What’s your potential business vehicle deduction?

If you used one or more vehicles in your business during 2025, you may be eligible for valuable tax deductions on your 2025 income tax return. Businesses can generally deduct expenses attributable to business use of a vehicle plus depreciation. However, the rules are complicated, and your deduction may be affected by factors such as the vehicle’s weight, business vs. personal use, and whether you use the actual expense method or the cents-per-mile rate.

Actual expenses plus depreciation

The year you place a vehicle in service, you can choose to deduct the actual expenses attributable to your business vehicle use or, if the vehicle is a car, SUV, van, pickup or panel truck, claim the cents-per-mile deduction (discussed later). Deductible expenses include gas, oil, tires, insurance, repairs, licenses and vehicle registration fees. You’ll need to track and substantiate these expenses.

If you use the actual expense method, you also can claim a depreciation deduction for the vehicle by making a separate depreciation calculation for each year until the vehicle is fully depreciated. According to the general rule, you calculate depreciation over a six-year span for a percentage of the purchase cost as follows:

- Year 1 — 20%

- Year 2 — 32%
- Year 3 — 19.2%
- Year 4 — 11.52%
- Year 5 — 11.52%
- Year 6 — 5.76%

If a vehicle is used 50% or less for business purposes, you must use the straight-line method (10% in Years 1 and 6 and 20% in Years 2 through 5) to calculate depreciation deductions instead of the percentages listed above.

Depending on the cost of a passenger auto, your deduction may be less than the percentage of cost above because "luxury auto" annual depreciation ceilings apply. These are indexed for inflation and may change annually. For a passenger auto placed in service in 2025, generally the ceilings are as follows:

- Year 1 — $20,200 ($12,200 if you don't claim first-year bonus depreciation)
- Year 2 — $19,600
- Year 3 — $11,800
- Each remaining year until the vehicle is fully depreciated — $7,060

These ceilings are proportionately reduced for any nonbusiness use.

More favorable depreciation rules apply to *heavier* SUVs, pickups and vans. For example, 100% bonus depreciation or the normal Section 179 expensing limit ($2.5 million for 2025) generally is available for vehicles with a gross vehicle weight rating (GVWR) of more than 14,000 pounds. A reduced Sec. 179 limit of $31,300 applies to vehicles (typically SUVs) rated at more than 6,000 pounds but no more than 14,000 pounds. Again, this favorable tax treatment is available only if the vehicle is used more than 50% for business.

The cents-per-mile method

The 2025 cents-per-mile rate for the business use of a car, SUV, van, pickup or panel truck is 70 cents (increasing to 72.5 cents for 2026). This rate applies to gasoline- and diesel-powered vehicles as well as electric and hybrid-electric vehicles. A depreciation allowance is built into the rate, so you can't claim both the depreciation deductions discussed earlier and the cents-per-mile rate for the same vehicle.

The rate is adjusted annually. It's based on an annual study commissioned by the IRS about the fixed and variable costs of operating a vehicle, including gas, maintenance, repairs and depreciation. Occasionally, if there's a substantial change in average gas prices, the IRS will change the cents-per-mile rate midyear.

The cents-per-mile rate is beneficial if you don't want to keep track of actual vehicle-related expenses or worry about depreciation calculations. Although you don't have to account for all your actual expenses, you still must record certain information, such as the mileage for each business trip, the date and the destination.

Choosing or changing your method

There's much to consider before deciding whether to use the actual expense method or cents-per-mile method to deduct expenses for a vehicle your business placed in service in 2025. For a vehicle placed in service earlier, if you previously deducted actual expenses for the vehicle, you can't use the cents-per-mile rate for 2025 (or any other future year). However, if you previously used the cents-per-mile rate, you *can* switch to the actual expense method in a later year — but you can claim only straight-line depreciation.

If you lease a business vehicle, there also are deduction opportunities but the rules are different. Contact us if you'd like more information. We can also answer questions about claiming 2025 business vehicle expenses on your 2025 return or planning for and tracking 2026 expenses.

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