



Tax Reduction Letter

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Revenue Procedure 2006-18

March 20, 2006

SECTION 1. PURPOSE

01. This revenue procedure provides: (1) limitations on depreciation deductions for owners of passenger automobiles first placed in service by the taxpayer during calendar year 2006, including special tables of limitations on depreciation deductions for trucks and vans, and for passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles); and (2) the amounts to be included in income by lessees of passenger automobiles first leased by the taxpayer during calendar year 2006, including a separate table of inclusion amounts for lessees of trucks and vans, and a separate table for lessees of electric automobiles.

02. The tables detailing these depreciation limitations and lessee inclusion amounts reflect the automobile price inflation adjustments required by § 280F (d) (7).

SECTION 2. BACKGROUND

01. For owners of passenger automobiles, § 280F (a) imposes dollar limitations on the depreciation deduction for the year that the passenger automobile is placed in service by the taxpayer and each succeeding year. In the case of electric automobiles placed in service after August 5, 1997, and before January 1, 2007, § 280F (a) (1) (C) requires tripling of these limitation amounts. Section 280F (d) (7) requires the amounts allowable as depreciation deductions to be increased by a price inflation adjustment amount for passenger automobiles placed in service after 1988. The method of calculating this price inflation amount for trucks and vans placed in service in or after calendar year 2003 uses a different CPI "automobile component" (the "new trucks" component) than that used in the price inflation amount calculation for other passenger automobiles (the "new cars" component), resulting in somewhat higher depreciation deductions for trucks and vans. This change reflects the higher rate of price inflation that trucks and vans have been subject to since 1988. For purposes of this revenue procedure, the term "trucks and vans" refers to passenger automobiles that are built on a truck chassis, including minivans and sport utility vehicles (SUVs) that are built on a truck chassis.

02. For leased passenger automobiles, § 280F (c) requires a reduction in the deduction allowed to the lessee of the passenger automobile. 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 requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table. There is a table for lessees of electric automobiles, a table for lessees of trucks and vans, and a table for all other passenger automobiles. Each table shows inclusion amounts for a range of fair market values for

each tax year after the passenger automobile is first leased.

SECTION 3. SCOPE

01. The limitations on depreciation deductions in section 4.02 (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 2006, and continue to apply for each tax year that the passenger automobile remains in service.

02. The tables in section 4.03 of this revenue procedure apply to leased passenger automobiles for which the lease term begins during calendar year 2006. Lessees of such passenger automobiles must use these tables to determine the inclusion amount for each tax year during which the passenger automobile is leased. See Rev. Proc. 2002-14, 2002-1 C.B. 450, for passenger automobiles first leased before January 1, 2003, Rev. Proc. 2003-75, 2003-2 C.B. 1018, for passenger automobiles first leased during calendar year 2003, Rev. Proc. 2004-20, 2004-1 C.B. 642, for passenger automobiles first leased during calendar year 2004, and Rev. Proc. 2005-13, 2005-12 I.R.B. 759, 2005-1 C.B. 759, for passenger automobiles first leased during calendar year 2005.

SECTION 4. APPLICATION

01. In General.

(1) **Limitations on Depreciation Deductions for Certain Automobiles.** The limitations on depreciation deductions for passenger automobiles placed in service by the taxpayer for the first time during calendar year 2006 are found in Tables 1 through 3 in section 4.02 (2) of this revenue procedure. Table 1 of this revenue procedure provides limitations on depreciation deductions for a passenger automobile. Table 2 of this revenue procedure provides limitations on depreciation deductions for a truck or van. Table 3 of this revenue procedure provides limitations on depreciation deductions for an electric automobile.

(2) **Inclusions in Income of Lessees of Passenger Automobiles.** A taxpayer first leasing a passenger automobile during calendar year 2006 must determine the inclusion amount that is added to gross income using the tables in section 4.03 of this revenue procedure. The inclusion amount is determined using Table 4 in the case of a passenger automobile (other than a truck, van, or electric automobile), Table 5 in the case of a truck or van, and Table 6 in the case of an electric automobile. In addition, the procedures of § 1.280F-7 (a) must be followed.

02. 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 CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term "CPI automobile component" is defined in § 280F (d) (7) (B) (ii) as the "automobile component" of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 135.1 for October 2005. The October 2005 index exceeded the October 1987 index by 19.9. The Service has, therefore, determined that the automobile price inflation adjustment for 2006 for passenger automobiles (other than trucks and vans) is 17.27 percent ($19.9/115.2 \times$

100%). This adjustment is applicable to all passenger automobiles (other than trucks and vans) that are first placed in service in calendar year 2006. The dollar limitations in § 280F (a) must therefore be multiplied by a factor of 0.1727, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to passenger automobiles (other than trucks, vans, and electric automobiles) for calendar year 2006. To determine the dollar limitations applicable to an electric automobile first placed in service during calendar year 2006, the dollar limitations in § 280F (a) are tripled in accordance with § 280F (a) (1) (C) and are then multiplied by a factor of 0.1727; the resulting increases, after rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for calendar year 2006. To determine the dollar limitations applicable to trucks and vans first placed in service during calendar year 2006, the new truck component of the CPI is used instead of the new car component. The new truck component of the CPI was 112.4 for October 1987 and 143.6 for October 2005. The October 2005 index exceeded the October 1987 index by 31.2. The Service has, therefore, determined that the automobile price inflation adjustment for 2006 for trucks and vans is 27.76 percent ($31.2/112.4 \times 100\%$). This adjustment is applicable to all trucks and vans that are first placed in service in calendar year 2006. The dollar limitations in § 280F (a) must therefore be multiplied by a factor of 0.2776, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to trucks and vans.

(2) Amount of the Limitation. For passenger automobiles placed in service by the taxpayer in calendar year 2006, Tables 1 through 3 contain the dollar amount of the depreciation limitation for each tax year. Use Table 1 for passenger automobiles placed in service by the taxpayer in calendar year 2006. Use Table 2 for trucks and vans placed in service by the taxpayer in calendar year 2006. Use Table 3 for electric automobiles placed in service by the taxpayer in calendar year 2006.

REV. PROC. 2006-18 TABLE 1

DEPRECIATION LIMITATIONS FOR PASSENGER AUTOMOBILES PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2006

<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$2,960
2nd Tax Year	\$4,800
3rd Tax Year	\$2,850
Each Succeeding Year	\$1,775

REV. PROC. 2006-18 TABLE 2

DEPRECIATION LIMITATIONS FOR TRUCKS AND VANS PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2006

<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$3,260
2nd Tax Year	\$5,200
3rd Tax Year	\$3,150
Each Succeeding Year	\$.1,875.

REV. PROC. 2006-18 TABLE 3**DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2006**

<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$8,980
2nd Tax Year	\$14,400
3rd Tax Year	\$8,650
Each Succeeding Year	\$5,225

03. Inclusions in Income of Lessees of Passenger Automobiles.

The inclusion amounts for passenger automobiles first leased in calendar year 2006 are calculated under the procedures described in § 1.280F-7 (a). passenger automobiles other than trucks, vans, and electric automobiles should use Table 4 of this revenue procedure in applying these procedures, while lessees of Lessees of trucks and vans should use Table 5 of this revenue procedure and lessees of electric automobiles should use Table 6 of this revenue procedure.

REV. PROC. 2006-18 TABLE 4**DOLLAR AMOUNTS FOR PASSENGER AUTOMOBILES (THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES) WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2006****Fair Market Value of Passenger**

Automobile Over	Not Over	Tax Year During Lease				
		1st	2nd	3rd	4th	5th & later
\$15,200	\$15,500	4	6	10	10	10
15,500	15,800	6	10	16	18	18
15,800	16,100	8	15	22	25	28
16,100	16,400	9	19	29	33	36
16,400	16,700	11	24	35	40	45
16,700	17,000	13	28	42	48	53
17,000	17,500	16	34	50	58	66
17,500	18,000	19	41	61	71	80
18,000	18,500	23	48	71	84	95
18,500	19,000	26	55	82	96	110
19,000	19,500	29	62	93	109	125
19,500	20,000	32	70	103	122	139
20,000	20,500	36	76	114	135	154
20,500	21,000	39	84	124	148	168
21,000	21,500	42	91	135	160	184

21,500	22,000	45	98	146	173	198
22,000	23,000	50	109	162	192	220
23,000	24,000	57	123	183	218	250
24,000	25,000	63	138	204	243	279
25,000	26,000	70	152	225	269	309
26,000	27,000	76	166	247	294	339
27,000	28,000	83	181	268	319	368
28,000	29,000	90	195	289	345	397
29,000	30,000	96	209	311	371	426
30,000	31,000	103	223	332	397	455
31,000	32,000	109	238	353	422	485
32,000	33,000	116	252	374	448	515
33,000	34,000	122	267	395	473	545
34,000	35,000	129	281	417	498	574
35,000	36,000	135	295	439	523	604
36,000	37,000	142	309	460	549	633
37,000	38,000	148	324	481	575	662
38,000	39,000	155	338	502	601	691
39,000	40,000	161	353	523	626	721
40,000	41,000	168	367	545	651	750
41,000	42,000	175	381	566	677	780
42,000	43,000	181	396	587	702	810
43,000	44,000	188	410	608	728	839
44,000	45,000	194	424	630	753	869
45,000	46,000	201	438	651	779	898
46,000	47,000	207	453	672	805	927
47,000	48,000	214	467	694	830	956
48,000	49,000	220	482	715	855	986
49,000	50,000	227	496	736	881	1,016
50,000	51,000	233	510	758	906	1,045
51,000	52,000	240	525	778	932	1,075
52,000	53,000	246	539	800	958	1,104
53,000	54,000	253	553	821	984	1,133
54,000	55,000	259	568	842	1,009	1,163
55,000	56,000	266	582	864	1,034	1,192
56,000	57,000	273	596	885	1,060	1,221
57,000	58,000	279	611	906	1,085	1,251
58,000	59,000	286	625	927	1,111	1,281
59,000	60,000	292	639	949	1,136	1,311
60,000	62,000	302	661	981	1,174	1,354

62,000	64,000	315	690	1,023	1,225	1,413
64,000	66,000	328	718	1,066	1,276	1,473
66,000	68,000	341	747	1,108	1,328	1,531
68,000	70,000	354	776	1,151	1,378	1,590
70,000	72,000	367	804	1,194	1,429	1,649
72,000	74,000	380	833	1,236	1,481	1,707
74,000	76,000	393	862	1,278	1,532	1,767
76,000	78,000	407	890	1,321	1,583	1,825
78,000	80,000	420	919	1,363	1,634	1,884
80,000	85,000	443	969	1,438	1,723	1,987
85,000	90,000	475	1,041	1,544	1,851	2,135
90,000	95,000	508	1,112	1,651	1,978	2,282
95,000	100,000	541	1,184	1,757	2,106	2,429
100,000	110,000	590	1,291	1,917	2,297	2,650
110,000	120,000	655	1,435	2,130	2,552	2,944
120,000	130,000	720	1,579	2,342	2,807	3,239
130,000	140,000	786	1,722	2,555	3,062	3,534
140,000	150,000	851	1,865	2,768	3,317	3,829
150,000	160,000	916	2,009	2,980	3,573	4,123
160,000	170,000	982	2,152	3,193	3,828	4,417
170,000	180,000	1,047	2,295	3,406	4,083	4,712
180,000	190,000	1,112	2,439	3,619	4,337	5,007
190,000	200,000	1,178	2,582	3,832	4,592	5,301
200,000	210,000	1,243	2,726	4,044	4,848	5,595
210,000	220,000	1,309	2,869	4,257	5,103	5,890
220,000	230,000	1,374	3,012	4,470	5,358	6,185
230,000	240,000	1,439	3,156	4,682	5,613	6,480
240,000	and up	1,505	3,299	4,895	5,868	6,774

**REV. PROC. 2006-18 TABLE 5
DOLLAR AMOUNTS FOR TRUCKS AND VANS
WITH A LEASE TERM BEGINNING IN
CALENDAR YEAR 2006**

Fair Market Value of Truck or Van		Tax Year During Lease						
		Over	Not Over	1st	2nd	3rd	4th	5th and later
\$16,700	\$17,000			4	8	12	14	16
17,000	17,500			6	14	20	24	29
17,500	18,000			9	21	31	37	43
18,000	18,500			13	28	42	49	58

18,500	19,000	16	36	52	62	72
19,000	19,500	19	43	63	75	87
19,500	20,000	23	50	73	88	102
20,000	20,500	26	57	84	101	116
20,500	21,000	29	64	95	113	131
21,000	21,500	32	72	105	126	146
21,500	22,000	36	78	116	139	161
22,000	23,000	41	89	132	158	183
23,000	24,000	47	104	153	183	213
24,000	25,000	54	118	174	209	242
25,000	26,000	60	132	196	235	271
26,000	27,000	67	146	217	261	300
27,000	28,000	73	161	238	286	330
28,000	29,000	80	175	260	311	359
29,000	30,000	86	190	281	336	389
30,000	31,000	93	204	302	362	418
31,000	32,000	99	219	323	388	447
32,000	33,000	106	233	344	413	478
33,000	34,000	112	247	366	439	506
34,000	35,000	119	261	387	465	536
35,000	36,000	125	276	408	490	566
36,000	37,000	132	290	430	515	595
37,000	38,000	139	304	451	541	624
38,000	39,000	145	319	472	566	654
39,000	40,000	152	333	493	592	684
40,000	41,000	158	347	515	618	712
41,000	42,000	165	362	536	642	743
42,000	43,000	171	376	557	669	772
43,000	44,000	178	390	579	694	801
44,000	45,000	184	405	600	719	831
45,000	46,000	191	419	621	745	860
46,000	47,000	197	434	642	770	890
47,000	48,000	204	448	663	796	919
48,000	49,000	210	462	685	822	948
49,000	50,000	217	476	707	847	977
50,000	51,000	224	490	728	872	1,008
51,000	52,000	230	505	749	898	1,037
52,000	53,000	237	519	770	924	1,066
53,000	54,000	243	534	791	949	1,096
54,000	55,000	250	548	813	974	1,125

55,000	56,000	256	563	833	1,000	1,155
56,000	57,000	263	577	855	1,025	1,184
57,000	58,000	269	591	877	1,051	1,213
58,000	59,000	276	605	898	1,077	1,243
59,000	60,000	282	620	919	1,102	1,272
60,000	62,000	292	641	951	1,141	1,316
62,000	64,000	305	670	994	1,191	1,375
64,000	66,000	318	699	1,036	1,242	1,435
66,000	68,000	331	728	1,078	1,293	1,494
68,000	70,000	344	756	1,121	1,345	1,552
70,000	72,000	358	784	1,164	,395	1,612
72,000	74,000	371	813	1,206	1,447	1,670
74,000	76,000	384	842	1,249	1,497	1,729
76,000	78,000	397	871	1,291	1,548	1,788
78,000	80,000	410	899	1,334	1,600	1,846
80,000	85,000	433	949	1,409	1,688	1,950
85,000	90,000	465	1,021	1,515	1,816	2,098
90,000	95,000	498	1,093	1,621	1,944	2,244
95,000	100,000	531	1,164	1,728	2,071	2,392
100,000	110,000	580	1,272	1,887	2,263	2,612
110,000	120,000	645	1,416	2,099	2,518	2,907
120,000	130,000	711	1,559	2,312	2,773	3,202
130,000	140,000	776	1,702	2,525	3,028	3,497
140,000	150,000	841	1,846	2,738	3,283	3,791
150,000	160,000	907	1,989	2,950	3,539	4,085
160,000	170,000	972	2,132	3,164	3,793	4,380
170,000	180,000	1,037	2,276	3,376	4,049	4,674
180,000	190,000	1,103	2,419	3,589	4,303	4,969
190,000	200,000	1,168	2,563	3,801	4,559	5,263
200,000	210,000	1,233	2,706	4,015	4,813	5,558
210,000	220,000	1,299	2,849	4,227	5,069	5,853
220,000	230,000	1,364	2,993	4,440	5,324	6,147
230,000	240,000	1,430	3,136	4,652	5,580	6,441
240,000	and up	1,495	3,279	4,866	5,834	6,736

**REV. PROC. 2006-18 TABLE 6
DOLLAR AMOUNTS FOR ELECTRIC
AUTOMOBILES WITH A LEASE TERM
BEGINNING IN CALENDAR YEAR 2006**

Fair Market Value of Electric

**Automobile
Over**

Tax Year During Lease

	Not Over	1st	2nd	3rd	4th	5th and later
\$45,000	\$46,000	4	8	11	12	12
46,000	47,000	10	22	33	37	42
47,000	48,000	17	36	54	63	72
48,000	49,000	24	51	74	89	101
49,000	50,000	30	65	96	114	131
50,000	51,000	37	79	118	139	160
51,000	52,000	43	94	139	165	189
52,000	53,000	50	108	160	190	219
53,000	54,000	56	123	181	216	248
54,000	55,000	63	137	202	242	277
55,000	56,000	69	151	224	267	307
56,000	57,000	76	165	245	293	337
57,000	58,000	82	180	266	318	367
58,000	59,000	89	194	288	343	396
59,000	60,000	95	209	309	369	425
60,000	62,000	105	230	341	407	470
62,000	64,000	118	259	383	459	528
64,000	66,000	131	288	425	510	587
66,000	68,000	144	316	469	560	646
68,000	70,000	158	345	510	612	705
70,000	72,000	171	373	554	662	764
72,000	74,000	184	402	596	713	823
74,000	76,000	197	431	638	765	881
76,000	78,000	210	459	682	815	940
78,000	80,000	223	488	724	866	1,000
80,000	85,000	246	538	798	956	1,103
85,000	90,000	278	610	905	1,083	1,250
90,000	95,000	311	682	1,011	1,211	1,397
95,000	100,000	344	753	1,118	1,338	1,544
100,000	110,000	393	861	1,277	1,529	1,766
110,000	120,000	458	1,004	1,490	1,785	2,060
120,000	130,000	524	1,147	1,703	2,040	2,354
130,000	140,000	589	1,291	1,915	2,295	2,649
140,000	150,000	654	1,435	2,127	2,551	2,943
150,000	160,000	720	1,578	2,340	2,806	3,237
160,000	170,000	785	1,721	2,553	3,061	3,532
170,000	180,000	850	1,865	2,766	3,315	3,827

180,000	190,000	916	2,008	2,979	3,570	4,122
190,000	200,000	981	2,151	3,192	3,826	4,416
200,000	210,000	1,046	2,295	3,404	4,081	4,711
210,000	220,000	1,112	2,438	3,617	4,336	5,005
220,000	230,000	1,177	2,581	3,830	4,591	5,300
230,000	240,000	1,243	2,725	4,042	4,846	5,594
240,000	and up	1,308	2,868	4,255	5,102	5,888

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to passenger automobiles (other than leased passenger automobiles) that are first placed in service by the taxpayer during calendar year 2006, and to leased passenger automobiles that are first leased by the taxpayer during calendar year 2006.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Bernard P. Harvey of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Bernard P. Harvey at (202) 622-3110 (not a toll-free call).