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Tax Reform Allows Bigger, Faster Business Car Deductions

If you bought a car in 2017 and paid more than \$15,800, you were driving a luxury car that lawmakers punished you for by putting a lid on your depreciation.¹

For example, say, in 2017 you bought a \$40,000 car and drove it 100 percent for business. Your maximum depreciation deductions for the first five years would total only \$15,060. To fully depreciate this car under the old rules would have taken 19 years.

It was ridiculous to take 19 years to depreciate that \$40,000 car. And now, finally, lawmakers have fixed a big part of what the tax code calls luxury automobile limits.

Bigger, Faster in 2018 and Later

Under the new law, this \$40,000 vehicle is fully depreciated in six years. Think about that. Old law: 19 years. New law: six years.

Essentially, the new law sets the so-called luxury automobile limit at \$50,000. This means that any vehicle costing \$50,000 or less is not penalized by the luxury vehicle limits when using MACRS depreciation.

Under the new law, the annual limits are:²

- Year 1, \$10,000
- Year 2, \$16,000
- Year 3, \$9,600
- Year 4 and each succeeding year, \$5,760

What the New Limits Mean

Before 2018, many business taxpayers were buying vehicles with gross vehicle weight ratings (GVWRs) greater than 6,000 pounds to escape the draconian roughly \$15,000 luxury limits.

Even today, SUVs, crossover vehicles, and pickup trucks can avoid the automobile luxury limits and even qualify for immediate write-offs of the full business cost using bonus depreciation or Section 179 expensing. Cars don't qualify for unlimited bonus depreciation or any added benefits from Section 179 expensing.

But the big deal in the new realistic luxury auto limits is that there's far less need to buy the bigger, heavier SUV or crossover vehicle because of the new higher luxury limits. With a car costing \$50,000 or less, you realize 71.2 percent of your total vehicle deductions in the first three years.

Add \$8,000

Tax reform enhances bonus depreciation but limits the benefits to \$8,000 on luxury autos. No problem. This means that you can buy a \$58,000 100 percent business-use vehicle and deduct it totally in six years.

Bonus depreciation comes off the top and works like this:

- \$58,000 business cost of car
- -\$8,000 bonus depreciation
- \$50,000 basis for MACRS depreciation, which fully depreciates the vehicle in six years (71.2 percent in the first three years)

Takeaways

You have to thank tax reform for the new luxury auto depreciation limits. They appear to capture the idea of a luxury car in today's automotive market and seem realistic and fair.

Also, you have to like the fact that for cars costing \$50,000 or less, MACRS depreciation matches up evenly with SUVs, crossover vehicles, and pickups with GVWRs greater than 6,000 pounds.

As an aside, you have to question the lawmaker logic that penalizes business use of cars and rewards business use of the heavier SUVs (i.e., those with GVWRs greater than 6,000 pounds).

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- 1 Rev. Proc. 2017-29.
 - 2 IRC Section 280F(a)(1) 2018.
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