

M&Y INTERNATIONAL FINANCIAL SERVICES NEWSLETTER



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HOW MUCH CAN BUSINESSES DEDUCT FOR VEHICLES PLACED IN SERVICE IN 2019?

Does your business need to add one or more vehicles? If so, the purchases may qualify for tax breaks under current tax law. Here are the details.

“The Tax Cuts and Jobs Act (TCJA) allows unlimited 100% first-year bonus depreciation for qualifying new and used assets (including eligible vehicles) that are acquired and placed in service between September 28, 2017, and December 31, 2022. However, for a used asset to be eligible for 100% first-year bonus depreciation, it must be new to the taxpayer (you or your business entity).”

First-Year Depreciation Breaks

The Tax Cuts and Jobs Act (TCJA) allows unlimited 100% first-year bonus depreciation for qualifying new and used assets (including eligible vehicles) that are acquired and placed in service between September 28, 2017, and December 31, 2022. However, for a used asset to be eligible for 100% first-year bonus depreciation, it must be new to the taxpayer (you or your business entity).

The TCJA also permanently increased the Section 179 expensing limit for qualifying asset purchases from \$500,000 in 2017 to \$1 million for tax years beginning in 2018 and beyond. However, this break is phased out for qualifying purchases over \$2.5 million in 2018 (up from \$2 million in 2017).

For tax years after 2018, these amounts will be adjusted annually for inflation. The inflation-adjusted figures for 2019 are \$1.02 million and \$2.55 million, respectively.

Sec. 179 expensing for qualifying asset purchases is phased out on a dollar-for-dollar basis for purchases that exceed the threshold amount. So, no Sec. 179 deduction is available if your total investment in qualifying property is above \$3.57 million for 2019.

Heavy Vehicles

Heavy SUVs, pickups and vans are treated for tax purposes as transportation equipment. So, they qualify for 100% first-year bonus depreciation and Sec. 179 expensing if used over 50% for business. This can provide a huge tax break for buying new and used heavy vehicles.

However, if a heavy vehicle is used 50% or less for business purposes, you must depreciate the business-use percentage of the vehicle's cost over a six-year period.

To illustrate the potential savings from these first-year tax breaks, suppose you buy a new \$65,000 heavy SUV and use it 100% in your business in 2019. You can deduct the entire \$65,000 in 2019 thanks to the 100% first-year bonus depreciation privilege. If you use the vehicle only 60% for business, your first-year deduction would be \$39,000 (60% x \$65,000).

To qualify as a "heavy" vehicle, an SUV, pickup or van must have a manufacturer's gross vehicle weight rating (GVWR) above 6,000 pounds. You can verify the GVWR of a vehicle by looking at the manufacturer's label, which is usually found on the inside edge of the driver's side door where the door hinges meet the frame. Examples of suitably heavy vehicles include the Audi Q7, Buick Enclave, Chevy Tahoe, Ford Explorer, Jeep Grand Cherokee, Toyota Sequoia and lots of full-size pickups.

Garden-Variety Passenger Vehicles

The tax breaks for passenger automobiles (defined to include light SUVs, pickups, and vans) are less generous than for heavy vehicles. The inflation-adjusted depreciation limits for passenger vehicles that were acquired *before* September 28, 2017, and placed in service during 2019 are:

- \$10,100 for the first year (\$14,900 with bonus depreciation),
- \$16,100 for the second year,
- \$9,700 for the third year, and
- \$5,760 for each succeeding year.

The depreciation limits for passenger autos acquired *after* September 27, 2017, and placed in service during 2019 are:

- \$10,100 for the first year (\$18,100 with bonus depreciation),
- \$16,100 for the second year,
- \$9,700 for the third year, and
- \$5,760 for each succeeding year.

If the vehicle is used less than 100% for business, these allowances are cut back proportionately.

Important: For a vehicle to be eligible for these tax breaks, it must be used more than 50% for business purposes, and the taxpayer can't elect out of the deductions for the class of property that includes passenger automobiles (five-year property).



The Value You Expect