suburbs that are considered part of that metropolitan area.

You can't deduct daily transportation costs between your home and temporary work sites within your metropolitan area. These are nondeductible commuting expenses.

**Two places of work.** If you work at two places in 1 day, whether or not for the same employer, you can deduct the expense of getting from one workplace to the other.

However, if for some personal reason you don't go directly from one location to the other, you can't deduct more than the amount it would have cost you to go directly from the first location to the second.

Transportation expenses you have in going between home and a part-time job on a day off from your main job are commuting expenses. You can't deduct them.

**Armed Forces reservists.** A meeting of an Armed Forces reserve unit is a second place of business if the meeting is held on a day on which you work at your regular job. You can deduct the expense of getting from one workplace to the other as just discussed under Two places of work.

You usually can't deduct the expense if the reserve meeting is held on a day on which you don't work at your regular job. In this case, your transportation is generally a nondeductible commuting expense.

However, you can deduct your transportation expenses if the location of the meeting is temporary and you have one or more regular places of work.

If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your transportation expenses.

If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. These expenses are discussed in chapter 1.

If you travel more than 100 miles away from home in connection with your performance of services as a member of the reserves, you may be able to deduct some of your reserve-related travel costs as an adjustment to gross income rather than as an itemized deduction.

For more information, see *Armed Forces Reservists Traveling More Than 100 Miles From Home* under *Special Rules* in chapter 6.

**Commuting expenses.** You can't deduct the costs of taking a bus, trolley, subway, or taxi, or of driving a car between your home and your main or regular place of work. These costs are personal commuting expenses. You can't deduct commuting expenses no matter how far your home is from your regular place of work. You can't deduct commuting expenses even if you work during the commuting trip.

**Example.** You sometimes use your cell phone to make business calls while commuting to and from work. Sometimes business associates ride with you to and from work, and you have a business discussion in the car. These activities don't change the trip from personal to business. You can't deduct your commuting expenses.

***Parking fees.*** Fees you pay to park your car at your place of business are nondeductible commuting expenses. You can, however, deduct business-related parking fees when visiting a customer or client.

***Advertising display on car.*** Putting display material that advertises your business on your car doesn't change the use of your car from personal use to business use. If you use this car for commuting or other personal uses, you still can't deduct your expenses for those uses.

***Car pools.*** You can't deduct the cost of using your car in a nonprofit car pool. Don't include payments you receive from the passengers in your income. These payments are considered reimbursements of your expenses. However, if you operate a car pool for a profit, you must include payments from passengers in your income. You can then deduct your car expenses (using the rules in this publication).



***Hauling tools or instruments.*** Hauling tools or instruments in your car while commuting to and from work doesn't make your car expenses deductible. However, you can deduct any additional costs you have for hauling tools or instruments (such as for renting a trailer you tow with your car).

***Union members' trips from a union hall.***

If you get your work assignments at a union hall and then go to your place of work, the costs of getting from the union hall to your place of work are nondeductible commuting expenses. Although you need the union to get your work assignments, you are employed where you work, not where the union hall is located.

**Office in the home.** If you have an office in your home that qualifies as a principal place of business, you can deduct your daily transportation costs between your home and another work location in the same trade or business.

(See Pub. 587, Business Use of Your Home, for information on determining if your home office qualifies as a principal place of business.)

### **Examples of deductible transportation.**

The following examples show when you can deduct transportation expenses based on the location of your work and your home.

***Example 1.*** You regularly work in an office in the city where you live. Your employer sends you to a 1-week training session at a different office in the same city. You travel directly from your home to the training location and return each day. You can deduct the cost of your daily round-trip transportation between your home and the training location.

***Example 2.*** Your principal place of business is in your home. You can deduct the cost of round-trip transportation between your qualifying home office and your client's or customer's place of business.

**Example 3.** You have no regular office, and you don't have an office in your home. In this case, the location of your first business contact inside the metropolitan area is considered your office. Transportation expenses between your home and this first contact are nondeductible commuting expenses. Transportation expenses between your last business contact and your home are also nondeductible commuting expenses. While you can't deduct the costs of these trips, you can deduct the costs of going from one client or customer to another.

## **Car Expenses**

If you use your car for business purposes, you may be able to deduct car expenses. You can generally use one of the two following methods to figure your deductible expenses.

- Standard mileage rate.
- Actual car expenses.



*If you qualify to use both methods, you may want to figure your deduction both ways to see which gives you a larger deduction.*

The cost of using your car as an employee, whether measured using actual expenses or the standard mileage rate, will no longer be allowed to be claimed as an unreimbursed employee travel expense as a miscellaneous itemized deduction due to the suspension of miscellaneous itemized deductions that are subject to the 2% floor under section 67(a). The suspension applies to tax years beginning after December 2017 and before January 2026. Deductions for expenses that are deductible in determining adjusted gross income aren't suspended.

For example, Armed Forces reservists, qualified performing artists, and fee-basis state or local government officials are allowed to deduct unreimbursed employee travel expenses as an adjustment to total income on Schedule 1 (Form 1040), line 12.

If you use actual expenses to figure your deduction for a car you lease, there are rules that affect the amount of your lease payments you can deduct. See Leasing a Car, later.

In this publication, “car” includes a van, pickup, or panel truck. For the definition of “car” for depreciation purposes, see Car defined under *Actual Car Expenses*, later.

## **Standard Mileage Rate**

For 2024, the standard mileage rate for the cost of operating your car for business use is 67 cents (\$0.67) per mile.



*If you use the standard mileage rate for a year, you can't deduct your actual car expenses for that year. You can't deduct depreciation, lease payments, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, or vehicle registration fees. See Choosing the standard mileage rate and Standard mileage rate not allowed, later.*

You can generally use the standard mileage rate whether or not you are reimbursed and whether or not any reimbursement is more or less than the amount figured using the standard mileage rate. See chapter 6 for more information on reimbursements.

**Choosing the standard mileage rate.** If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. Then, in later years, you can choose to use either the standard mileage rate or actual expenses.

If you want to use the standard mileage rate for a car you lease, you must use it for the entire lease period. For leases that began on or before December 31, 1997, the standard mileage rate must be used for the entire portion of the lease period (including renewals) that is after 1997.

You must make the choice to use the standard mileage rate by the due date (including extensions) of your return. You can't revoke the choice. However, in later years, you can switch from the standard mileage rate to the actual expenses method. If you change to the actual expenses method in a later year, but before your car is fully depreciated, you have to estimate the remaining useful life of the car and use straight line depreciation for the car's remaining estimated useful life, subject to depreciation limits (discussed later).

For more information about depreciation included in the standard mileage rate, see Exception under *Methods of depreciation*, later.

**Standard mileage rate not allowed.** You can't use the standard mileage rate if you:

- Use five or more cars at the same time (such as in fleet operations);
- Claimed a depreciation deduction for the car using any method other than straight line for the car's estimated useful life;
- Used the Modified Accelerated Cost Recovery System (MACRS) (as discussed later under *Depreciation Deduction*);
- Claimed a section 179 deduction (discussed later) on the car;
- Claimed the special depreciation allowance on the car; or
- Claimed actual car expenses after 1997 for a car you leased.



**Note.** You can elect to use the standard mileage rate if you used a car for hire (such as a taxi) unless the standard mileage rate is otherwise not allowed, as discussed above.

***Five or more cars.*** If you own or lease five or more cars that are used for business at the same time, you can't use the standard mileage rate for the business use of any car. However, you may be able to deduct your actual expenses for operating each of the cars in your business. See *Actual Car Expenses*, later, for information on how to figure your deduction.

You aren't using five or more cars for business at the same time if you alternate using (use at different times) the cars for business.

The following examples illustrate the rules for when you can and can't use the standard mileage rate for five or more cars.

**Example 1.** A salesperson owns three cars and two vans that they alternate using for calling on their customers. The salesperson can use the standard mileage rate for the business mileage of the three cars and the two vans because they don't use them at the same time.

**Example 2.** You and your employees use your four pickup trucks in your landscaping business. During the year, you traded in two of your old trucks for two newer ones. You can use the standard mileage rate for the business mileage of all six of the trucks you owned during the year.

**Example 3.** You own a repair shop and an insurance business. You and your employees use your two pickup trucks and van for the repair shop. You alternate using your two cars for the insurance business. No one else uses the cars for business purposes.

You can use the standard mileage rate for the business use of the pickup trucks, the van, and the cars because you never have more than four vehicles used for business at the same time.

**Example 4.** You own a car and four vans that are used in your housecleaning business. Your employees use the vans, and you use the car to travel to various customers. You can't use the standard mileage rate for the car or the vans. This is because all five vehicles are used in your business at the same time. You must use actual expenses for all vehicles.

**Interest.** If you are an employee, you can't deduct any interest paid on a car loan. This applies even if you use the car 100% for business as an employee.

However, if you are self-employed and use your car in your business, you can deduct that part of the interest expense that represents your business use of the car.

For example, if you use your car 60% for business, you can deduct 60% of the interest on Schedule C (Form 1040). You can't deduct the part of the interest expense that represents your personal use of the car.



*If you use a home equity loan to purchase your car, you may be able to deduct the interest. See Pub. 936, Home Mortgage Interest Deduction, for more information.*

**Personal property taxes.** If you itemize your deductions on Schedule A (Form 1040), you can deduct on line 5c state and local personal property taxes on motor vehicles. You can take this deduction even if you use the standard mileage rate or if you don't use the car for business.

If you are self-employed and use your car in your business, you can deduct the business part of state and local personal property taxes on motor vehicles on Schedule C (Form 1040) or Schedule F (Form 1040).

If you itemize your deductions, you can include the remainder of your state and local personal property taxes on the car on Schedule A (Form 1040).

**Parking fees and tolls.** In addition to using the standard mileage rate, you can deduct any business-related parking fees and tolls. (Parking fees you pay to park your car at your place of work are nondeductible commuting expenses.)

**Sale, trade-in, or other disposition.** If you sell, trade in, or otherwise dispose of your car, you may have a gain or loss on the transaction or an adjustment to the basis of your new car. See *Disposition of a Car*, later.

## **Actual Car Expenses**

If you don't use the standard mileage rate, you may be able to deduct your actual car expenses.

Actual car expenses include:

Depreciation	Lease payments	Registration fees
Licenses	Insurance	Repairs
Gas	Garage rent	Tires
Oil	Tolls	Parking fees

If you have fully depreciated a car that you still use in your business, you can continue to claim your other actual car expenses.

Continue to keep records, as explained later in chapter 5.

**Business and personal use.** If you use your car for both business and personal purposes, you must divide your expenses between business and personal use. You can divide your expense based on the miles driven for each purpose.

**Example.** You are a contractor and drive your car 20,000 miles during the year: 12,000 miles for business use and 8,000 miles for personal use. You can claim only 60% ( $12,000 \div 20,000$ ) of the cost of operating your car as a business expense.

**Employer-provided vehicle.** If you use a vehicle provided by your employer for business purposes, you can deduct your actual unreimbursed car expenses. You can't use the standard mileage rate. See *Vehicle Provided by Your Employer* in chapter 6.

**Interest on car loans.** If you are an employee, you can't deduct any interest paid on a car loan. This interest is treated as personal interest and isn't deductible. If you are self-employed and use your car in that business, see *Interest*, earlier, under *Standard Mileage Rate*.

**Taxes paid on your car.** If you are an employee, you can deduct personal property taxes paid on your car if you itemize deductions. Enter the amount paid on Schedule A (Form 1040), line 5c.

***Sales taxes.*** Generally, sales taxes on your car are part of your car's basis and are recovered through depreciation, discussed later.

**Fines and collateral.** You can't deduct fines you pay or collateral you forfeit for traffic violations.

**Casualty and theft losses.** If your car is damaged, destroyed, or stolen, you may be able to deduct part of the loss not covered by insurance. See Pub. 547, Casualties, Disasters, and Thefts, for information on deducting a loss on your car.



## **Depreciation and section 179 deductions.**

Generally, the cost of a car, plus sales tax and improvements, is a capital expense.

Because the benefits last longer than 1 year, you generally can't deduct a capital expense.

However, you can recover this cost through the section 179 deduction (the deduction allowed by section 179 of the Internal Revenue Code), special depreciation allowance, and depreciation deductions.

Depreciation allows you to recover the cost over more than 1 year by deducting part of it each year. The section 179 deduction, special depreciation allowance, and depreciation deductions are discussed later.

Generally, there are limits on these deductions. Special rules apply if you use your car 50% or less in your work or business.

You can claim a section 179 deduction and use a depreciation method other than straight line only if you don't use the standard mileage rate to figure your business-related car expenses in the year you first place a car in service.

If, in the year you first place a car in service, you claim either a section 179 deduction or use a depreciation method other than straight line for its estimated useful life, you can't use the standard mileage rate on that car in any future year.

**Car defined.** For depreciation purposes, a car is any four-wheeled vehicle (including a truck or van) made primarily for use on public streets, roads, and highways. Its unloaded gross vehicle weight (for trucks and vans, gross vehicle weight) must not be more than 6,000 pounds. A car includes any part, component, or other item physically attached to it or usually included in the purchase price.

A car doesn't include:

- An ambulance, hearse, or combination ambulance-hearse used directly in a business;
- A vehicle used directly in the business of transporting persons or property for pay or hire; or
- A truck or van that is a qualified nonpersonal use vehicle.

***Qualified nonpersonal use vehicles.*** These are vehicles that by their nature aren't likely to be used more than a minimal amount for personal purposes. They include trucks and vans that have been specially modified so that they aren't likely to be used more than a minimal amount for personal purposes, such as by installation of permanent shelving and painting the vehicle to display advertising or the company's name.

Delivery trucks with seating only for the driver, or only for the driver plus a folding

jump seat, are qualified nonpersonal use vehicles.

***More information.*** See Depreciation Deduction, later, for more information on how to depreciate your vehicle.

## **Section 179 Deduction**

You can elect to recover all or part of the cost of a car that is qualifying section 179 property, up to a limit, by deducting it in the year you place the property in service. This is the section 179 deduction. If you elect the section 179 deduction, you must reduce your depreciable basis in the car by the amount of the section 179 deduction.



*There is a limit on the total section 179 deduction, special depreciation allowance, and depreciation deduction for cars, trucks, and vans that may reduce or eliminate any benefit from claiming the section 179 deduction. See Depreciation Limits, later.*

You can claim the section 179 deduction only in the year you place the car in service. For this purpose, a car is placed in service when it is ready and available for a specifically assigned use in a trade or business. Even if you aren't using the property, it is in service when it is ready and available for its specifically assigned use.

A car first used for personal purposes can't qualify for the deduction in a later year when its use changes to business.

***Example.*** In 2023, you bought a new car and used it for personal purposes. In 2024, you began to use it for business. Changing its use to business use doesn't qualify the cost of your car for a section 179 deduction in 2024. However, you can claim a depreciation deduction for the business use of the car starting in 2024. See *Depreciation Deduction*, later.

**More than 50% business use requirement.** You must use the property more than 50% for business to claim any section 179 deduction. If you used the property more than 50% for business, multiply the cost of the property by the percentage of business use. The result is the cost of the property that can qualify for the section 179 deduction.

***Example.*** You purchased a new car in April 2024 for \$24,500 and used it 60% for business. Based on your business usage, the total cost of your car that qualifies for the section 179 deduction is \$14,700 (\$24,500 cost  $\times$  60% (0.60) business use). But see *Limit on total section 179, special depreciation allowance, and depreciation deduction*, discussed later.

**Limits.** There are limits on:

- The amount of the section 179 deduction;

- The section 179 deduction for sport utility and certain other vehicles; and
- The total amount of the section 179 deduction, special depreciation allowance, and depreciation deduction (discussed later) you can claim for a qualified property.

***Limit on the amount of the section 179 deduction.*** For tax years beginning in 2024, the total amount you can elect to deduct under section 179 can't be more than \$1,220,000.

If the cost of your section 179 property placed in service in tax years beginning in 2024 is over \$3,050,000, you must reduce the \$1,220,000 dollar limit (but not below zero) by the amount of cost over \$3,050,000. If the cost of your section 179 property placed in service during tax years beginning in 2024 is \$4,270,000 or more, you can't take a section 179 deduction.

The total amount you can deduct under section 179 each year after you apply the limits listed above cannot be more than the taxable income from the active conduct of any trade or business during the year.

If you are married and file a joint return, you and your spouse are treated as one taxpayer in determining any reduction to the dollar limit, regardless of which of you purchased the property or placed it in service.

If you and your spouse file separate returns, you are treated as one taxpayer for the dollar limit. You must allocate the dollar limit (after any reduction) between you.

For more information on the above section 179 deduction limits, see Pub. 946, How To Depreciate Property.

***Limit for sport utility and certain other vehicles.*** You cannot elect to deduct more than \$30,500 of the cost of any heavy sport utility vehicle (SUV) and certain other



vehicles placed in service during the tax years beginning in 2024. This rule applies to any four-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, or highways that isn't subject to any of the passenger automobile limits explained under Depreciation Limits, later, and that is rated at more than 6,000 pounds gross vehicle weight and not more than 14,000 pounds gross vehicle weight. However, the \$30,500 limit doesn't apply to any vehicle:

- Designed to have a seating capacity of more than nine persons behind the driver's seat;
- Equipped with a cargo area of at least 6 feet in interior length that is an open area or is designed for use as an open area but is enclosed by a cap and isn't readily accessible directly from the passenger compartment; or

- That has an integral enclosure, fully enclosing the driver compartment and load carrying device, doesn't have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

***Limit on total section 179 deduction, special depreciation allowance, and depreciation deduction.*** The first-year limit on the depreciation deduction, special depreciation allowance, and section 179 deduction for vehicles acquired before September 28, 2017, and placed in service during 2024, is \$12,400. The first-year limit on depreciation, special depreciation allowance, and section 179 deduction for vehicles acquired after September 27, 2017, and placed in service during 2024 increases to \$20,400.

If you elect not to claim a special depreciation allowance for a vehicle placed in service in 2024, the amount increases to \$12,400. The limit is reduced if your business use of the vehicle is less than 100%. See Depreciation Limits, later, for more information.

**Example.** In the earlier example under *More than 50% business use requirement*, you had a car with a cost (for purposes of the section 179 deduction) of \$14,700. However, based on your business usage of the car, the total of your section 179 deduction, special depreciation allowance, and depreciation deductions is limited to \$12,240 (\$20,400 limit x 60% (0.60) business use) because the car was acquired after September 27, 2017, and placed in service during 2024.

**Cost of car.** For purposes of the section 179 deduction, the cost of the car doesn't include any amount figured by reference to any other property held by you at any time.

For example, if you buy a car as a replacement for a car that was stolen or that was destroyed in a casualty loss, and you use section 1033 to determine the basis in your replacement vehicle, your cost for purposes of the section 179 deduction doesn't include your adjusted basis in the relinquished car. In that case, your cost includes only the cash you paid.

***Basis of car for depreciation.*** The amount of the section 179 deduction reduces your basis in your car. If you choose the section 179 deduction, you must subtract the amount of the deduction from the cost of your car. The resulting amount is the basis in your car you use to figure your depreciation deduction.

**When to elect.** If you want to take the section 179 deduction, you must make the election in the tax year you place the car in service for business or work.

**How to elect.** Employees use Form 2106, Employee Business Expenses, to make the election and report the section 179 deduction. All others use Form 4562, Depreciation and Amortization, to make an election.



*Form 2106 is only used by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. Due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a), employees who don't fit into one of the listed categories may not use Form 2106.*

File the appropriate form with either of the following.

- Your original tax return filed for the year the property was placed in service (whether or not you file it timely).

- An amended return filed within the time prescribed by law. An election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each such item to be taken into account. The amended return must also include any resulting adjustments to taxable income.



*You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how you acquired the property, the person you acquired it from, and when you placed it in service.*

**Revoking an election.** An election (or any specification made in the election) to take a section 179 deduction for 2024 can only be revoked with the Commissioner's approval.

**Recapture of section 179 deduction.** To be eligible to claim the section 179 deduction, you must use your car more than 50% for business or work in the year you acquired it.

If your business use of the car is 50% or less in a later tax year during the recovery period, you have to recapture (include in income) in that later year any excess depreciation. Any section 179 deduction claimed on the car is included in figuring the excess depreciation. For information on this calculation, see Excess depreciation, later in this chapter under *Car Used 50% or Less for Business*. For more information on recapture of a section 179 deduction, see Pub. 946.

**Dispositions.** If you dispose of a car on which you had claimed the section 179 deduction, the amount of that deduction is treated as a depreciation deduction for recapture purposes. You treat any gain on the disposition of the property as ordinary income up to the amount of the section 179 deduction and any allowable depreciation (unless you establish the amount actually allowed). For information on the disposition of a car, see Disposition of a Car, later.

For more information on recapture of a section 179 deduction, see Pub. 946.

## **Special Depreciation Allowance**

You may be able to claim the special depreciation allowance for your car, truck, or van if it is qualified property and was placed in service in 2024. The allowance for 2024 is an additional depreciation deduction for 100% of the car's depreciable basis (after any section 179 deduction, but before figuring your regular depreciation deduction under MACRS) if the vehicle was acquired after September 27, 2017, and placed in service during 2024. Further, while it applies to a new vehicle, it also applies to a used vehicle only if the vehicle meets the used property requirements. For more information on the used property requirements, see section 168(k)(2)(E)(ii). To qualify for the allowance, more than 50% of the use of the car must be in a qualified business use (as defined under *Depreciation Deduction*, later).



**Combined depreciation.** The first-year limit on the depreciation deduction, special depreciation allowance, and section 179 deduction for vehicles acquired before September 28, 2017, and placed in service during 2024, is \$12,400. Your combined section 179 depreciation, special depreciation allowance, and regular MACRS depreciation deduction is limited to the maximum allowable depreciation deduction for vehicles acquired after September 27, 2017, and placed in service during 2024 is \$20,400. If you elect not to claim a special depreciation allowance for a vehicle placed in service in 2024, the amount is \$12,400. See *Depreciation Limits*, later in this chapter.

**Qualified car.** To be qualified property, the car (including the truck or van) must meet all of the following tests.

- You acquired the car after September 27, 2017, but only if no written binding

contract to acquire the car existed before September 28, 2017.

- You acquired the car new or used.
- You placed the car in service in your trade or business before January 1, 2027.
- You used the car more than 50% in a qualified business use during the tax year.

**Election not to claim the special depreciation allowance.** You can elect not to claim the special depreciation allowance for your car, truck, or van that is qualified property. If you make this election, it applies to all 5-year property placed in service during the year.

To make this election, attach a statement to your timely filed return (including extensions) indicating the class of property (5-year for cars) for which you are making the election and that you are electing not to claim the special depreciation allowance for qualified property in that class of property.



*Unless you elect not to claim the special depreciation allowance, you must reduce the car's adjusted basis by the amount of the allowance, even if the allowance wasn't claimed.*

## **Depreciation Deduction**

If you use actual car expenses to figure your deduction for a car you own and use in your business, you can claim a depreciation deduction. This means you can deduct a certain amount each year as a recovery of your cost or other basis in your car.

You generally need to know the following things about the car you intend to depreciate.

- Your basis in the car.
- The date you place the car in service.
- The method of depreciation and recovery period you will use.

**Basis.** Your basis in a car for figuring depreciation is generally its cost. This includes any amount you borrow or pay in cash, other property, or services.

Generally, you figure depreciation on your car, truck, or van using your unadjusted basis (see Unadjusted basis, later). However, in some situations, you will use your adjusted basis (your basis reduced by depreciation allowed or allowable in earlier years). For one of these situations, see Exception under *Methods of depreciation*, later.

If you change the use of a car from personal to business, your basis for depreciation is the lesser of the fair market value or your adjusted basis in the car on the date of conversion. Additional rules concerning basis are discussed later in this chapter under Unadjusted basis.

**Placed in service.** You generally place a car in service when it is available for use in your work or business,

in an income-producing activity, or in a personal activity. Depreciation begins when the car is placed in service for use in your work or business or for the production of income.

For purposes of figuring depreciation, if you first start using the car only for personal use and later convert it to business use, you place the car in service on the date of conversion.

***Car placed in service and disposed of in the same year.*** If you place a car in service and dispose of it in the same tax year, you can't claim any depreciation deduction for that car.

**Methods of depreciation.** Generally, you figure depreciation on cars using the Modified Accelerated Cost Recovery (MACRS) discussed later in this chapter.

***Exception.*** If you used the standard mileage rate in the first year of business use and change to the actual expenses method in a

later year, you can't depreciate your car under the MACRS rules. You must use straight line depreciation over the estimated remaining useful life of the car. The amount you depreciate can't be more than the depreciation limit that applies for that year. See Depreciation Limits, later.

To figure depreciation under the straight line method, you must reduce your basis in the car (but not below zero) by a set rate per mile for all miles for which you used the standard mileage rate. The rate per mile varies depending on the year(s) you used the standard mileage rate. For the rate(s) to use, see Depreciation adjustment when you used the standard mileage rate under *Disposition of a Car*, later.

This reduction of basis is in addition to those basis adjustments described later under Unadjusted basis. You must use your adjusted basis in your car to figure your depreciation deduction.

For additional information on the straight line method of depreciation, see Pub. 946.

**More-than-50%-use test.** Generally, you must use your car more than 50% for qualified business use (defined next) during the year to use MACRS. You must meet this more-than-50%-use test each year of the recovery period (6 years under MACRS) for your car.

If your business use is 50% or less, you must use the straight line method to depreciate your car. This is explained later under *Car Used 50% or Less for Business*.

**Qualified business use.** A qualified business use is any use in your trade or business. It doesn't include use for the production of income (investment use), or use provided under lease to, or as compensation to, a 5% owner or related person. However, you do combine your business and investment use to figure your depreciation deduction for the tax year.

***Use of your car by another person.*** Don't treat any use of your car by another person as use in your trade or business unless that use meets one of the following conditions.

- It is directly connected with your business.
- It is properly reported by you as income to the other person (and, if you have to, you withhold tax on the income).
- It results in a payment of fair market rent. This includes any payment to you for the use of your car.

**Business use changes.** If you used your car more than 50% in qualified business use in the year you placed it in service, but 50% or less in a later year (including the year of disposition), you have to change to the straight line method of depreciation. See *Qualified business use 50% or less in a later year* under *Car Used 50% or Less for Business*, later.





*Property doesn't cease to be used more than 50% in qualified business use by reason of a transfer at death.*

**Use for more than one purpose.** If you use your car for more than one purpose during the tax year, you must allocate the use to the various purposes. You do this on the basis of mileage. Figure the percentage of qualified business use by dividing the number of miles you drive your car for business purposes during the year by the total number of miles you drive the car during the year for any purpose.

**Change from personal to business use.** If you change the use of a car from 100% personal use to business use during the tax year, you may not have mileage records for the time before the change to business use. In this case, you figure the percentage of business use for the year as follows.

1. Determine the percentage of business use for the period following the

change. Do this by dividing business miles by total miles driven during that period.

2. Multiply the percentage in (1) by a fraction. The numerator (top number) is the number of months the car is used for business, and the denominator (bottom number) is 12.

**Example.** You use a car only for personal purposes during the first 6 months of the year. During the last 6 months of the year, you drive the car a total of 15,000 miles of which 12,000 miles are for business. This gives you a business use percentage of 80% ( $12,000 \div 15,000$ ) for that period. Your business use for the year is 40% ( $80\% (0.80) \times 6/12$ ).

**Limits.** The amount you can claim for section 179, special depreciation allowance, and depreciation deductions may be limited.

The maximum amount you can claim depends on the year in which you placed your car in service. You have to reduce the maximum amount if you didn't use the car exclusively for business. See Depreciation Limits, later.

**Unadjusted basis.** You use your unadjusted basis (often referred to as your basis or your basis for depreciation) to figure your depreciation using the MACRS depreciation chart, explained later under Modified Accelerated Cost Recovery System (MACRS). Your unadjusted basis for figuring depreciation is your original basis increased or decreased by certain amounts.

To figure your unadjusted basis, begin with your car's original basis, which is generally its cost. Cost includes sales taxes (see Sales taxes, earlier), destination charges, and dealer preparation. Increase your basis by any substantial improvements you make to your car, such as adding air conditioning or a new engine.

Decrease your basis by any section 179 deduction, special depreciation allowance, gas guzzler tax, and vehicle credits claimed. See Pub. 551, Basis of Assets, for further details.



*If your business use later falls to 50% or less, you may have to recapture (include in your income) any excess depreciation. See Car Used 50% or Less for Business, later, for more information.*

If you acquired the car by gift or inheritance, see Pub. 551, Basis of Assets, for information on your basis in the car.

**Improvements.** A major improvement to a car is treated as a new item of 5-year recovery property. It is treated as placed in service in the year the improvement is made. It doesn't matter how old the car is when the improvement is added. Follow the same steps for depreciating the improvement as you would for depreciating the original cost of the car.

However, you must treat the improvement and the car as a whole when applying the limits on the depreciation deductions. Your car's depreciation deduction for the year (plus any section 179 deduction, special depreciation allowance, and depreciation on any improvements) can't be more than the depreciation limit that applies for that year. See Depreciation Limits, later.

**Car trade-in.** If you traded one car (the "old car") for another car (the "new car") in 2024, you must treat the transaction as a disposition of the old car and the purchase of the new car. You must treat the old car 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 you paid for the new car.

You then figure your depreciation deduction for the new car beginning with the date you placed it in service. You must also complete Form 2106, Part II, Section D. This method is explained later, beginning at Effect of trade-in on basis.



*Form 2106 is only used by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. Due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a), employees who don't fit into one of the listed categories may not use Form 2106.*

**Effect of trade-in on basis.** The discussion that follows applies to trade-ins of cars in 2024, where the election was made to treat the transaction as a disposition of the old car and the purchase of the new car.

For information on how to figure depreciation for cars involved in a like-kind exchange (trade-in) in 2024, for which the election wasn't made, see Pub. 946 and Regulations section 1.168(i)-6(d)(3).

**Note.** Like-kind exchanges completed after December 31, 2017, are generally limited to exchanges of real property not held primarily for sale. Regulations section 1.168(i)-6 doesn't reflect this change in law.

***Traded car used only for business.*** If you trade in a car you used only in your business for another car that will be used only in your business, your original basis in the new car is your adjusted basis in the old car, plus any additional amount you pay for the new car.

***Example.*** You trade in a car that has an adjusted basis of \$5,000 for a new car. In addition, you pay cash of \$20,000 for the new car. Your original basis of the new car is \$25,000 (your \$5,000 adjusted basis in the old car plus the \$20,000 cash paid).

Your unadjusted basis is \$25,000 unless you claim the section 179 deduction, special depreciation allowance, or have other increases or decreases to your original basis, discussed under Unadjusted basis, earlier.

***Traded car used partly in business.*** If you trade in a car you used partly in your business for a new car you will use in your business, you must make a “trade-in” adjustment for the personal use of the old car. This adjustment has the effect of reducing your basis in your old car, but not below zero, for purposes of figuring your depreciation deduction for the new car. (This adjustment isn’t used, however, when you determine the gain or loss on the later disposition of the new car. See Pub. 544, Sales and Other Dispositions of Assets, for information on how to report the disposition of your car.)



To figure the unadjusted basis of your new car for depreciation, first add to your adjusted basis in the old car any additional amount you pay for the new car. Then subtract from that total the excess, if any, of:

1. The total of the amounts that would have been allowable as depreciation during the tax years before the trade if 100% of the use of the car had been business and investment use, over
2. The total of the amounts actually allowed as depreciation during those years.

For information about figuring depreciation, see Modified Accelerated Cost Recovery System (MACRS) next.

**Modified Accelerated Cost Recovery System (MACRS).** MACRS is the name given to the tax rules for getting back (recovering) through depreciation deductions the cost of property used in a trade or business or to produce income.

The maximum amount you can deduct is limited, depending on the year you placed your car in service. See *Depreciation Limits*, later.

***Recovery period.*** Under MACRS, cars are classified as 5-year property. You actually depreciate the cost of a car, truck, or van over a period of 6 calendar years. This is because your car is generally treated as placed in service in the middle of the year, and you claim depreciation for one-half of both the first year and the sixth year.

For more information on the qualifications for this shorter recovery period and the percentages to use in figuring the depreciation deduction, see chapter 4 of Pub. 946.

***Depreciation methods.*** You can use one of the following methods to depreciate your car.

- The 200% declining balance method (200% DB) over a 5-year recovery period

that switches to the straight line method when that method provides an equal or greater deduction.

- The 150% declining balance method (150% DB) over a 5-year recovery period that switches to the straight line method when that method provides an equal or greater deduction.
- The straight line method (SL) over a 5-year recovery period.



*If you use Table 4-1 (discussed later) to determine your depreciation rate for 2024, you don't need to determine in what year using the straight line method provides an equal or greater deduction. This is because the chart has the switch to the straight line method built into its rates.*

Before choosing a method, you may wish to consider the following facts.

- Using the straight line method provides equal yearly deductions throughout the recovery period.
- Using the declining balance methods provides greater deductions during the earlier recovery years with the deductions generally getting smaller each year.

**MACRS depreciation chart.** A 2024 MACRS Depreciation Chart and instructions are included in this chapter as Table 4-1. Using this table will make it easy for you to figure the 2024 depreciation deduction for your car. A similar chart appears in the Instructions for Form 2106.



*You may have to use the tables in Pub. 946 instead of using this MACRS Depreciation Chart.*

You must use the Depreciation Tables in Pub. 946 rather than the 2024 MACRS Depreciation Chart in this publication if any one of the following three conditions applies to you.

1. You file your return on a fiscal year basis.
2. You file your return for a short tax year (less than 12 months).
3. During the year, all of the following conditions apply.
  - a. You placed some property in service from January through September.
  - b. You placed some property in service from October through December.
  - c. Your basis in the property you placed in service from October through December

(excluding nonresidential real property, residential rental property, and property placed in service and disposed of in the same year) was more than 40% of your total bases in all property you placed in service during the year.

***Depreciation in future years.*** If you use the percentages from the chart, you generally must continue to use them for the entire recovery period of your car. However, you can't continue to use the chart if your basis in your car is adjusted because of a casualty. In that case, for the year of the adjustment and the remaining recovery period, figure the depreciation without the chart using your adjusted basis in the car at the end of the year of the adjustment and over the remaining recovery period. See *Figuring the Deduction Without Using the Tables* in chapter 4 of Pub. 946.