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Heavy Vehicle + Deductible Home Office = Major Tax Savings

As a small-business owner, you can set yourself up for some generous tax breaks by knowing a few vehicle and home-office deduction rules.

And if you operate as *other than* a C corporation, you will realize the tax breaks on your personal tax return. If you operate as a C corporation, the C corporation gets the tax breaks on the corporate tax return (still, as the owner, that's very good for you).

If you claim your business income and deductions on Schedule C of Form 1040, the tax breaks in this article will appear on your Schedule C. If you operate as an S corporation or partnership, the tax breaks will flow through to you from the K-1.

What exactly are these tax breaks? How do you go about realizing them?

1. You need a qualifying heavy vehicle on which you can claim Section 179 expensing (depreciation in advance).

2. If you would like bonus depreciation, you need a new (not used) vehicle.

3. If your percentage of business miles is low, you need a certain type of office in your home. The home office can create deductions where none existed before.

Let's start with the big picture:

Section 179 Expensing

You can potentially expense (immediately write off) up to $510,000 of qualifying new and/or used equipment placed in service (put to use in your business) this year thanks to the Section 179 first-year depreciation deduction break.

A "heavy" vehicle used for business can meet the definition of qualifying Section 179 equipment.

Fifty Percent Bonus Depreciation

You can also take advantage of 50 percent first-year bonus depreciation for a qualifying new (not used) heavy vehicle placed in service in calendar year 2017.[1]

Business-Use Rule

The two generous tax breaks (expensing and 50 percent depreciation) are available only for heavy vehicles that you use more than 50 percent for business.

Office in the Home

If you can claim a home-office deduction under the "principal place of business" rules as we discuss below, you will find clearing the "over 50 percent business use" requirement easier to meet. You might even reach 100 percent business use.

Here's what you need to know to cash in on the heavy vehicle depreciation breaks and the home-office deduction.

Big Depreciation Advantage for "Heavy" Vehicles

New and pre-owned "heavy" SUVs, pickups, and vans are exempt from the dreaded luxury auto depreciation limitations because tax law treats such vehicles as transportation equipment rather than passenger autos. Therefore, heavy vehicles are potentially eligible for

1. the Section 179 deduction privilege (subject to a $25,000 limit for SUVs, as explained below),
2. 50 percent first-year bonus depreciation (for new vehicles), and
3. accelerated MACRS depreciation.

More than 50 percent. Tax law treats heavy vehicles as "listed property," which means that you must use the vehicle more than 50 percent for business to qualify for the breaks above. Otherwise, you must depreciate the business-use percentage of the vehicle's cost using the straight-line method, which is nothing to get excited about because it takes six tax years to fully depreciate that cost.[2]

Heavy Vehicle Definition

To benefit from the ultra-favorable depreciation rules, your SUV, pickup, or van must have a manufacturer's gross vehicle weight rating (GVWR) above 6,000 pounds.[3] Popular examples of vehicles that meet this description include the Buick Enclave, BMW X5, Dodge Durango, and Mercedes G-Class; many other domestic and foreign full-size SUVs and crossover vehicles; and lots of full-size pickups.

Reduced Section 179 Deductions for Heavy SUVs

Tax law puts a $25,000 limit on Section 179 deductions for heavy SUVs with GVWRs between 6,001 and 14,000 pounds. But the $25,000 limitation does *not* affect other heavy vehicles that are *not* considered SUVs.[4]

These non-SUVs qualify for Section 179 expensing with no $25,000 limit:

1. Vehicles designed to seat more than nine passengers behind the driver's seat. Many shuttle vans qualify for this exception.

2. Vehicles equipped with a cargo area that is not readily accessible directly from the passenger compartment and that is at least six feet in interior length. Many pickups with full-size cargo beds qualify for this exception.

3. Vehicles with (a) an integral enclosure that fully encloses the driver's compartment and load carrying device, (b) no seating behind the driver's seat, and (c) no body section protruding more than 30 inches ahead of the leading edge of the windshield. Many delivery vans qualify for this exception.

Bottom Line: These non-SUVs with GVWRs above 6,000 pounds are eligible for the full Section 179 deduction (up to $510,000, beginning in tax year 2017). That means you may be able to immediately deduct the entire business portion of the cost of a heavy non-SUV (whether new or used) in year one under the Section 179 deduction deal.

Avoid Stingy Depreciation Deductions for Lighter Vehicles

Cars, light trucks, and light vans used more than 50 percent for business are classified as passenger autos that are subject to the so-called luxury auto depreciation limitations. Vehicles in this category that are placed in service in 2017 and used 100 percent for business are subject to the following annual depreciation deduction limitations.[5]

New Cars	
First year	$ 11,160
Second year	5,100

Third year	3,050
Fourth year and thereafter until fully depreciated	1,875

Used Cars	
First year	$ 3,160
Second year	5,100
Third year	3,050
Fourth year and thereafter until fully depreciated	1,875

New Light Trucks and Vans	
First year	$ 11,560
Second year	5,700
Third year	3,450
Fourth year and thereafter until fully depreciated	2,075

Used Light Trucks and Vans	
First year	$ 3,560
Second year	5,700
Third year	3,450
Fourth year and thereafter until fully depreciated	2,075

Collect Heavy First-Year Depreciation Write-Offs for Your Heavy SUV

Despite the $25,000 Section 179 deduction limitation, buying a heavy SUV before year end is still a smart tax planning strategy because heavy SUVs used over 50 percent for business can qualify for the following first-year depreciation benefits:

1. The $25,000 Section 179 deduction, which is available for both new and used vehicles
2. Fifty percent bonus depreciation, which is available for new (not used) vehicles
3. Accelerated MACRS depreciation over five years for the vehicle’s remaining depreciable basis after subtracting the Section 179 deduction and the 50 percent bonus depreciation deduction (when allowed)

Example 1: This year, you buy a new $45,000 heavy SUV and use it 100 percent for business purposes.

Your (or your business's) first-year depreciation write-offs total a whopping $37,000:

- $25,000 Section 179 deduction, plus
- $10,000 50 percent bonus depreciation [50 percent x ($45,000 - $25,000)], plus
- $2,000 MACRS depreciation [20 percent x ($45,000 - $25,000 - $10,000)].[6]

In contrast, if you buy a new $45,000 car and use it 100 percent for business, your 2017 depreciation write-off is only $11,160.

For a new $45,000 light truck or light van, your 2017 write-off is only $11,560.

Note. As explained earlier, the dreaded luxury auto depreciation limitations only apply to cars, light trucks, and light vans.[7]

Thankfully, the IRS has clarified that heavy SUVs are exempt from the limitations whether they are built on a truck chassis or an auto chassis. So, the results in the preceding example would be the same for a heavy SUV with a truck chassis or for a heavy crossover SUV with a car chassis.[8]

Collect Even Heavier First-Year Write-Offs for Your Heavy Non-SUV

As explained earlier, heavy non-SUVs used over 50 percent for business are exempt from the $25,000 Section 179 deduction limitation. So, you may be able to write off the full business portion of the cost in year one under the Section 179 deduction deal.

Example 2: This year, you buy (or your business buys) a new $45,000 long-bed pickup that is not classified as an SUV and use it 100 percent for the business. You (or your business) can write off the entire $45,000 in 2017 under Section 179.

Variation: You buy a super-deluxe *used* $45,000 long-bed pickup that is not classified as an SUV and use it 100 percent for business. You can write off the entire $45,000 in 2017 under Section 179.

Bottom Line: The Section 179 deduction privilege is the same for new and used heavy vehicles.

Watch Out for Section 179 Taxable Income Limitation

The allowable Section 179 deduction for a tax year can't exceed that year's aggregate net business taxable income from all sources calculated *before* the Section 179 write-off.[9]

This net business taxable income limitation is intended to prevent taxpayers from claiming Section 179 deductions that create or increase business tax losses that, in turn, create or increase business net operating losses (NOLs) that can then be carried back to earlier tax years.

Excess Section 179 deductions (those that would create or increase a business tax loss) are disallowed and carried forward to the following tax year. With the current ultra-generous $510,000 maximum Section 179 allowance, the net business taxable income limitation is more likely to come into play.

But the limitation is less troublesome than it first appears for you on your personal tax return because you can count any employee salary, wages, and tips that you may earn as additional net business taxable income. If you are a married joint-filer, your spouse's earnings from employment count as net business taxable income, and if your spouse has any net self-employment income from business activities, that too counts as net business taxable income.[10]

These beneficial rules reduce the odds that you will be adversely affected by the net business taxable income limitation. Even so, please watch out for the issue and remember that the limitation applies to all your business and W-2 income (including your spouse's, if married and filing jointly).

Don't Lose Out to the Depreciation Recapture Rules

In years following the year during which a heavy vehicle is placed in service, your business-use percentage must continue to exceed 50 percent during the MACRS recovery period, which spans six tax years, to avoid depreciation recapture rules. The recapture rules apply for purposes of the Section 179 deduction, first-year bonus depreciation, and accelerated MACRS depreciation. When they apply, you must recapture some of your previous depreciation deductions by adding them back to your taxable income.[11]

Take Advantage of the Home-Office Angle

As a small-business owner, you probably have the flexibility to set up a deductible office in your home. If so, you can gain a big head start in passing the "over 50 percent business use" test for your heavy vehicle, which is a prerequisite to claiming the Section 179 deduction, first-year bonus depreciation, and accelerated MACRS depreciation for the vehicle.

Specifically, if your home office qualifies as a principal place of business, all commuting miles from your home to various *temporary* work locations (customer sites, office supply store, FedEx shipping office, and so forth) count as business miles. Ditto for commuting mileage from your home to any *regular* place of business, such as your "official" office in town (if you have one).[12]

The point is, when your home office qualifies as a principal place of business, it's usually pretty easy to rack up lots of business mileage, which makes it much easier to clear the "over 50 percent business use" hurdle and thereby qualify for the generous first-year heavy vehicle depreciation write-offs.

Of course, a higher business-use percentage also means bigger vehicle depreciation deductions. The home-office deduction is icing on the cake.

How to Make Your Home Office a Principal Place of Business

The tax rules give you two easy ways to make a home office a principal place of business.[13]

First Way

Conduct most or all of your income-earning activities in the home office.

Second Way

Use the home office to perform administrative or management functions for your business. To take advantage of this second way, you cannot make substantial use of any other fixed location for those administrative or management chores. For more on this rule, see Home-Office Deduction—Show Me the Proof!

Remember: You must use the office space *regularly and exclusively* for business purposes during the year in question to have a deductible home office.[14]

Planning tip. If you are relying on the home office to increase your business mileage, make sure you first have the home office in place before you buy the heavy SUV or other qualifying vehicle, and then also make sure you have a vehicle log on the heavy vehicle that begins after the home office is in place.

Reimbursement with Corporations

If you operate your business as a corporation, you will want the corporation to reimburse the deductions to you so that you realize the full benefits. For details, see Avoid Lost Deductions When Corp. Vehicle Is in Your Personal Name and Lock in the Home-Office Deduction for Your S Corporation.

Takeaways

You can reap major tax savings with the heavy vehicle and home-office combo. The heavy vehicle produces quick deductions. The home office that qualifies as a principal office eliminates commuting miles, and such an elimination can dramatically increase your business-use percentage.

The heavy vehicle requires a gross vehicle weight rating of more than 6,000 pounds. If tax law classifies the heavy vehicle as an SUV, your Section 179 expense deduction is limited to $25,000; otherwise, your limit is subject only to the $510,000 ceiling.

On a new heavy SUV, the $25,000 ceiling produces benefits before you apply the generous 50 percent bonus depreciation.

And remember, if you own the vehicle personally and operate your business as a corporation, you will want the corporation to reimburse the deductions to you so that your corporation realizes the full benefits or passes them on to you if that corporation is an S corporation.

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1 IRC Section 168(k).
2 IRC Sections 280F(d)(4)(A)(ii); 280F(b)(1); 280F(d)(1); 168(g).
3 IRC Sections 280F(a)(1)(A); 280F(d)(5); 179(d)(1); Reg. Section 145.4051-1(e)(3) via Prop. Reg. Section 48.4001-1(b)(2); Private Letter Ruling 9520034.
4 IRC Section 179(b)(5).
5 IRC Section 280F; Rev. Proc. 2017-29.
6 This assumes you use the half-year convention to calculate your MACRS depreciation deduction.
7 IRC Section 280F(a)(1)(A).
8 IRS Chief Counsel Advice 201138046.
9 IRC Section 179(b)(3).
10 Reg. Sections 1.179-2(c)(6)(iv); 1.179-2(c)(7)(i).
11 IRC Sections 280F(b)(2); 280F(d)(1).
12 You find these taxpayer-friendly rules in Rev. Rul. 99-7.
13 IRC Section 280A(c)(1); Rev. Rul. 94-24.
14 IRC Section 280A(c)(1).