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2024 Last-Minute Year-End Tax Deductions for Existing Vehicles

It's time to examine your existing business and personal (yes, personal) cars, SUVs, trucks, and vans for some profitable year-end business tax deductions.

In this article, first we will look at your prior and existing business vehicles that you or your pass-through business owns. Then we will take a look at your personal vehicles as a possible source for a last-minute tax-saving deduction.

Let's start with prior and existing business vehicles.

Your first step is to identify your gain or loss on sale. Once you have the gain or loss, know these basic rules:

- Gains attributable to depreciation produce ordinary income.
- Gains in excess of original basis produce capital gains. (This is unlikely to happen with most business vehicles, but it can happen with classic and antique business vehicles because they can go up in value.)
- Losses on business vehicles produce ordinary deductions.

You report gains and losses on IRS Form 4797, which means those gains and losses travel outside of the business income and expense categories and thus have no effect on self-employment taxes.

Now you have the basic rules. In general, at this time of year, we suspect you are looking for tax deductions that may come from your vehicle loss deductions, so that's where we will look.

Described below are four 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, 2024.

1. Take Back Your Old Business Vehicle from Your Child or Spouse and Sell It

We know—this sounds horrible. But stay with us.

What did you do with your old business vehicle? Do you still have it? Is your child driving it? Or is your spouse using it as a personal vehicle?

We ask because that old business vehicle could have a big tax loss embedded in it. If so, your strategy is easy: sell the vehicle to a third party before December 31, so you have a tax-deductible loss this year.

Your loss deduction depends on your percentage of business use. That's one reason to sell this vehicle now: the longer you let your spouse or teenager use it, the smaller your business percentage becomes and the less tax benefit you receive.

Planning tip. Consider buying a replacement vehicle for your teenager or spouse before taking away his or her vehicle—this is not a tax tip but a family harmony tip.

If the old business vehicle would produce a taxable gain, do nothing. You want the personal-use percentage to continue to grow and to reduce your ultimate tax bite.

2. Business Reported on Schedule C of Your Form 1040? Use the Vehicle 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 and single-member LLC taxpayers who operate as sole proprietors 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).[1]

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 pickup with a business cost of $50,000 (83 percent business use) and a gross vehicle weight rating (GVWR) greater than 6,000 pounds, Billy deducts $42,590 in 2024 and the remainder over the next five years.[2]

- Billy saves $6,090 in 2024 self-employment taxes ($42,590 x 14.13 percent).[3]
- Billy has $127,000 in net taxable income for the year. The pickup purchase cuts his income taxes by $6,142 ($42,590 - $17,000 gain on trade-in x 24 percent unmarried tax bracket).

Billy saves $12,232 in 2024 taxes with the buy-and-sell strategy.

To be like Billy, do what Billy did.

3. Cash In on Past Vehicle Trade-Ins

In the past (before 2018), when you traded vehicles in, you pushed your old business basis to the replacement vehicle under the old Section 1031 tax-deferred exchange rules. (But remember, the 1031 rule doesn't apply any longer to Section 1031 exchanges of vehicles or other personal property occurring after December 31, 2017.[4])

Regardless of whether you used IRS mileage rates or the actual-expense method for deducting your business vehicles, you could still find a big deduction here if you have a business vehicle placed in service before 2018.

Check out how Sam finds a $27,000 tax-loss deduction on his existing 2017 business car. Sam has been in business for 15 years, during which he

- converted his original personal car (Car One) to business use;
- then traded in the converted car for a new business car (Car Two);
- then traded in Car Two for a replacement business car (Car Three); and
- then traded in Car Three for another replacement business car (Car Four), which he is driving today.

During the 15 years Sam has been in business, he has owned four cars. Further, he deducted each of his cars using IRS standard mileage rates.

If Sam sells his mileage-rate car today, he realizes a tax loss of $27,000. The loss is the accumulation of 15 years of car activity, during which Sam never cashed out because he always traded cars. (This was before he knew anything about gain or loss.)

Further, Sam thought his use of IRS mileage rates was the end of it—nothing more to think about. (Wrong thinking here, too.)

Because the trades occurred before 2018, they were Section 1031 exchanges, and so the trades deferred the tax results to the next vehicle. IRS mileage rates contain a depreciation component. That's one possible reason Sam unknowingly accumulated his big deduction.

To get a mental picture of how this one sale produces a cash cow, consider this: when Sam sells Car Four, he is really selling four cars—because the old Section 1031 exchange rules added the old basis of each vehicle to the replacement vehicle's basis.

Examine your car for this possible loss deduction. Have you been trading business cars? If so, your tax-loss deduction could be big!

And this most satisfactory result is true with both the IRS-mileage-rate method and the actual-expense method for deducting your vehicles. Before 2018, the tax rules severely limited business car depreciation, making tax losses more likely.

If you have been trading in your cars and you are driving the car you purchased before 2018, calculate your adjusted basis and compare it with your possible selling or trade-in price to see your expected gain or loss on sale. If the loss is large and you are in need of tax deductions, sell or trade in that vehicle on or before December 31.

4. Check Your Current Vehicle for a Big Deduction

Business vehicles 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.[5]

Key point. If you used IRS mileage rates, you have a high probability of a big tax loss deduction.

5. Put Your Personal Vehicle in Business Service

Are you (or is your spouse) driving a personal vehicle? Would you like to increase your tax deductions for this year without spending any money?

Lawmakers enacted 60 percent bonus depreciation for 2024, 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 60 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 60-percent-bonus-depreciation vehicle, Sam has a new $13,020 tax deduction for this year ($31,000 x 70 percent x 60 percent).[6]

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.[7]

To determine the basis to use for depreciation on this former personal vehicle, use the *lesser* of[8]

- 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.

S or C corporation. If you operate as a corporation, you should read TCJA: Don’t Lose Out When Corp. Vehicle Is in Your Personal Name.

Warning! The cash-basis corporation must pay the personal vehicle reimbursement to the shareholder-employee on or before December 31, 2024, to get the deduction in 2024. You will see the reimbursement strategy in the article linked just above.

Big picture. This strategy allows you to take an existing personal vehicle, convert it to business use, and find a solid business deduction this year.

Takeaways

Your existing vehicle can produce last-minute 2024 tax deductions with one of the five strategies described in this article and summarized below:

1. Is your child or spouse driving your old business vehicle? If so, find out whether that vehicle has a business loss deduction inside it. If it does, take the vehicle from your child or spouse and sell it so you can deduct the business loss.

2. Are you self-employed? If so, use the buy-and-sell vehicle strategy before December 31 to reduce both your income and self-employment taxes.

3. Did you acquire your current business vehicle via a trade-in before 2018? If so, consider all your trade-ins and calculate your possible loss deduction now. You might find a big deduction.

4. Check your current vehicle for a large deduction. If you have a high business-use percentage and low depreciation, you could likely sell that vehicle and find a solid deduction.

5. Do you or your spouse own a vehicle (new or used) that you purchased but never deducted for tax purposes? If so, convert that personal vehicle to business use to take advantage of 60 percent bonus depreciation.

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1 In this example, Billy has 100 percent business use to make things easier to understand.
2 Billy deducts $30,500 using Section 179 expensing, then $11,700 using bonus depreciation, then $390 using 5 percent MACRS depreciation, for a total of $42,590. For why you apply Section 179 before bonus depreciation, see Reg. Sections 1.168(b)-1(a)(3); 1.168(k)-2(e)(1)(ii).
3 On Schedule SE, where Billy computes his self-employment tax, he takes 92.35 percent of his Schedule C income and then applies the 15.3 percent self-employment tax. This gives him a net savings of 14.13 percent (15.3 percent x 92.35 percent). Also, Billy will achieve some self-employment savings during the next five years, assuming he continues to own and depreciate the SUV.
4 IRC Section 1031(a).
5 $60,000 x 85 percent = $51,000 original basis - $10,000 in depreciation = $41,000 adjusted basis - $21,250 business selling price = $19,750 loss. The business selling price is 85 percent of the $25,000 selling price, which is $21,250.
6 Sam also will have a MACRS deduction of either 5 percent or 20 percent on $8,680 ($31,000 x 70 percent business use - $13,020 bonus depreciation = $8,680).
7 Reg. Section 1.168(i)-4(b)(1).
8 Reg. Section 1.167(g)-1.