

Faster write-off for heavy sport utility vehicles (SUVs)

Are you considering replacing the car that you are using in your business?

Cars are subject to more restrictive rules than those that apply to other depreciable assets. Had cars not been subject to the restrictive rules, you would be entitled to a deduction, for a car exclusively used in business, of 20% of the depreciable basis (cost for tax purposes) of the car in the year you place it into service. (For qualified property (including vehicles) placed in service in 2008, a first-year bonus depreciation deduction of 50% applies unless the taxpayer elects out of taking the deduction; the basis of the property and the depreciation allowances in the year the property is placed in service and later years are appropriately adjusted to reflect the additional first-year depreciation deduction.) In addition, it is possible that you would qualify for an election to "expense" (i.e., deduct in the first year) an even larger percentage of the car's basis. However, under the so-called "luxury auto" rules, depreciation and expensing deductions are artificially "capped." For example, for an automobile first placed in service in 2008, the maximum depreciation deduction for the first tax year in its recovery period (i.e., 2008) is limited to \$2,960 (for autos for which the 50% additional first-year depreciation deduction does not apply), or \$10,960 (if additional 50% additional first-year depreciation does apply); \$4,800 for the second tax year; \$2,850 for the third tax year; and \$1,775 for each succeeding tax year. The effect is generally to extend the number of years it takes to fully depreciate the vehicle.

Because of the restrictions for cars, you may be better off tax-wise (if not gasoline mileage-wise) if you buy one of the sport utility vehicles (SUVs) instead of a car. That is because the regular annual depreciation and expensing caps for passenger automobiles do not apply to trucks or vans (and that includes SUVs) that are rated at more than 6,000 pounds gross (loaded) vehicle weight. Instead, for an SUV with a weight not over 14,000 pounds, up to \$25,000 of the cost can be expensed. Annual depreciation deductions can be claimed for the balance of the cost.

So, for example, if in a tax year beginning in 2008, you buy (and place in service) an over-6,000 pound SUV for \$37,000 and use it exclusively for business, you can elect to "expense" \$25,000 of the cost on your 2008 return--the return you file in 2009--(assuming you haven't placed more than \$800,000 worth of depreciable equipment into service during a tax year beginning in 2008, and assuming that you choose to allocate \$25,000 of your allowable \$250,000 of expensing deductions for 2008 to the car). Note too that if business use of the vehicle does not exceed 50% of total use, the SUV is not eligible for expensing and has to be depreciated on a straight-line method over a six-tax-year period.

For more details about this opportunity to get large write-offs when you buy a heavy SUV for business, please give me a call.

