**Taxation Tidbit**

# Unlocking the Vehicle Depreciation Maze

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Are you considering the purchase of a new or a "new to you" business vehicle? The Treasury's "listed property" regulations have created a complex maze regarding which vehicles have limited annual depreciation deductions and which vehicles can be totally expensed.

For a refresher – Congress came up with the listed property rules to discourage extravagant deductions on luxury vehicles and to help insure those deductions were really for vehicles used in a business. Unfortunately many legitimate and expensive vehicles - like farm pickups get caught in the listed property net.

The important thing for taxpayers to realize is that different vehicles have different tax deduction consequences and reporting requirements. Under the listed vehicle regulations – vehicles are divided into five categories.

The most restrictive category is a passenger automobile, which is a car that has an <u>unloaded</u> vehicle weight of 6,000 pounds or less. The first year depreciation for vehicles in this category is limited to a maximum of $2,960 (which includes Section 179 expensing). Under the new stimulus package, an extra $8,000 of first-year bonus depreciation is available for these vehicles.

The next most restrictive category is for light trucks and vans that have a <u>loaded</u> gross vehicle weight rating of 6,000 pounds or less. The first year depreciation these light pickups and vans is limited to a maximum of $3,060 (which includes Section 179 expensing). Under the new stimulus package, an extra $8,000 of first-year bonus depreciation is also available for these vehicles.

I'll combine the next two categories which are heavy pickups with at least a 6 foot cargo area and "qualified non-personal use vehicles". Business vehicles in either of these categories have no annual depreciation limits and qualify for full Section 179 expensing. Pickups qualify for this category if they have over a 6,000 pound <u>loaded</u> gross vehicle weight rating and have at least a 6 foot cargo area. A qualified non-personal use vehicle is defined as any truck or van that, by reason of its design (i.e. having permanent shelving, exterior advertising, attachments, etc.) is not likely to be used more than a de minimis amount for personal purposes.

The last category is sport utility vehicles (SUVs). These are typically heavier vehicles that don't fit the <u>weight or definition</u> requirements of the previous categories. As an example, a heavy-duty pickup with a short-bed would be considered an SUV, because the cargo bed is less than 6 foot in length. The deduction of regular and bonus depreciation for these vehicles is not limited, however, Section 179 expensing in the year of purchase is limited to $25,000.

Many business owners are now finding it beneficial to consult with their tax professional when considering business vehicle purchase options. There can be significant differences in the depreciation allowed – depending on the type and size of vehicle purchased.