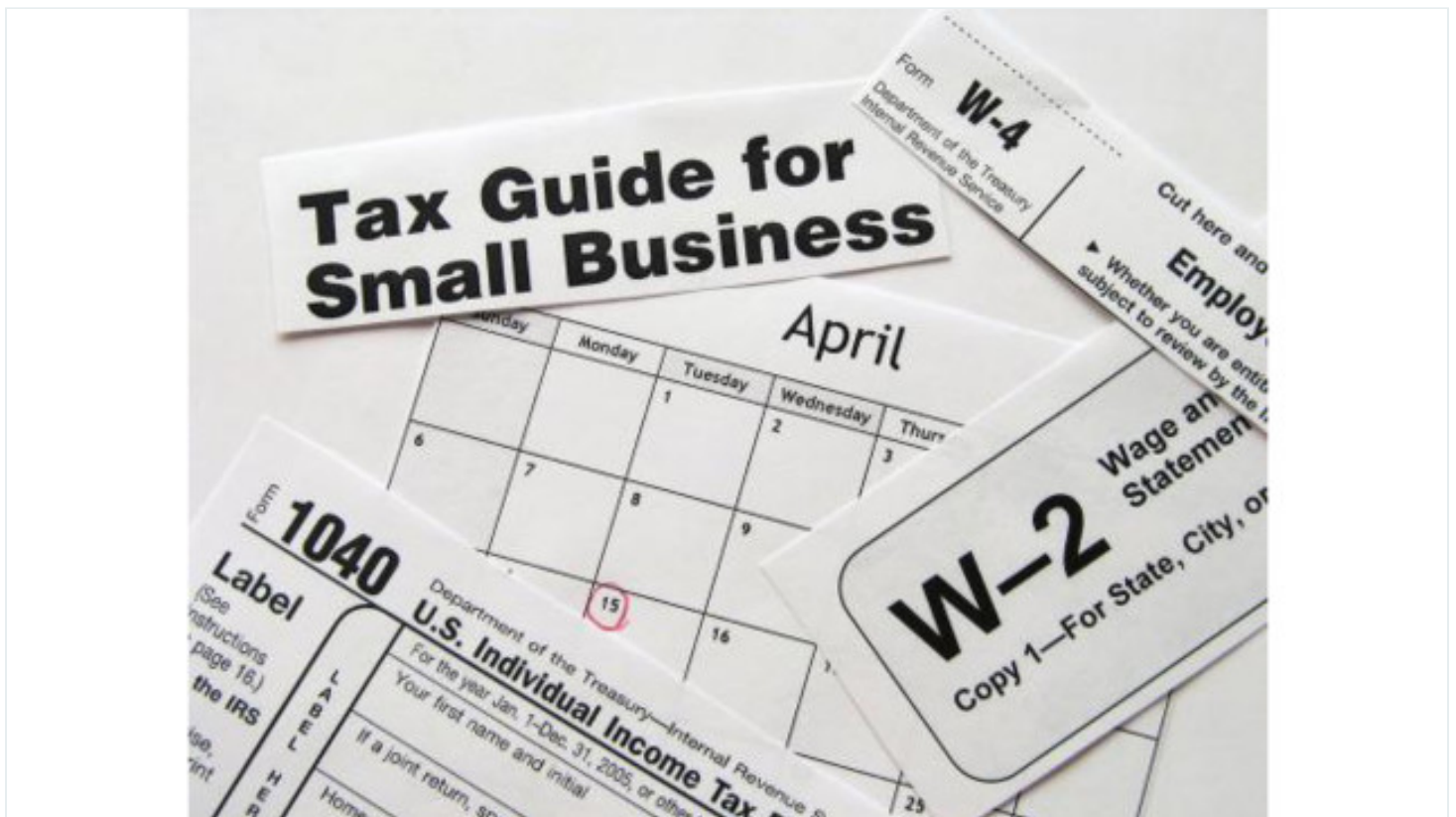


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into the equation.

Aug. 12, 2021



The new 2022 car and truck models will be in dealership showrooms soon. If you're in the market for a vehicle for your self-employed business, don't forget to factor taxes into the equation.

Starting point: Generally, you can claim deductions for vehicle expenses as a self-employed taxpayer, but there are a few twists and turns along the way. Notably, the tax law includes several “speed limits” that can affect your write-offs.

First off, you may deduct vehicle expenses in one of two ways.

1. Actual expense method: This method allows you to deduct your actual expenses

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incur \$500 in parking fees and tolls this year, your deduction is \$6,100 (56 cents x 10,000 + \$500).

Regardless of which method you use, keep detailed contemporaneous records as proof in case the IRS challenges your deductions. Notably, you must record each business trip, including the date, location, distance and business purpose. But the record keeping for the actual expense method is even more burdensome because you must account for every deductible expense.

Frequently, you will find that the actual expense method will produce a bigger annual deduction, therefore justifying the hassle. In particular, you may get a tax boost from the rules associated with depreciation deductions. However, to deter taxpayers from claiming excessive deductions, the tax law imposes "luxury car" limits, which actually kick in for moderately-priced vehicles

Consider these two critical tax breaks for business vehicle purchases:

- You can claim a current deduction under Section 179 up to the annual luxury car limits. Example: For a passenger car placed in service in 2021, the limit is \$10,200. Then you are entitled to a deduction in succeeding years under cost recovery tables.
- You can claim a first-year bonus depreciation deduction. Currently, the maximum deduction for a passenger vehicle is \$8,000.

Note that the actual deduction amounts are based on the percentage of business use. Going back to our prior example, if you're entitled to a \$10,000 maximum Section 179 deduction for a car and you use it 90% for business, your deduction is \$9,000.

Comparable rules apply if you lease a car instead of buying it. In either event, a self-employed taxpayer is in line for generous write-offs.

And this just the tip of the iceberg. Other special rules may come into play. For

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