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TCJA Allows Bonus Depreciation on Purchase of Leased Vehicle

Before the Tax Cuts and Jobs Act (TCJA), your purchase of the vehicle you were leasing did not qualify for either Section 179 expensing or bonus depreciation.

But times have changed.

Now, thanks to the TCJA, your deduction possibilities have increased substantially.

No Section 179 Expensing

Although Section 179 expensing is available on both new and used property, as we explained in *No Expensing Allowed on Purchase of Leased SUV*, you may not use Section 179 expensing on the purchase of a vehicle you lease. The TCJA did not change this rule.

Example. You pay \$32,000 for a pickup truck that you have been leasing for business purposes. The pickup truck has a gross vehicle weight rating of 6,531 pounds and bed length of 6 feet, and your mileage log proves 90 percent business use. You may not use Section 179 to expense your \$28,800 business cost of the pickup (\$32,000 x 90 percent).

New TCJA Rules on Bonus Depreciation

As we mentioned at the beginning of this article, before the TCJA, you could not use bonus depreciation on the purchase of the business vehicle that you were leasing. One of the basic reasons for this was that before the TCJA, bonus depreciation was not available on used property.

The TCJA made two changes that mean 100 percent bonus depreciation is available on the vehicle you lease and then purchase, regardless of whether you purchase it during the lease term or at the end of the lease. The two technical reasons you can do this are as follows:¹

1. During the lease, you had no depreciable interest.
2. Bonus depreciation is now available on used property.

Technically, the two changes work like this:

- While you were leasing the vehicle, you had no depreciable interest in the vehicle. The lessor depreciated the vehicle. You, the lessee, paid rent.
- Your purchase of the vehicle that you were leasing is the purchase of a vehicle that you had NOT used under the bonus depreciation law, because you did not have a depreciable interest in it at any time.²

Example. You pay \$32,000 for a pickup truck that you have been leasing for business purposes. The pickup truck has a gross vehicle weight rating of 6,531 pounds, and your mileage log proves 90 percent business use. You may use bonus depreciation to deduct the \$28,800 business cost of the pickup ($\$32,000 \times 90$ percent).

Note the difference: With Section 179 expensing, you get no additional deductions. But with bonus depreciation, you can expense your entire business cost.

Takeaways

For bonus depreciation tax deductions, you can buy the vehicle you now lease and apply bonus depreciation. Before the TCJA, you could not do this; therefore, now you can thank the TCJA.

And remember, Section 179 expensing is (as in prior years) not available on the purchase of a vehicle that you were leasing.

So the new (and only) choice for a larger deduction on the purchase of a vehicle that you lease is the ability under the TCJA to use bonus depreciation.

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¹ IRC Section 168(k) 2018; JCS-1-18, p. 125, footnote 542; Prop. Reg. Section 1.168(k)-2(b)(3)(iii)(B)(1).

² Prop. Reg. Section 1.168(k)-2(b)(3)(iii)(B)(1).