BRADFORD TAX INSTITUTE

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2024 Last-Minute Vehicle Purchases to Save on Taxes

1. Do you need a replacement business car, SUV, van, or pickup truck?

2. Do you need tax deductions and credits this year?

If you answered yes to the questions, you need to examine this article and get ready to smile.

Thanks to the Tax Cuts and Jobs Act (TCJA), you can write off the full business cost of certain vehicles, and likely big chunks of other vehicles.

If you plan on purchasing an electric vehicle or a plug-in hybrid electric vehicle, you may qualify for a tax credit of up to $7,500.

Get the Timing Right

Don’t procrastinate. If you want the vehicle deduction and/or the tax credit, you need to

- own the vehicle, and

- place it in business service

on or before December 31, 2024.

To ensure compliance with the “placed in service” rule, drive the vehicle at least one business mile on or before December 31, 2024. In other words, you want to both own and drive the vehicle to ensure that it qualifies for the big deductions.[1]

Now that you have the basics, let’s get to the tax benefits.

1. Buy a Heavy New or Used SUV, Crossover Vehicle, or Van

Let's say that on or before December 31, 2024, you or your S corporation buys and places in service a *new or used* SUV or crossover vehicle that the manufacturer classifies as a truck and that has a gross vehicle weight rating (GVWR) of 6,001 pounds or more. This newly purchased vehicle gives you the ability to

- elect bonus depreciation of 60 percent thanks to the TCJA;[2]
- elect Section 179 expensing of up to $30,500;[3]
- elect MACRS depreciation using the five-year table; and
- avoid the luxury limits that cap vehicle depreciation deductions.

Key point. Bonus depreciation applies to both new and used vehicles and other property, thanks to the TCJA.

To obtain the largest deduction on the heavy SUV, do this in the order described below:

1. Claim Section 179 expensing.
2. Claim bonus depreciation. (Note: This is automatic unless you elect out.)
3. Claim MACRS depreciation.

Example 1. You buy a $100,000 heavy SUV, which you will use 90 percent for business use. Your write-off will look like this:

- $30,500 in Section 179 expensing
- $35,700 in bonus depreciation
- $4,760 in 20 percent MACRS depreciation, or $1,190 if the mid-quarter convention applies because you placed more than 40 percent of your MACRS assets in service in the final quarter of the year

So the 2024 write-off on this $90,000 (90 percent business use) SUV can be as high as $70,960 ($30,500 + $35,700 + $4,760).

If you don't want 60 percent bonus depreciation in 2024, you can elect out of it.

Example 2. On or before December 31, 2024, you buy and place in service a $55,500 qualifying SUV for which you can claim 100 percent business use. If you elect out of bonus depreciation and elect $30,500 in Section 179 expensing, your maximum 2024 write-off for the cost of the SUV is either $35,500 or $31,750, computed as follows:

- $30,500 in Section 179 expensing, plus
- $5,000 in MACRS depreciation (20 percent x $25,000)—or $1,250 in MACRS depreciation if the mid-quarter convention applies.

From what we've seen, almost all SUVs, crossover vehicles, and vans with a GVWR of 6,001 pounds or more qualify as trucks for purposes of both 60 percent bonus depreciation and the up-to-$30,500 Section 179 expensing election.

For a list of some qualifying SUVs and crossover vehicles, see the List of Popular Vehicles with GVWRs Greater Than 6,000 Pounds.

2. Buy a New or Used Pickup

If you or your corporation buys and places in service a qualifying pickup truck (new or used) on or before December 31, 2024, then this newly purchased vehicle gives you four big benefits:

1. Bonus depreciation of up to 60 percent
2. Section 179 expensing of up to $1,220,000[4]
3. MACRS depreciation using the five-year table
4. No luxury limits on vehicle depreciation deductions

To qualify for full Section 179 expensing, the pickup truck must have

- a GVWR of more than 6,000 pounds, and
- a cargo area (commonly called a "bed") of at least six feet in interior length that is not easily

accessible from the passenger compartment.[5]

Example. You pay $55,000 for a qualifying pickup truck that you use 91 percent for business. You can use Section 179 to write off your entire business cost of $50,050 ($55,000 x 91 percent).

Short bed. If the pickup truck passes the more-than-6,000-pound-GVWR test but fails the bed-length test, the tax code classifies it as an SUV. That's not bad. The vehicle is still eligible for expensing of up to the $30,500 SUV expensing limit and 60 percent bonus depreciation. (See Example 1 above for how the SUV treatment works.)

3. Buy a New or Used Qualifying Cargo or Passenger Van

A new or used cargo or passenger van with a GVWR of more than 6,000 pounds that is bought and placed in service on or before December 31, 2024, can qualify for four big tax benefits:

1. No luxury limits on the vehicle
2. Bonus depreciation of 60 percent
3. Section 179 expensing of up to $1,220,000
4. MACRS depreciation using the five-year table

Key point. You can use Section 179 to write off 100 percent of the business cost of qualifying cargo and passenger vans.

Cargo Van

To qualify for either 60 percent bonus depreciation or up to $1,220,000 in Section 179 expensing, the cargo van must have

- a GVWR of more than 6,000 pounds,
- a fully enclosed driver compartment separate from the load-carrying area,
- no seating behind the driver's seat, and
- no body section that protrudes more than 30 inches ahead of the leading edge of the windshield.

If the van passes the GVWR test but fails one of the other qualifying tests listed above, the law deems it an SUV instead.

Passenger Van

If the van has a GVWR greater than 6,000 pounds and seats more than nine people behind the driver's seat, tax law defines it as a passenger van, not an SUV, and it qualifies for Section 179 expensing of up to $1,220,000 and 60 percent bonus depreciation.

Minivan

Many of the vans that we used to think of as minivans now have GVWRs greater than 6,000 pounds and thus qualify as SUVs for the Section 179 deduction and 60 percent bonus depreciation, as explained in Section 1, Example 1 above.

4. Buy a Depreciation-Limited New or Used Car

If you or your corporation buys and places in service a new or used passenger vehicle such as a car with a curb weight of 6,000 pounds or less (or a pickup, an SUV, or a van with a GVWR of 6,000 pounds or less) on or before December 31, 2024, then you or your corporation may claim up to $8,000 in bonus depreciation.[6]

The TCJA increased the luxury passenger vehicle depreciation limits and also indexed them for inflation. The 2024 luxury depreciation limits are[7]

- $12,400 for the first taxable year,
- $19,800 for the second taxable year,
- $11,900 for the third taxable year, and
- $7,160 for each succeeding year.

Key point. The limits described above are annual. If you choose bonus depreciation, your maximum first-year deduction is $20,400 on a depreciation-limited vehicle. The ceilings listed above do not come into play if you spend $73,580 or less and use bonus depreciation ($65,580 with no bonus depreciation).

Mid-quarter trouble. There's the possibility that you will face the mid-quarter convention, which would grant you only 5 percent MACRS depreciation on the vehicle if you placed it in service during the final quarter of the year. You trigger the mid-quarter convention when you place more than 40 percent of your MACRS assets (other than real property) in service during the final three months of the year.

Section 179 trouble. Section 179 expensing on a so-called luxury passenger vehicle is not permitted to exceed the depreciation limit. This means Section 179 deductions are useless on autos and other vehicles that fall into the luxury depreciation-limited category.

Planning point. If you want the big deductions, forget the depreciation-limited vehicles and go for the more-than-6,000-pound-GVWR vehicles, such as the heavy SUVs and pickup trucks.

5. Buy an Electric Vehicle

If you purchase an all-electric vehicle or a plug-in hybrid electric vehicle, you might qualify for a tax credit of up to $7,500.

If you are planning to take advantage of this credit, there's much to know. See Tax Credits for Electric Vehicles: The Latest from the IRS, and pay particular attention to the section titled "Purchasing an EV for Business Use."

Takeaways

Timing is crucial—you must both own and drive the vehicle for business by December 31, 2024, to qualify for the vehicle deductions in this article.

Here are the best tax advantages by vehicle type:

- Pickups with cargo beds six feet or longer and GVWRs of more than 6,000 pounds qualify for Section 179 expensing of up to $1,220,000.
- Defined cargo and passenger vans with GVWRs greater than 6,000 pounds qualify for Section 179 expensing of up to $1,220,000.
- Heavy SUVs and crossover vehicles with GVWRs greater than 6,000 pounds qualify for Section 179 expensing of up to $30,500 and 60 percent bonus depreciation.
- Passenger cars with curb weights of 6,000 pounds or less and pickups and SUVs with GVWRs of 6,000 pounds or less are limited by the luxury passenger auto depreciation limits.

- If any of the business vehicles mentioned above is an electric vehicle, you may qualify to claim a tax credit of up to $7,500. You would take that credit first, reduce the basis of the vehicle, and then follow the vehicle rules above.

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1 IRC Sections 168(k)(2)(A)(ii); 168(k)(2)(E)(ii). Technically, you don't necessarily have to drive it one mile to place it in service. But if you drive it one business mile on or before December 31, you absolutely prove that you placed it in service.
2 IRC Section 168(k)(6).
3 Rev. Proc. 2023-34.
4 Ibid.
5 IRC Section 179(b)(5)(B)(ii)(II).
6 IRC Section 168(k)(2)(F)(i); Rev. Proc. 2024-13.
7 IRC Section 280F(a)(1)(A); Rev. Proc. 2024-13.