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Tax Planning Ideas to Consider When Buying a Car for your Business

SUV Advantages

It's a good time to shop for a new vehicle. Thanks to bonus first year depreciation deductions under the Economic Stimulus Act of 2008, if the vehicle is going to be used for business, there are significant tax advantages to consider. In general, for cars purchased after Dec. 31, 2007 and before January 1, 2009, taxpayers get an additional depreciation deduction in the initial year equal to 50% of the cost of the vehicle.

The bonus 50% first-year depreciation break in the Stimulus Act, combined with a generous expensing allowance, will result in significant tax deductions for taxpayers who buy heavy SUV's in 2008 and use them for business. Under normal "passenger autos" rules the maximum first-year amount of depreciation (assuming 2007 dollar caps) is \$11,060 for an auto and \$11,260 for light trucks. The rules that limit the amount of annual depreciation that can be deducted on passenger automobiles do not apply to heavy (over 6,000 pounds) SUVs because they are considered to be trucks.

For example, if you bought an SUV over the 6,000 pound limit for \$50,000 and use it 100% for business, you would be able to expense \$25,000 of the cost immediately. The remaining basis of \$25,000 (50,000 – 25,000) would be eligible for the 50% bonus first-year depreciation of \$12,500, plus the \$2,500 of regular first-year depreciation. So your total first year tax write off would be \$40,000. The remaining \$10,000 (\$50,000 original cost less \$40,000 deductible currently) would be recovered in future years under the normal depreciation rules.

Passenger Auto Advantages

The bonus 50% first-year depreciation break in the Stimulus Act, combined with a generous expensing allowance, will result in significant tax deductions for taxpayers who also buy passenger autos in 2008 and use them for business.

With the new Stimulus Act the first-year limit on depreciation for passenger automobiles is increased by \$8,000. For example if you purchased a passenger auto for \$30,000 (passenger auto is defined as less than 6,000 pounds in gross vehicle weight) during 2008 and used it 100% for business you would be able to expense \$10,960 in the first year.

I hope this information is helpful. There is pending legislation to limit the special preferences heavy SUV's receive, but as of now the rules still allow for big write-off's. Please call Jordan Empey at Stockman Kast Ryan + Company at 719-630-1186 for more details about how they apply to you.