Faster write-off for heavy sport utility vehicles (SUVs)

Cars are subject to more restrictive tax depreciation rules than those that apply to other depreciable assets. Under so-called “luxury auto” rules, depreciation deductions are artificially “capped.” So too is the alternative deduction that a taxpayer can claim if it elects to expense (write-off in the year placed in service) all or part of the cost of a business car under the tax provision that for some assets allows expensing instead of depreciation. For example, for most cars that are subject to the caps and that are first placed in service in calendar year 2022 (including smaller trucks or vans built on a truck chassis that are treated as cars), the maximum depreciation and/or expensing deductions are: $19,200 for the first tax year in its recovery period (2022 for calendar year taxpayers); $18,000 for the second tax year;
$10,800 for the third tax year; and $6,460 for each succeeding tax year. The effect is generally to extend the number of years it takes to fully depreciate the vehicle.

Because of the restrictions for cars, you may be better off from a tax timing perspective if you replace your business car with a heavy sport utility vehicle (SUV) instead of another car. That's because the caps on annual depreciation and expensing deductions for passenger automobiles don't apply to trucks or vans (and that includes SUVs) that are rated at more than 6,000 pounds gross (loaded) vehicle weight. This means that in most cases you will be able to write-off the entire cost of a new heavy SUV used entirely for business purposes by utilizing 100% bonus depreciation in the year you place it into service. However, bonus depreciation is being phased down to zero over the next few years, and for most types of property placed in service in 2023 is available at only 80%.

If you elect to expense (mentioned above) all or part of the cost of an SUV, an inflation-adjusted limit applies ($27,000 for an SUV placed in service in tax years beginning in 2022, and $28,900 for an SUV placed in service in tax years beginning in 2023). There also is an aggregate dollar limit for all assets elected to be expensed in the year that would apply. Following the expensing election, you would then depreciate the remainder of the cost under the usual rules without regard to annual caps.

Please note that the tax benefits described above are all subject to adjustment for non-business use.

Also, if business use of an SUV doesn't exceed 50% of total use, the SUV won't be eligible for the expensing election, and would have to be depreciated on a straight-line method over a six-tax-year period.

Please consult your tax advisor for how these rules may impact you specifically. Your individual circumstances may require further analysis or consideration of how these rules interact with other elements of your overall tax situation.