



2023 Last-Minute Year-End Tax Deductions for Existing Vehicles

Described below are existing-vehicle tax-deduction strategies that you may be able to use. As with all year-end strategies, don't wait! If you want the deductions this year, you need to complete the required action on or before December 31, 2023.

1. Self-Employed? Use the Buy-and-Sell Strategy

All business vehicles have a gain or loss on sale.

The Tax Cuts and Jobs Act (TCJA) eliminated the tax-deferred exchange for vehicles. Now the vehicle trade-in is nothing more than a sale of the vehicle to the dealer.

Thanks to this new TCJA rule, many self-employed taxpayers will come out ahead because their trade-ins automatically take advantage of the buy-and-sell strategy.

Here's how the strategy works:

- The sale to a third party or the trade-in "sale" of your existing business vehicle produces a gain or loss that does not increase or decrease your self-employment taxes.
- The purchase of the replacement vehicle creates depreciation and, if elected, Section 179 expensing deductions. These deductions reduce your self-employment taxes.

Example. Billy trades in his old zero-basis business vehicle. The dealer gives him \$17,000 as a down payment on his replacement vehicle. The trade-in creates a \$17,000 taxable gain (\$17,000 trade-in selling price minus a zero basis).

On this gain, Billy does not pay any self-employment taxes. Why? The gain is a Section 1231 gain that Billy reports on his IRS Form 4797. The gain never gets to Billy's Schedule C or his Schedule SE.

On the purchase of his new \$50,000 SUV with a gross vehicle weight rating (GVWR) greater than 6,000 pounds, Billy deducts \$46,624 in 2023 and the remainder over the next five years.

2. Check Your Current Vehicle for a Big Deduction

Your current vehicle purchased after 2017 could have a big deduction waiting for you.

Example. Jim purchased a \$60,000 vehicle in 2020 and used it 85 percent for business. During the past four years (2020, 2021, 2022, and 2023), Jim depreciated the vehicle \$10,000. If Jim sells the vehicle today for \$25,000, Jim has a \$19,750 tax loss.

3. Put Your Personal Vehicle in Business Service

Are you (or your spouse) driving a personal vehicle? Would you like to increase your tax deductions for this year?

Lawmakers enacted 80 percent bonus depreciation for 2023, and that creates an effective strategy that costs you nothing but can produce solid deductions.

Convert your personal vehicle to business use, and qualify for up to 80 percent bonus depreciation.

Example. Sam has a personal more than 6,000 pound GVWR SUV with a tax basis for depreciation of \$31,000. With 70 percent business use on this qualifying 80 percent bonus depreciation vehicle, Sam has a new \$17,360 tax deduction for this year ($\$31,000 \times 70 \text{ percent} \times 80 \text{ percent}$).

When you convert your personal vehicle to business use, the law sees you as placing the item in service in your business at that time. That means you can begin depreciating the asset and claiming your tax deductions.

To determine the basis to use for depreciation on this former personal vehicle, use the *lesser of*

- fair market value on the date of conversion from personal to business use (think retail blue book value); or
- adjusted basis of the property (generally the amount you paid for the asset plus the cost of any improvements).

Example. Sam paid \$43,000 for his personal vehicle. Today, it has a fair market value of \$31,000. Upon converting the vehicle to use in his business, Sam uses the lower \$31,000 fair market value as his beginning basis.