TAX in the News

Tax Information for Tax Practitioners

May 29, 2019

TAX NEWS

Vehicle Depreciation Limits for 2019 – Rev. Proc. 2019-26 updates depreciation limits and lease inclusion amounts for passenger cars, trucks, and vans first placed into service during 2019. Page 2

Health Savings Account Inflation Adjusted Amounts: 2020—The maximum HSA contribution for both single (self-only) coverage and family coverage will increase slightly for 2020. Minimum deductibles and maximum co-payments will also increase slightly. Other inflation adjusted items for 2020 will be published later this year. Page 3

QUESTION OF THE WEEK

A client wants to sell four laptops that he has been using for his business. When he purchased them a few years ago he wrote off the price under the de minimis safe harbor election. If he sells the equipment will his gain be ordinary or capital gain? What if he were to donate the laptops to a charity instead? Page 3

ORIGINAL INSIGHTS

Debunked: Four myths about retirement plans and foreign workers— Workers who temporarily live in the U.S. will owe U.S. taxes when they transfer their retirement funds between foreign and domestic plans. Full insight. View all insights at www.thetaxinstitute.com/insights/.

VEHICLE DEPRECIATION LIMITS FOR 2019

IRS Rev. Proc. 2019-26 provides the vehicle depreciation limits and the leased auto inclusion amounts for passenger vehicles (which includes cars, trucks, and vans) first placed in service in calendar year 2019. As we first saw last year, the dollar limitations reflect two TCJA changes that affect vehicle depreciation limits:

- Additional first year "bonus" depreciation is increased to 100% for property acquired and placed in service after September 27, 2018 and before January 1, 2023.
    - The bonus depreciation percentage then phases down over three years from 2024-2026.
    - Pre-TCJA phase down rules apply to vehicles acquired before September 28, 2018.
- Annual depreciation caps are increased for passenger autos (whether or not bonus depreciation applies) placed in service; this change started in 2018.

Note that for this purpose, trucks and vans (including minivans and SUVs) are passenger vehicles built on a truck chassis. Because the TCJA did not include inflation adjustments for 2018, there were no depreciation differences for cars, trucks and vans placed in service in 2018. Inflation adjustments for future years may reflect differences based on different CPIs, but the limitations are still the same for the different types of vehicles placed in service in 2019. Heavy SUVs (weighing more than 6,000 pounds) built on a truck chassis are not subject to these depreciation limits.

Rev. Proc. 2019-26 also has lease inclusion amounts for automobiles with lease terms that begin in 2019.

The table shows the 2019 depreciation limits:

VEHICLE DEPRECIATION LIMITS		
	Placed in Service 2019	**Placed in Service 2018**
Depreciation year:	**Passenger Cars, Trucks, and Vans**	**Passenger Cars, Trucks, and Vans**
First year (bonus depreciation applies)	$18,100 ($14,900 if acquired before Sept. 28, 2017)	$18,000 ($16,400 if acquired before Sept. 28, 2017)
First year (bonus depreciation does not apply)	$10,100	$10,000
Second year	$16,100	$16,000
Third year	$9,700	$9,600
Each succeeding year	$5,760	$5,760

HEALTH SAVINGS ACCOUNT INFLATION ADJUSTED AMOUNTS—2020

The IRS has released Rev. Proc. 2019-25 providing inflation adjusted amounts that will apply to HSAs next year, i.e. calendar year 2020. Under the Tax Relief and Health Care Act of 2006, HSA inflation adjusted amounts must be published no later than June 1 of the preceding calendar year. Other inflation adjusted amounts for 2020 will be published during the fall.

For 2020, maximum contributions, minimum deductibles, and maximum out-of-pocket amounts increase slightly. Changes are summarized on the chart below.

HEALTH SAVINGS ACCOUNTS INFLATION ADJUSTMENTS	2020	2019
Maximum contribution amount		
Single coverage	$3,550	$3,500
Age 55 or older	$4,550	$4,500
Family coverage	$7,100	$7,000
Age 55 or older	$8,100	$8,000
Minimum HDHP deductible – no change		
Single coverage	$1,400	$1,350
Family coverage	$2,800	$2,700
Maximum out-of-pocket (deductible and co-payments)		
Single coverage	$6,900	$6,750
Family coverage	$13,800	$13,500

The maximum contribution amount refers to the maximum contribution that can be made by a taxpayer who is HSA-eligible the entire tax year, based on the type of high deductible health plan (HDHP) coverage the taxpayer has. Amounts include both employer *and* employee contributions.

Taxpayers who are at least age 55 by the end of the calendar year may make a catch-up contribution of up to $1,000.

The minimum deductible and maximum out-of-pocket amounts are the parameters for qualifying HDHP coverage.

QUESTION OF THE WEEK

Q. In 2017, a small business client purchased four laptops for his company, ranging in price from $400 to $750. He made the de minimis safe harbor election to expense the laptops on his 2017 Schedule C. His business has been doing well and he'd like to replace the laptops with better quality (and more expensive) equipment. He has checked around and can probably sell the laptops for $200 to $300 in total for the four of them. What are the tax consequences of selling the laptops? Is the gain ordinary or capital gain? What if he gives the laptops to a charity instead?

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A. If your client decides to sell the laptops, gain on the sale will be ordinary income.

Because of the expensing his basis in the property is $0 so, depending on the sales price, he would recognize $200 to $300 of ordinary income on the sale. The sale is reported on line 10 of Form 4797, *Sales of Business Property*. See “Property deducted under the de minimis safe harbor for tangible property” on page 27 of IRS Pub. 544, *Sales and Other Dispositions of Assets* and the Form 4797 instructions.

Property that is expensed under the de minimis safe harbor election for tangible property is covered under the regulations (Reg. §1.263(a)-1(f))). When the property is sold or disposed of, it is *not* treated as a §1221 capital asset or as §1231 business property. Gain on the sale or disposition is ordinary, rather than capital gain.

If your client decides instead to donate the equipment to a qualified charity, he would not have to recognize any gain. However, he would not be able to deduct the contribution or, more precisely, his deduction would be $0. When ordinary income property is donated, the FMV of the contribution is reduced by the amount that would be ordinary income if the property were sold. For instance, if the property has a FMV of $300, the contribution would be reduced to $0 by the $300 of ordinary income that would be recognized if the property had been sold instead of donated.