TAXBOT

Meet the Trainer

Laura Cross

Peyton, CO

- Team Builder Surge365
- Multiple $1,000 Bonus Earner
- Certified Travel Agent
- Expert Rating Certified TA
- Air Force Veteran
- Full-Time Student

Keep More Commissions with Tax Breaks

Lesson 5.3: Auto Depreciation

taxbotuniversity

Strategy 4: Select the Fastest Depreciation Method to Obtain Maximum Annual Deductions

Depreciation is nothing more than a cost allocation method; therefore, pick the method that gives you the largest deductions each year.

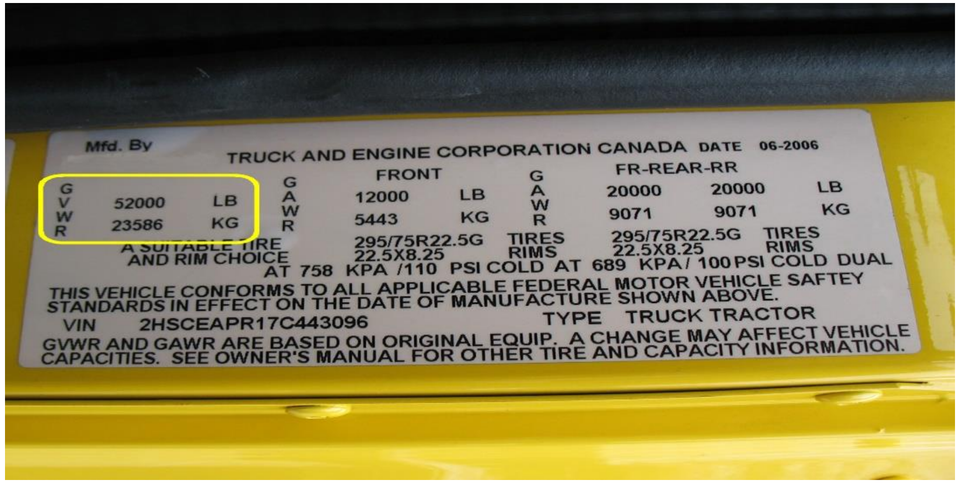
Depreciation methods available: two basic methods: straight line & accelerated. Today's tax law further complicates matters by placing luxury car limits on depreciation. Accelerated rate (MARCS), straight line rate, and luxury limits for passenger cars for 2017 are (on the next slide):

Year	MARCS	Straight Line	Luxury Limit Auto *(not truck or van)*	Luxury Limit Light Truck/Van *(not over 6,000 lbs)*
1	20%	10%	$11,160*	$11,560*
2	31%	20%	$5,100	$5,700
3	19.2%	20%	$3,050	$3,450
4	11.52%	20%	$1,875	$2,075
5	11.52%	20%	$1,875	$2,075
6	5.67%	10%	$1,875	$2,075

Calculation examples: You purchase a new $40,000 car and use it 75% for business. The personal use reduces your deductions.[18] Depreciation deduction possibilities and the luxury limit are:

- $6,000 under MACRS ($40,000 x 20% x 75%)
- $3,000 under Straight Line ($40,000 x 10% x 75%)
- $8,370 under the Luxury Limit ($3,160 x 75%)

$25,000 expense election: This applies to used qualifying SUVs with a gross vehicle weight of over 6,000 pounds and used qualifying trucks with a gross vehicle weight of over 6,000 pounds and has a cargo bed under 6 feet long.



Bonus Depreciation: You can claim 50% bonus depreciation which allows for a 50% deduction of business use of the following vehicles in the first year of use:

- Any new car with a net vehicle weight (unloaded curb weight) over 6,000 pounds
- Any new SUV with a gross vehicle weight of 6,000 pounds
- Any new truck with a gross vehicle weight (carrying weight) of over 6,000 pounds
- New qualifying van with an integrated truck chassis & has a gross vehicle weight over 6,000 pounds

All other passenger cars: These are subject to the luxury limits on depreciation noted above. There are no tax credits & they do not qualify for the 50% bonus depreciation.

Note: Look inside your (normally driver side) door jam for metal plate by manufacturer to get your gross vehicle weight (GVW).

$510,000 Expense Election: You can write off up to $500,000 of the purchase of a "qualifying vehicle" in 2017. A "qualifying vehicle" is defined by the Department of Transportation as:

1. Heavy "non-SUV" vehicles with a cargo area at least six feet in interior length (this area must not be easily accessible from the passenger area.) To give an example, many pickups with full-sized cargo beds will qualify (although some "extended cab" pickups may have beds that are too small to qualify).

2. Vehicles that can seat nine-plus passengers behind the driver's seat (i.e.: Hotel / Airport shuttle vans, etc.).

3. Vehicles with: (1) a fully-enclosed driver's compartment / cargo area, (2) no seating at all behind the driver's seat, and (3) no body section protruding more than 30 inches ahead of the leading edge of the windshield. In other words, a classic cargo van.

4. Vehicles can be new or used ("new to you" is the key).

5. The vehicle can be financed with certain leases and loans, or bought outright.

6. The vehicle in question must also be used for business at least 50% of the time - and these depreciation limits are reduced by the corresponding % of personal use if the vehicle is used for business less than 100% of the time.

7. Remember, you can only claim Section 179 in the tax year that the vehicle is "placed in service" - meaning when the vehicle is ready and available - even if you're not using the vehicle. Further, a vehicle first used for personal purposes doesn't qualify in a later year if its purpose changes to business.

Warning: If you use your car less than 50% for business, then you can't take the 179 Expense Election.

taxbotuniversity

Strategy 5: Buy Cars, Don't Lease Them, To Obtain the Best After-Tax Return on Your Car Investment

Economics: The after-tax cost is greater when leasing rather than purchasing for both business and personal cars. We have run the numbers in detail & found that it costs about 10% more to lease than to purchase.

Lease inclusion for luxury cars: If the fair market value of the leased business car is greater than $19,000 in 2017, you must add to your taxable income an inclusion amount from an IRS table found in Publication 463. The inclusion amount is designed to produce a lease payment benefit equal to the benefit you would otherwise receive from a deduction for depreciation.

Next slide has criteria for whether leasing a vehicle is good or bad.

Leasing is good if you meet a few of the underlying criteria:

1. Your financial income does not vary from year to year
2. It is important to drive a new vehicle in your business
3. You don't like to own cars for many years
4. You generally drive less than 15,000 miles per year, and keep it for three years or less.
5. Your credit rating could use some improvement.
6. You hate auto repairs and dislike leaving your car at the shop.
7. You are an employee who uses a car for business and don't have money to purchase the car with cash.
8. You quickly tire of the same car.

Non-Tax Leasing Advantages

It is better to buy when:

1. You pay cash or get great finance terms such as 0% interest, or
2. You keep the car 4 years or more, or
3. You put on more than 15,000 miles per year, or
4. You have impaired credit.