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Maximizing Deductions for Large Vehicles and Home Offices

As you probably know, certain trucks, vans, and SUVs qualify for much more favorable depreciation rules than other vehicles used in your business. The keys to maximizing deductions are (1) finding a vehicle that is not considered a "passenger auto" under the tax rules and (2) making sure you use it over 50% of the time for business.

According to IRS regulations, a truck, van, or SUV is not a passenger auto when it has a gross vehicle weight rating (GVWR) (the manufacturer's maximum weight rating when loaded) above 6,000 pounds. Fortunately, there are plenty of attractive vehicles with GVWRs that exceed 6,000 pounds. In fact, you'll find most vehicles that look heavy enough to qualify do qualify. Popular examples include the Chevy Suburban, Dodge Ram pickups, and the Ford Expedition, but there are many others. The GVWR can normally be found on a label attached to the inside edge of the driver's side door; be sure to check there before making a buying decision.

Once you buy the vehicle, making sure you use it over 50% of the time for business can really pay off. Vehicles used over 50% for business will qualify for a Section 179 expense deduction and you may be able to deduct the entire cost this year, to the extent it is attributable to the vehicle's business usage. For example, if you buy a \$40,000 Suburban this year and use it 100% for business, the entire \$40,000 can be deducted this year if you have sufficient business income and your other equipment purchases don't exceed \$400,000. If the SUV is used 75% for business, \$30,000 may be deductible this year. That is a significant tax advantage when compared to the rules that apply to normal passenger vehicles.

Of course, ensuring that your business usage exceeds 50% is critical to securing these tax advantages. This will require keeping a log of your business mileage. Still, getting above that 50% mark can be challenging. One way around this is to set up a home office that qualifies as your principal place of business. That way all of your commuting mileage from home to various temporary work locations (customer sites, copy shop, office supply store, FedEx office, etc.), as well as any other regular place of business, counts as business mileage. This can make it easy to rack up lots of business mileage. And, as a bonus, the home office write-off reduces your federal income, self-employment, and state income tax bills.

You can qualify a home office as your principal place of business by either (1) conducting most of your income-earning activities in the home office, or (2) performing your administrative and management functions there as long as you don't make substantial use of any other fixed location for these chores. You must also use the home office space *regularly* and *exclusively* for business purposes during the *entire* year. (If it's

too late to meet this requirement this year, you might be able to move things around and meet it next year. In that case, you might want to put off buying the vehicle until next year if you otherwise wouldn't meet the 50% limit this year.)

This planning idea does have a couple limitations and caveats. For one thing, claiming a huge Section 179 deduction can reduce the allowable contribution to your tax deferred retirement accounts. Also, the Section 179 deduction is limited to your aggregate net business taxable income from all sources. This limit can get quite complicated when you are (1) a member of a partnership, (2) a member of a multimember LLC treated as a partnership for federal tax purposes, or (3) an S corporation shareholder. Limits also apply if you place more than \$400,000 of qualifying assets in service during the year. Finally, this strategy works best if you are self-employed—claiming a Section 179 deduction for a heavy corporate-owned vehicle is much more difficult. Nevertheless, the heavy vehicle Section 179 deduction and home office combo can generate major tax savings given the right circumstances.