

2010/2011 Tax Deductions for 50% or Greater Business Use Vehicle Acquisitions

2010

Small business owners and self-employed individuals purchasing new/used vehicles in 2010 for 50% or greater business use may be able to apply tax deductions to their acquisitions via three tax provisions; annual depreciation, §179 expensing (for the 1st year only) and 50% bonus depreciation (new acquisitions for the 1st year only).

- **Annual, or normal, depreciation** - This typically allows for a 20% deduction of the cost of a business vehicle in the year of purchase subject to luxury auto limits (see below). Typical vehicle useful lives are set-up for 5 years and the vehicle is depreciated under depreciation methods similar to other business assets.
- **§179 expense deductions** - This allows for immediate expensing of a vehicle's cost basis if the vehicle qualifies for such treatment in the first year only. The deduction amount can be limited in two ways, either by vehicle category limitations (see below) or by the general limitation that applies to all fixed assets (for 2010 as part of the 2010 Small Business Jobs Act - \$500,000 total allowable §179 deduction with a maximum investment limitation of \$2,000,000. If the total value of qualifying §179 property exceeds \$2,000,000, then the total allowable §179 deduction is reduced on a dollar-per-dollar basis).
- **50% bonus depreciation** - This has been extended into 2010 as part of the 2010 Small Business Jobs Act. 50% bonus depreciation allows for immediate expensing of 50% of an asset's cost basis in the year of acquisition (2010 - acquisitions after December 31, 2009 through December 31, 2010). In order for an asset to qualify for 50% bonus treatment, the asset must be new (not used) property with a useful life of 20 years or less. There are limitations to the allowable 50% bonus deductions for passenger vehicles which are discussed below.

In order to determine which of these three tax provisions apply to a vehicle acquisition and more importantly, how they are applied, you must first determine which classification your vehicle qualifies for; ordinary passenger vehicle, large vehicle, or modified business use vehicle.

- **Ordinary passenger vehicles (cars, trucks, vans and SUV's with GVW<6,000lbs.)** – These are subject to the lesser of allowable depreciation or subject to the luxury vehicle limitations. Luxury vehicle limitations before 50% bonus depreciation allow for only \$3,060 (passenger automobiles)/\$3,160 (trucks and vans) of depreciation expense in the first year. If 50% bonus depreciation is applicable to the passenger vehicle, an additional \$8,000 of depreciation expense in addition to previously stated limits is allowed in the first year only.
- **Large vehicles (trucks and SUV's whose GVW>6,000lbs., but<14,000lbs with total bed length under 6 feet)** - These can utilize a §179 deduction of up to \$25,000 in the first year in addition to 50% bonus depreciation in the first year (if applicable) and annual depreciation.
- **Other large vehicles (trucks and SUV's whose GVW >6,000lbs. with total bed length over 6 feet) and modified business-use vehicles (vehicles that have been modified for 100% business use, e.g. flat bed pickup trucks)** – These can utilize the §179 deduction with no vehicle specific limitation in the first year, 50% bonus depreciation in the first year (if applicable) and annual depreciation. Please note that the §179 deduction general limitations still apply.

2011

As current tax provisions stand, 50% bonus depreciation will not be available in 2011. This may change if new legislation is enacted in 2011.

The 2011 §179 expensing is currently configured at \$500,000 total allowable §179 deduction with a maximum investment limitation of \$2,000,000 - the same as was just recently enacted for 2010. Thus, tax planning should take into consideration utilization of these increased thresholds – as they are scheduled to revert back to \$25,000 and \$200,000, respectively after 2011.

Annual, or normal, depreciation continues as it has in the past. Typically vehicles are depreciated over a 5-year useful life subject to luxury auto limitations discussed above.

The above summary was prepared by Crowe Horwath LLP (www.crowehorwath.com). It is provided for informational purposes only and is not intended as legal or accounting advice. Consult a tax advisor who is thoroughly familiar with the law governing these topics and our operations for specific guidance applicable to your business.