Repair or capitalize expenditures?, continued from page 3

The court next considered whether the expenditure returned the property to the state it was in before the situation prompting the expenditure arose, an expenditure intended to correct a situation, or whether the expenditure was a more permanent increment in the longevity, utility or worth of the property. The court determined that the appropriate test to apply was the corrective test, that the expenditure returned the property to the state it was in before the situation prompting the expenditure arose. Accordingly, the expenditures were all allowable as repairs.

In conclusion

The reasoning of the court in *FedEx Corp. & Subs. v. United States* and *Ingram Industries, Inc. & Subs. v. Commissioner* is highly relevant to the question of whether a major repair on a combine or tractor engine or transmission should be considered a repair or whether the expenditure would have to be capitalized. Both cases provide useful authority for arguing that even major engine or transmission overhauls should be deductible as repairs. In general, engines and transmissions are treated as part of the larger machine, the economic life of the engine or transmission is typically considered as co-extensive with the economic life of the tractor or combine, a tractor or combine cannot function without an engine or transmission and the engine or transmission can be and generally are maintained while affixed to the tractor or combine, as the case may be.

Depreciation on listed property vehicles*

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The enactment of depreciation rules for "listed property" in 1984 marked a new era in recovering investment in business assets. For property with both business and personal use, the income tax basis for depreciation purposes is determined, as always, by applying the fraction of business use to total use. But listed property assets are further limited in terms of the amount of depreciation claimable.

The enactment of bonus depreciation rules has focused additional attention on passenger automobiles, one of the important components of listed property.

Passenger automobiles

While all vehicles used for transportation purposes are considered "listed property," automobiles and pickups of 6,000 pounds unloaded gross vehicle weight or less (GVW for trucks and vans) are subjected to dollar limits on depreciation claimable. Property must be used "predominantly" in a qualified business use in order to be eligible for the regular amount of depreciation deduction. Predominantly means more than 50 percent in a qualified business use. The proportion of a vehicle's basis that can be depreciated depends upon substantiation of business use. If the qualified business use is 50 percent or less, expense method depreciation may not be claimed, the 30 percent and 50 percent bonus depreciation allowances cannot be claimed, and depreciation deductions must be calculated using the alternative depreciation method.

In 2002, Congress passed legislation providing for a 30 percent extra depreciation allowance on new vehicles which provided specifically for an increase of $4,600 in the first year depreciation allowance for passenger automobiles. In 2003, the Congress boosted the extra depreciation allowance to 50 percent for property acquired after May 5, 2003, and placed in service before January 1, 2005, if there was no binding con-

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Depreciation on listed property vehicles, continued from page 4

tract in effect before May 6, 2003. The 2003 legislation increased the first year depreciation allowance for new passenger automobiles by $7650 to $10,710.

The 2003 limits for passenger automobiles are as follows

	Zero Bonus	30% Bonus (new)	50% Bonus (new)
First year	3,060	7,660	10,710
Second year	4,900	4,900	4,900
Third year	2,950	2,950	2,950
Each succeeding year	1,775	1,775	1,775

The maximum allowable depreciation amounts for 2003 are:

Zero bonus	30% bonus	50% bonus (new)	(new)
First year	9,080	22,880	32,030
Second year	14,600	14,600	14,600
Third year	8,750	8,750	8,750
Each succeeding year	5,225	5,225	5,225

The maximum allowable depreciation for 2003 is:

	Zero bonus	30% bonus (new)	50% bonus (new)
First year	3,360	7,960	11,010
Second year	5,400	5,400	5,400
Third year	3,250	3,250	3,250
Each succeeding year	1,975	1,975	1,975

Trucks and vans as non-personal use vehicles

Temporary regulations effective July 3, 2003, exclude from the definition of passenger automobiles any truck or van that is a "qualified nonpersonal use vehicle" as defined under I.R.C. • 274 which applies to vehicles not likely to be used more than a de minimis amount for personal purposes. These vehicles are subject to the limits for listed property but not the dollar limits for passenger automobiles.

Other trucks and vans

For other trucks and vans, placed in service in 2003, a higher inflation adjustment factor has been approved.

Electric automobiles

A 1998 amendment specifies that the maximum depreciation amounts that may be claimed for electric vehicles are tripled through 2004.

A deduction of $2,000 is available for electric vehicles certified under the clean fuel provision of federal law.

World Bank study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production

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In the wake of the collapse of the World Trade Organization (WTO) talks in Cancun in mid-September a number of news reports have referred to a World Bank Report that estimates that "a deal to lower global trade barriers could add more than $500 billion a year to global incomes by 2015, lifting 144 million people out of poverty." These results are based on a "pro-poor" scenario that is reported in *2003 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda.*

The World Bank's "pro-poor" scenario assumes that all developed nations reduce their agricultural tariffs to a maximum of 10 percent and tariffs on other goods to 5 percent while all developing nations reduce agricultural tariffs to a maximum of 15 percent and other goods to 10 percent. In addition, payments to producers would be decoupled from production. "The 'decoupling' part of the scenario is achieved by removing all domestic support in agriculture input and output subsidies and payments to land and capital. These would be replaced by direct payments to farm households."

The prospect of a $500 billion income gain, and the lifting of 144 million people out of poverty got me to wondering how this feat would be accomplished and what its impact would be on agricultural production in various countries of

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