

TAX COMPLIANCE & PLANNING TRENDS

Economic Stimulus Package Favors Write-Offs for New 2008 Automobiles

The Section 179 expensing election under the new Economic Stimulus Package Act of 2008 allows a current deduction for newly acquired assets that otherwise would have to be depreciated over a number of years. New cars, light trucks and heavy SUVs purchased in 2008 qualify for the bonus depreciation deduction.

Bigger First-Year Write-offs for New Cars and Light Trucks

For a new passenger auto or light truck that is used more than 50 percent for business and is subject to the unfavorable luxury auto depreciation limitations, the bonus depreciation tax break increases the maximum first-year depreciation deduction by a hefty \$8,000. Used vehicles do *not* qualify.

So for a new car purchased and placed in service in 2008, the maximum first-year depreciation deduction is \$11,060 thanks to the *Economic Stimulus Act*. The amount is \$11,160 for a new light truck purchased and placed in service in 2008.

Key Point: The full \$11,060 or \$11,160 amount is only available when the new car or light truck is used 100 percent for business. For instance, say you use a new passenger auto 75 percent for business. Your maximum first-year write-off is reduced to \$8,295 (75 percent times \$11,060).

Bonus Depreciation Means Better Deductions for Heavy SUVs, Too

As you may know, the maximum Section 179 deduction for a heavy SUV is \$25,000.

Congress keeps talking about completely eliminating the deduction for these gas guzzling vehicles, but it hasn't happened yet. In fact, the 50 percent first-year bonus depreciation break can be combined with the \$25,000 Section 179 deduction to make heavy SUVs into really great tax-saving machines.

► **Example 3:** Let's say a small business uses the calendar year for tax purposes. During 2008, the owner buys a new \$65,000 Cadillac Escalade and uses it 80 percent for business. So the depreciable cost of the vehicle is \$52,000 (80 percent times \$65,000). On the owner's 2008 business tax return, a \$25,000 Section 179 deduction can be claimed. Then, the business can write off another \$13,500 under the 50 percent first-year bonus depreciation rule (\$52,000 minus \$25,000 equals \$27,000 times 50 percent equals \$13,500). Finally, the business can generally write off another \$2,700 under the normal depreciation rules (\$52,000 minus \$25,000 minus \$13,500 equals \$13,500 times 20 percent equals \$2,700). When all is said and done, the first-year depreciation deductions add up to \$41,200, which is an astonishing 79 percent of the business portion of the vehicle's cost!

Key Point: To qualify for the Section 179 deduction and 50 percent first-year bonus depreciation, you must use the SUV more than 50 percent for business, it must be new, and it must have a gross vehicle weight rating (GVWR) of more than 6,000 pounds. You can usually find the GVWR on an imprinted label inside the driver's door where the hinges meet the frame.