NAFA®
Fleet Management Association

Fleet Solutions
for Fleet Professionals

April 15, 2015

The Honorable John Thune
Co-Chair
Business Income Tax Working Group
Finance Committee
U.S. Senate
Washington, DC 20510

The Honorable Ben Cardin
Co-Chair
Business Income Tax Working Group
Finance Committee
U.S. Senate
Washington, DC 2510

The Honorable Orrin Hatch
Chair
Finance Committee
U.S. Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Finance Committee
U.S. Senate
Washington, DC 20510

Dear Senators:

On behalf of NAFA Fleet Management Association, I am writing in response to your invitation to stakeholders to express their views to the Committee's tax reform working groups on how to improve the nation's tax code.

NAFA requests that you consider revising the depreciation requirements for automobiles, trucks and vans owned or leased by fleets.

NAFA is the association for professionals who manage fleets of sedans, public safety vehicles, trucks, and buses of all types and sizes, and a wide range of military and off-road equipment for organizations in North America and across the globe. NAFA's members are responsible for the specification, acquisition, maintenance, repair, fueling, risk management, and remarketing of more than 4.6 million vehicles that drive an estimated 50-billion miles each year. NAFA's members control assets and services well in excess of $100-billion each year.

NAFA's members manage fleets for corporations covering a wide range of manufacturing and service organizations, governments (whether local, state and/or federal), and public service entities (public safety, law enforcement, educational institutions, utilities, etc.); still other members serve financial institutions, insurance companies, non-profit organizations, and the like.

The Internal Revenue Code limits the amount of depreciation that a business taxpayer can take on passenger vehicles in its fleet. Since 1984, fleet automobiles, vans, and trucks have been the *only* business investment where full depreciation is restricted. In addition, most fleet passenger vehicles are not able to take full advantage of the additional first year or bonus depreciation allowance under Section 168(k).

Background: In 1984 Congress passed H.R. 4170 (PL 98-369). The law included an amendment to the Internal Revenue Code to limit the amount of depreciation for certain vehicles, referred to as "luxury vehicles." An article from the New York Times of March 3, 1984 capsulizes

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the sentiment at the time – "CONGRESS IS MOVING TO LIMIT TAX BREAKS ON LUXURY VEHICLES FOR BUSINESS."[1]

Unfortunately, the limits on luxury vehicles also applied to typical fleet cars or vans that would rarely if ever be considered a true "luxury" vehicle. For reference, examples of common fleet vehicles in use today that fall under the "luxury" vehicle limitation are the Ford Fusion, the Dodge Charger, and the GMC Sierra.

Section 280F of the IRS Code - *Limitation on depreciation for luxury automobiles; limitation where certain property used for personal purposes* – limits the depreciation deduction for the year the taxpayer places the passenger automobile in service and for each succeeding year.[2]Section 280F provides for an inflation adjustment based on the CPI automobile component.

P.L. 98-369 defined a new luxury automobile as a vehicle with an initial cost greater than $12,800. With the price inflation adjustment provided for in Section 280F, in 2015 a "luxury vehicle" is an automobile vehicle with an initial cost of more than $16,000 and a truck or van with an initial cost of greater than $17,500.[3]

Despite the unfortunate title given to Sec. 280F, very few fleet automobiles are, in fact, "luxury vehicles." For example, the fleet cost for a typical fleet sedan (Ford Taurus, Chevy Impala, Ford Fusion, Toyota Camry) is in the range of $22,000-$24,000. Small SUV's and crossovers are in the range of $24,000-$26,000.

It has been more than 30 years since the Congress has adjusted the depreciation limits on fleet vehicles. Today's vehicles are equipped with technologies that make them safer with fewer vehicle emissions. Those improvements have come at a cost that are not always captured in the CPI automobile component.

As part of tax reform, we urge the committee to consider revisions to Section 280F in order that the limitation in Section 280F more accurately reflects fleet vehicle costs in 2015 and the years ahead.

At the same time, we agree with and fully support depreciation limits on those vehicles that are truly luxury vehicles.

Thank you for your consideration of our comments. If you have any questions or request additional information, please contact Pat O'Connor, NAFA's Legislative Counsel, at 202/223-6222.

Sincerely,

Phillip E. Russo

Phillip E. Russo, CAE
Chief Executive Officer

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[1] http://www.nytimes.com/1984/03/03/nyregion/congress-is-moving-to-limit-tax-breaks-on-luxury-vehicles-for-business.html

[2] There is a similar limitation for lessees of leased passenger automobiles.

[3] For 2015 the luxury value for a truck or van is $17,500.and a truck or van with an.