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Mr. Frank Jenkins
Marketing Manager, Fleet & Commercial Operations
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Dear Frank:

You have requested that we provide you with a summary of the rules pertaining to the deductions and expensing of certain vehicles which are purchased by businesses or small business owners and used more than 50% in the business.

- Taxpayers such as professionals and small business owners that purchase qualifying property, such as automobiles, SUVs, and trucks and vans, can deduct the cost of such property through asset depreciation deductions on their tax returns. Generally, accelerated depreciation is allowed if the vehicle is used more than 50% in the business. The depreciation starts in the year in which the asset is purchased and placed in service.
- Furthermore, in the year it is purchased and placed in service Section 179 of the tax code allows a business to deduct up to \$25,000 of the purchase price of a Sports Utility Vehicle (SUV) if the SUV has a gross vehicle weight rating (GVWR) above 6,000 pounds. The remainder is eligible for depreciation, typically depreciated over a five year period. Of course, the taxpayer must use the vehicle more than 50% for business to qualify for Section 179.

To illustrate, assume the purchase price of a qualified SUV (GVW greater than 6,000 pounds) was \$50,000. Assuming 100% business use, in year one the taxpayer would be able to utilize the entire \$25,000 deduction, leaving a remaining basis of \$25,000. The remaining \$25,000 of basis may be expensed by using MACRS method of depreciation over a five year span, in most circumstances. The standard amount of MACRS depreciation in the first year would be \$5,000, for a total deduction of \$30,000 (\$25,000 + \$5,000) in the first year.

For purposes of Section 179, in general an SUV is defined as any 4-wheeled vehicle which is primarily designed or which can be used to carry passengers over public streets, roads, or highways.



- A Section 179 deduction is also allowed for purchases of other property used in a business, subject to a rule that the total Section 179 deduction for all purchases for the year cannot exceed \$125,000 in 2007 (an amount that is expected to increase slightly for 2008). Other rules may apply that further limit the allowable deductions including limitations on the amount of regular MACRS depreciation allowable on automobiles.
- With respect to a truck with a six-foot or longer cargo bed, and certain eligible vans, with a GVWR above 6,000 pounds, a taxpayer could deduct the full amount of the purchase price, subject to the overall \$125,000 limitation. The definition of eligible vehicles is:
 - 1) a vehicle designed to have a seating capacity of more than nine persons behind the driver's seat;
 - 2) a vehicle equipped with a cargo area of at least six feet in interior length that is an open area and is not readily accessible directly from the passenger compartment;
 - 3) a vehicle equipped with a cargo area of at least six feet in interior length that is designed for use as an open area but is enclosed by a cap and is not readily accessible directly from the passenger compartment; or
 - 4) a vehicle with an integral enclosure, fully enclosing the driver compartment and load carrying device, which does not have seating rearward of the driver's seat and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

Assume the same facts as above except that the vehicle is an eligible full size pick up or van: The entire \$50,000 purchase price would be deductible in the year the vehicle was placed in service, assuming it met the business use test and other requirements for Section 179 expensing. The taxpayer could expense up to a total of \$125,000 of property in 2007.

The information in this letter is of a general nature and is subject to change, and any such changes could affect the validity of the tax situations discussed herein. Each individual's tax situation is unique, therefore, we advise everyone to consult his or her own tax advisor to confirm their depreciation deduction and tax benefits.

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY KPMG TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.



Our advice in this document is limited to the conclusions specifically set forth herein and is based on the completeness and accuracy of the above-stated facts, assumptions and representations. If any of the foregoing facts, assumptions or representations is not entirely complete or accurate, it is imperative that we be informed immediately, as the inaccuracy or incompleteness could have a material effect on our conclusions. In rendering our advice, we may consider, for example, the applicable provisions of the Internal Revenue Code of 1986 and ERISA, as amended, and the relevant state and foreign statutes, the regulations thereunder, income tax treaties, and judicial and administrative interpretations, thereof. These authorities are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of our conclusions. We will not update our advice for subsequent changes or modifications to the law and regulations or to the judicial and administrative interpretations thereof.

Very Truly Yours,

KPMG LLP

A handwritten signature in cursive script that reads 'Hans Flick' followed by a circled registered trademark symbol (®).

Hans Flick
Tax Partner