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BIGGER DEPRECIATION / EXPENSING DEDUCTIONS FOR AUTOS, TRUCKS, SUVs AND VANS BOUGHT OR LEASED IN 2003

A number of recent developments have enhanced the tax breaks available to businesses, professional practices and self-employed individuals that buy or lease business autos, trucks, SUVs or vans during 2003. The 2002 JCWAA and the 2003 Jobs and Growth Act boosted the first year depreciation allowances for most new vehicles. The 2003 Jobs and Growth Act boosted the maximum annual Code Sec. 179 expensing deduction to $100,000 for tax years beginning after 2002 and before 2006 (inflation-indexed after 2003 and before 2006). The expensing deduction can be used to write off the entire cost of vehicles not subject to the "luxury auto" rules. In addition, the IRS liberalized the "luxury auto" rules by creating new annual depreciation limits for light trucks and vans.

Businesses, professional practices and self-employed individuals which use autos, trucks or vans for business should be aware recent tax laws have eased the rules for vehicles bought and placed in service or leased in 2003. The "luxury auto" depreciation and expensing limits have been liberalized as have the expensing and depreciation rules which apply to assets that aren't subject to the "luxury auto" rules. Additionally, the IRS has eased the depreciation rules for trucks and vans subject to the "luxury auto" rules. The net results are bigger depreciation or expensing write-offs for many newly acquired autos, vans (including minivans) and light-duty trucks, and spectacularly enhanced write-offs for heavy SUVs (sport utility vehicles), such as the Chevy Suburban or Toyota Land Cruiser. The rules also are eased if you lease a business vehicle instead of buying it.

Here's a review of the rules you need to know about your 2003 deduction for autos, vans, minivans and trucks (which includes SUVs) bought or leased in 2003 and used for business this year.

■ BUSINESS AUTOS BOUGHT THIS YEAR

If you have already bought or will buy an auto (not a van, minivan, or truck) for business this year, your maximum combined deduction for depreciation and expensing for 2003 is:

- $10,710 if you bought it new after May 5, 2003;
- $7,660 if you bought it new before May 6, 2003; and
- $3,060 if you bought it used, or you choose not to claim accelerated first-year depreciation deductions for "5-year property" (which includes business autos) bought and placed in service in 2003.

These maximum depreciation deductions apply to passenger autos rated at 6,000 pounds unloaded gross vehicle weight or less. Virtually all passenger autos fall into this category.

■ TRUCKS AND VANS BOUGHT THIS YEAR

For the first time, trucks and vans subject to the “luxury auto” rules have separate depreciation dollar limits. Trucks and vans are defined as passenger autos that are built on a truck chassis and include minivans and sport-utility vehicles (SUVs) that are built on a truck chassis. If you have already bought or will buy a truck or van for business this year, your maximum depreciation and expensing deduction for 2003 is:

< $11,010 if you bought it new after May 5, 2003;

< $7,960 if you bought it new before May 6, 2003; and

< $3,360 if you bought it used, or you choose not to claim accelerated first-year depreciation deductions for “5-year property” (which includes trucks and vans) bought and placed in service in 2003.

These maximum depreciation deductions apply to trucks and vans rated at 6,000 pounds gross (that is, loaded) vehicle weight or less. Trucks and vans that are not likely to be used for personal driving because of their design (e.g., panel trucks with limited seating) are not subject to the “luxury auto” rules regardless of their weight.

■ HEAVY SUVs BOUGHT THIS YEAR

SUVs, which are trucks, are exempt from the above luxury-auto rules if they are rated at more than 6,000 pounds gross (loaded) vehicle weight. Many luxury and near-luxury-class SUVs fall in this category (your auto dealer can tell you the vehicle's weight classification). As a result, if you have already bought or will buy a heavy SUV this year for use in your business, you may choose to expense, that is, currently deduct for 2003, the entire cost of the vehicle if it costs $100,000 or less (if you otherwise qualify under the “Sec. 179” expensing rules). If you bought the heavy SUV last year, your expensing deduction for it would have been limited to $24,000. Alternatively, if you use your expensing allowance for other assets, you can claim a 2003 depreciation deduction of up to 60% of the cost of the vehicle.

< <u>For example</u>: Suppose you buy a $40,000 heavy SUV in 2003 and use it 100% for business. Your expensing deduction for 2003 is $40,000 if it's a new or used heavy SUV bought and placed in service any time in 2003. You can claim a $24,000 depreciation deduction for 2003 if you bought a new heavy SUV costing $40,000 after May 5, 2003 and don't expense any of its cost.

< <u>Observation:</u> If you are a calendar-year taxpayer, these favorable rules generally apply as long as the vehicle is placed in service before the end of

2003. For example, a calendar-year business that buys a $40,000 heavy SUV and places it in service (uses it for business) on December 29, 2003, can write-off the entire cost on its 2003 return (if it's otherwise eligible for the expensing break), even if it finances most of the vehicle's cost.

< Recommendation: Now may be the time to act if you're interested in the convenience, versatility and tax breaks heavy SUVs offer. There's a move afoot in Congress to restrict up-front deductions for heavy SUVs used for business.

< Caution: All of the above dollar limits apply only if you use the vehicle 100% for business. (This condition is automatically met if a corporation treats a non-owner employee's personal use of the vehicle as compensation income and keeps the proper records. If the driver is a 5% company owner an additional condition applies - his or her business use must be more than 50% of total use.) The dollar limits are reduced proportionately for any personal use. For example, if a florist bought a new $30,000 minivan (that's not a heavy SUV) in August of this year, uses it 70% for business and 30% for personal driving and doesn't expense any part of its cost, his 2003 depreciation deduction would be $7,707 (70% of the $11,010 first-year limit for minivans bought new after May 5, 2003). And expensing and accelerated first-year depreciation deductions are available only if a vehicle is used more than 50% for qualified business purposes. Additionally, deductions will be less for lower-priced vehicles (even if they are used 100% for business).

■ **IF YOU LEASE YOUR BUSINESS VEHICLE**

Your net deduction for lease payments are reduced somewhat if you lease a business auto, truck or van that's subject to the “luxury auto” rules. The good news is there's less of a reduction if you leased the vehicle in 2003. And, there are no reductions at all if you lease a heavy SUV for business - all of your lease payments for it are deductible, only limited by percentage of business use.