

Addendum: Basics of Business Entity Taxation

Revision 1

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The annual gross receipts amount was updated for 2025 inflation adjustments.

As mentioned earlier, small business taxpayers can treat inventories as non-incidental supplies if their three tax-year period average annual gross receipts do not exceed \$31 million (2025).

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Revision 2

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The actual cost of the automobile was added to the note.

Note: The amount an automobile must cost in order for the first-year depreciation deduction to exceed the first-year cap is \$61,000 if the 200DB method and half-year convention apply [$\$61,000 \times 20\% = \$12,200$].

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Revision 3

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The first year depreciation calculation should have used \$12,200 (first year without bonus) versus \$20,200 (first year with bonus)

Example

In the current year, Helen purchased and placed in service a new passenger automobile for \$70,000. She drove the vehicle a total of 12,000 miles, including 9,000 for business. Helen's business use percentage for the vehicle is 75% (9,000 / 12,000).

Helen elects out of bonus depreciation, so her first year for depreciation deduction is limited to \$9,150 (\$12,200 x 75%).

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