

Federal Tax Regulations (TRC Version), Regulation, §1.280F-7., Internal Revenue Service, Property leased after December 31, 1986

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(a) Inclusions in income of lessees of passenger automobiles leased after December 31, 1986

(1) In general.— If a taxpayer leases a passenger automobile after December 31, 1986, the taxpayer must include in gross income an inclusion amount determined under this paragraph (a) for each taxable year during which the taxpayer leases the automobile. This paragraph (a) applies only to passenger automobiles for which the taxpayer's lease term begins after December 31, 1986. See §§[1.280F-5T\(d\)](#) and [1.280F-5T\(e\)](#) for rules on determining inclusion amounts for passenger automobiles for which the taxpayer's lease term begins before January 1, 1987. See §[1.280F-5T\(h\)\(2\)](#) for the definition of fair market value.

(2) Inclusion Amount.— For any passenger automobile leased after December 31, 1986, the inclusion amount for each taxable year during which the automobile is leased is determined as follows:

(i) For the appropriate range of fair market values in the applicable table, select the dollar amount from the column for the taxable year in which the automobile is used under the lease (but for the last taxable year during any lease that does not begin and end in the same taxable year, use the dollar amount for the *preceding* taxable year).

(ii) Prorate the dollar amount for the number of days of the lease term included in the taxable year.

(iii) Multiply the prorated dollar amount by the business/investment use (as defined in §[1.280F-6\(d\)\(3\)\(i\)](#)) for the taxable year.

(iv) The following table is the applicable table in the case of a passenger automobile leased after December 31, 1986, and before January 1, 1989:

DOLLAR AMOUNTS FOR AUTOMOBILES WITH A LEASE TERM BEGINNING

IN CALENDAR YEAR 1987 OR 1988

Fair Market Value of Automobile	Taxable Year During Lease					
	1st	2nd	3rd	4th	5 and Later	
Not Over						
Over						
\$12,800	\$13,100	\$2	\$5	\$7	\$8	\$9
13,100	13,400	6	14	20	24	28
13,400	13,700	10	23	34	41	47
13,700	14,000	15	32	47	57	65
14,000	14,300	19	41	61	73	84
14,300	14,600	23	50	74	89	103
14,600	14,900	27	59	88	105	122
14,900	15,200	31	68	101	122	140
15,200	15,500	35	77	115	138	159
15,500	15,800	40	87	128	154	178
15,800	16,100	44	96	142	170	196

16,100	16,400	48	105	155	186	215
16,400	16,700	52	114	169	203	234
16,700	17,000	56	123	182	219	253
17,000	17,500	62	135	200	240	277
17,500	18,000	69	150	223	267	309
18,000	18,500	76	166	246	294	340
18,500	19,000	83	181	268	321	371
19,000	19,500	90	196	291	348	402
19,500	20,000	97	211	313	375	433
20,000	20,500	104	226	336	402	465
20,500	21,000	111	242	358	429	496
21,000	21,500	117	257	381	456	527
21,500	22,000	124	272	403	483	558
22,000	23,000	135	295	437	524	605
23,000	24,000	149	325	482	578	667
24,000	25,000	163	356	527	632	729
25,000	26,000	177	386	572	686	792
26,000	27,000	190	416	617	740	854
27,000	28,000	204	447	662	794	917
28,000	29,000	218	477	707	848	979
29,000	30,000	232	507	752	902	1,041
30,000	31,000	246	538	797	956	1,104
31,000	32,000	260	568	842	1,010	1,166
32,000	33,000	274	599	887	1,064	1,228
33,000	34,000	288	629	933	1,118	1,291
34,000	35,000	302	659	978	1,172	1,353
35,000	36,000	316	690	1,023	1,226	1,415
36,000	37,000	329	720	1,068	1,280	1,478
37,000	38,000	343	751	1,113	1,334	1,540
38,000	39,000	357	781	1,158	1,388	1,602
39,000	40,000	371	811	1,203	1,442	1,665
40,000	41,000	385	842	1,248	1,496	1,727
41,000	42,000	399	872	1,293	1,550	1,789
42,000	43,000	413	902	1,338	1,604	1,852
43,000	44,000	427	933	1,383	1,658	1,914
44,000	45,000	441	963	1,428	1,712	1,976
45,000	46,000	455	994	1,473	1,766	2,039
46,000	47,000	468	1,024	1,518	1,820	2,101
47,000	48,000	482	1,054	1,563	1,874	2,164
48,000	49,000	496	1,085	1,608	1,928	2,226
49,000	50,000	510	1,115	1,653	1,982	2,288
50,000	51,000	524	1,146	1,698	2,036	2,351
51,000	52,000	538	1,176	1,743	2,090	2,413
52,000	53,000	552	1,206	1,788	2,144	2,475
53,000	54,000	566	1,237	1,834	2,198	2,538
54,000	55,000	580	1,267	1,879	2,252	2,600
55,000	56,000	594	1,297	1,924	2,306	2,662
56,000	57,000	607	1,328	1,969	2,360	2,725
57,000	58,000	621	1,358	2,014	2,414	2,787
58,000	59,000	635	1,389	2,059	2,468	2,849
59,000	60,000	649	1,419	2,104	2,522	2,912
60,000	62,000	670	1,465	2,171	2,603	3,005
62,000	64,000	698	1,525	2,262	2,711	3,130
64,000	66,000	726	1,586	2,352	2,819	3,255
66,000	68,000	753	1,647	2,442	2,927	3,379
68,000	70,000	781	1,708	2,532	3,035	3,504
70,000	72,000	809	1,768	2,622	3,143	3,629
72,000	74,000	837	1,829	2,712	3,251	3,753
74,000	76,000	865	1,890	2,802	3,359	3,878
76,000	78,000	892	1,951	2,892	3,468	4,003
78,000	80,000	920	2,012	2,982	3,576	4,128

80,000	85,000	969	2,118	3,140	3,765	4,346
85,000	90,000	1,038	2,270	3,365	4,035	4,658
90,000	95,000	1,108	2,422	3,590	4,305	4,969
95,000	100,000	1,177	2,574	3,816	4,575	5,281
100,000	110,000	1,282	2,802	4,154	4,980	5,749
110,000	120,000	1,421	3,105	4,604	5,520	6,372
120,000	130,000	1,560	3,409	5,055	6,060	6,996
130,000	140,000	1,699	3,713	5,505	6,600	7,619
140,000	150,000	1,838	4,017	5,956	7,140	8,243
150,000	160,000	1,977	4,321	6,406	7,680	8,866
160,000	170,000	2,116	4,625	6,857	8,221	9,490
170,000	180,000	2,255	4,929	7,307	8,761	10,113
180,000	190,000	2,394	5,232	7,758	9,301	10,737
190,000	200,000	2,533	5,536	8,208	9,841	11,360

(v) The applicable table in the case of a passenger automobile first leased after December 31, 1988, will be contained in a revenue ruling or revenue procedure published in the Internal Revenue Bulletin.

(3) **Example.**— The following example illustrates the application of this paragraph (a):

Example. On April 1, 1987, A, a calendar year taxpayer, leases and places in service a passenger automobile with a fair market value of \$31,500. The lease is to be for a period of three years. During taxable years 1987 and 1988, A uses the automobile exclusively in a trade or business. During 1989 and 1990, A's business/investment use is 45 percent. The appropriate dollar amounts from the table in paragraph (a)(2)(iv) of this section are \$260 for 1987 (first taxable year during the lease), \$568 for 1988 (second taxable year during the lease), \$842 for 1989 (third taxable year during the lease), and \$842 for 1990. Since 1990 is the last taxable year during the lease, the dollar amount for the preceding year (the third year) is used, rather than the dollar amount for the fourth year. For taxable years 1987 through 1990, A's inclusion amounts are determined as follows:

Tax year	Dollar amount	Proration	Business	Inclusion
			use	amount
1987.....	\$260	275/365	100%	\$196
1988.....	\$568	366/366	100%	\$568
1989.....	\$842	365/365	45%	\$379
1990.....	\$842	90/365	45%	\$ 93

(b) Inclusions in income of lessees of listed property (other than passenger automobiles) leased after December 31, 1986

(1) **In general.**— If listed property other than a passenger automobile is not used predominantly in a qualified business use in any taxable year in which such property is leased, the lessee must add an inclusion amount to gross income in the first taxable year in which such property is not so predominantly used (and only in that year). This year is the first taxable year in which the business use percentage (as defined in §1.280F-6(d)(1)) of the property is 50 percent or less. This inclusion amount is determined under this paragraph (b) for property for which the taxpayer's lease term begins after December 31, 1986 (and under §1.280F-5T(f) for property for which the taxpayer's lease term begins before January 1, 1987). See also §1.280F-5T(g).

(2) **Inclusion amount.**— The inclusion amount for any listed property (other than a passenger automobile) leased after December 31, 1986, is the sum of the amounts determined under subdivisions (i) and (ii) of this subparagraph (2).

(i) The amount determined under this subdivision (i) is the product of the following amounts:

- (A) The fair market value (as defined in §1.280F-5T(h)(2)) of the property,
- (B) The business/investment use (as defined in §1.280F-6(d)(3)(i)) for the first taxable year in which the business use percentage (as defined in §1.280F-6(d)(1)) is 50 percent or less, and
- (C) The applicable percentage from the following table:

Type of Property	First Taxable Year During Lease in Which											
	Business Use Percentage Is 50% or Less											
	1	2	3	4	5	6	7	8	9	10	11	12 & Later
Property with a Recovery Period of												
Less Than 7 Years under the												
Alternative Depreciation System	2.1%	7.2%	19.8%	20.1%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
(Such as Computers, Trucks and Airplanes)												
Property with a 7- to 10-Year Recovery Period under the												
Alternative Depreciation System	3.9%	3.8%	17.7%	25.1%	27.8%	27.2%	27.1%	27.6%	23.7%	14.7%	14.7%	14.7%
(Such as Recreation Property)												
Property with a Recovery Period of												
More Than 10 Years under the												
Alternative Depreciation System	6.6%	1.6%	16.9%	25.6%	29.9%	31.1%	32.8%	35.1%	33.3%	26.7%	19.7%	12.2%
(Such as Certain Property with No Class Life)												

(ii) The amount determined under this subdivision (ii) is the product of the following amounts:

- (A) The fair market value of the property,
- (B) The average of the business/investment use for all taxable years (in which such property is leased) that precede the first taxable year in which the business use percentage is 50 percent or less, and
- (C) The applicable percentage from the following table:

Type of Property	First Taxable Year During Lease in Which Business Use Percentage Is 50% or Less											
	1	2	3	4	5	6	7	8	9	10	11	12 & Later
Property with a Recovery Period of Less Than 7 Years under the Alternative Depreciation System (Such as Computers, Trucks and Airplanes)	0.0%	10.0%	22.0%	21.2%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
Property with a 7- to 10-Year Recovery Period under the Alternative Depreciation System (Such as Recreation Property)	0.0%	9.3%	23.8%	31.3%	33.8%	32.7%	31.6%	30.5%	25.0%	15.0%	15.0%	15.0%
Property with a Recovery Period of More Than 10 Years under the Alternative Depreciation System (Such as Certain Property with No Class Life)	0.0%	10.1%	26.3%	35.4%	39.6%	40.2%	40.8%	41.4%	37.5%	29.2%	20.8%	12.5%

(3) Example.— The following example illustrates the application of this paragraph (b):

Example. On February 1, 1987, B, a calendar year taxpayer, leases and places in service a computer with a fair market value of \$3,000. The lease is to be for a period of two years. B's qualified business use of the property, which is the only business/investment use, is 80 percent in taxable year 1987, 40 percent in taxable year 1988, and 35 percent in taxable year 1989. B must add an inclusion amount to gross income for taxable year 1988, the first taxable year in which B does not use the computer predominantly for business (*i.e.*, the first taxable year in which B's business use percentage is 50 percent or less). Since 1988 is the second taxable year during the lease, and since the computer has a 5-year recovery period under the General and Alternative Depreciation Systems, the applicable percentage from the table in subdivision (i) of paragraph (b)(2) is #7.2%, and the applicable percentage from the table in subdivision (ii) is 10%. B's inclusion amount is \$154, which is the sum of the amounts determined under subdivisions (i) and (ii) of subparagraph (b)(2) of this paragraph. The amount determined under subdivision (i) is # \$86 [$\$3,000 \times 40\% \times (\#7.2\%)$], and the amount determined under subdivision (ii) is \$240 [$\$3,000 \times 80\% \times 10\%$]. [Reg. §1.280F-7.]

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