



Tax Reduction Letter

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Revenue Ruling 72-111

January 1972

Computation of the deductible loss allowable under section 165 (a) of the Code on the sale of an automobile used partly for business and partly for personal purposes; G.C.M. 8628 superseded.

The purpose of this Revenue Ruling is to update and restate, under the current statute and regulations, the position set forth in G.C.M. 8628, C.B. 1X-2, 112 (1930).

The question has been presented as to the computation of the deductible loss sustained in the case where a taxpayer sells an automobile that was used partly for business and partly for personal purposes.

The taxpayer purchased an automobile on April 1, 1969, at a cost of \$4,000. The automobile was used three-fourths in a business activity for which deductions are allowable under section 162 of the Code and one-fourth for personal purposes. On the date of purchase, the taxpayer estimated the salvage value to be \$1,200. The taxpayer elected to use the straight-line method of depreciation. The automobile had an estimated useful life of four years. The automobile was sold June 30, 1970, for \$2,000.

Section 165 (a) of the Code provides that there shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise. Section 165 (c) (1) of the Code provides that in the case of an individual, the deduction under subsection (a) shall be limited to losses incurred in a trade or business. Therefore, where an automobile is purchased and used partially in a trade or business any loss sustained upon the sale that is attributable to that portion is allowable as a deduction under section 165 (a) of the Code. The portion of the automobile held-for business use is property of a character which is subject to the allowance for depreciation and, since it was held for more than six months, the loss on its sale is to be taken into account as a loss from the sale of property used in the trade or business as defined in section 1231 (b) of the Code. Any loss attributable to the personal portion would not be allowed as a deduction.

Section 1001 (a) of the Code provides that the gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the adjusted basis provided in section 1011 for determining gain, and the loss shall be the excess of the adjusted basis provided in such section for determining loss over the amount realized.

Section 1011 (a) of the Code provides, in part, that the adjusted basis for determining the gain or loss from the sale or other disposition of property, whenever acquired, shall be the basis

determined under section 1012 of the Code (cost in this case) adjusted as provided in section 1016.

Section 1016 (a) of the Code provides, in part, that the basis of the property shall be reduced in respect of any period since February 28, 1913, for exhaustion and wear and tear (depreciation) to the extent of the amount allowed or allowable under section 167 or prior income tax laws.

Section 167 (f) of the Code provides, in part, that under regulations prescribed by the Secretary or his delegate, a taxpayer may, for purposes of computing the allowance for depreciation under section 167 (a) with-respect to personal property, reduce the amount taken into account as salvage value by an amount which does not exceed 10 percent of the basis of such property.

If the taxpayer chooses the application of section 167 (f) of the Code, the computation of the loss sustained in this case is illustrated as follows:

	Total	Business portion, three- fourths	Personal portion, one- fourth
Cost of automobile	\$4,000	\$3,000	\$1,000
Deduct:			
Salvage	1,200	900	
Less 10% (Section 167 (f))	400	300	
	800	600	
Amount subject to depreciation	3,200	2,400	
Less depreciation allowable:			
1969 depreciation based on 4 year life and held 9 months			
2,4004 years	\$450		
× 912			
1970 depreciation based on 4 year life and held 6 months			
2,4004 years	300	750	750
× 612			
Balance	2,450	1,650	
Add back salvage	800	600	
Adjusted basis at date of sale	3,250	2,250	1,000
Amount realized on sale	2,000	1,500	500
Loss	(1,250)	(750)	(500)

Accordingly, it is held in the instant case that the loss sustained by the taxpayer on the sale of the automobile is \$750. The \$500 loss attributable to the personal portion of the automobile is not deductible.

G.C.M. 8628 is hereby superseded, since the position stated therein is restated under current law in this Revenue Ruling.