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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.

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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-

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depreciation deductions, subject to certain limits (more on this later).

2. Standard mileage rate: Alternatively, you can use the simplified standard mileage rate set annually by the IRS. For 2021, the standard mileage rate is 56 cents per business mile (down from 57.5 cents in 2020), plus you can add on business-related tolls and parking fees. For example if you drive a vehicle 10,000 business miles and 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 2020, the limit was \$10,100. (The 2021 limits will be announced shortly.) 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.

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electric cars of up to \$7,500. See your tax advisor for more details.

Finish line: The tax aspects can be critical in this area. Make sure you understand all the rules before you go car shopping.

Small Business

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