

Purchasing VS Leasing a Vehicle for Your Practice

As we head into Fourth of July weekend, this is one of the busiest times of the year when it comes to purchasing or leasing a new vehicle. As you consider your options available for obtaining a new car for your practice (either now or in the future), I wanted to provide you with my general advice and guidance on this area.

Generally, I do not recommend purchasing a luxury vehicle for your practice and would rather see you lease a vehicle instead.

When you purchase a vehicle, in most states, you will be required to pay state and sometimes local sales tax on the full purchase price of the car as opposed to paying it on only your monthly lease payment. This is a big upfront added cost of purchasing.

Leasing gives you the flexibility of switching to a new vehicle every 3 years or so since you really are just renting your car and not owning it. Leasing terms usually go hand in hand with the warranties of a car, so you shouldn't expect any other out-of-pocket expenses during the lease.

The lease payment is also 100% tax-deductible if the vehicle is being used 100% for practice purposes.

If you purchase the vehicle, you will have large up-front costs or may need to incur additional fees for securing a loan on the vehicle. If we are speaking about a luxury vehicle, the depreciation deduction is significantly limited and this is the primary reason it is not as tax advantageous as leasing.

Below are the rules and limitations on depreciating a luxury vehicle for your practice. The IRS defines a luxury vehicle as a four-wheeled automobile, used mostly on public roads, and has an unloaded gross weight of no more than 6,000 pounds and does not factor in the cost of the vehicle. Thus, almost any vehicle you purchase that weighs less than 6,000 pounds will be considered a "luxury vehicle" for tax purposes.

If you claim 100% bonus depreciation on a luxury vehicle, the greatest allowable depreciation deduction is:

- \$18,100 for the first year,
- \$16,100 for the second year,
- \$9,700 for the third year, and
- \$5,760 for each later taxable year in the recovery period.

Thus, for a luxury car used in your practice, the most you can deduct in the first year would be \$18,000.

If you purchased an SUV that was rated 6,000 pounds or more, you can deduct the full amount of the purchase, assuming 100% practice use, in the year of the purchase. The following lists out which SUV's would qualify for this:

BMW X5 & X6	Buick Enclave	Cadillac Escalade, XT5, & XT6	Lincoln Navigator & MKT
Chevrolet Suburban & Tahoe	Ford Expedition and Explorer	GMC Yukon and Acadia	Mercedes G, GL, ML, GLE, & GLS
Range Rover	Toyota Land Cruiser, 4Runner, & Sequoia	Land Rover LR4	Porsche Cayenne
Volkswagen Touareg	Jeep Grand Cherokee	Nissan NV, NVP, & Armada	Dodge Durango
Audi Q7	Infiniti QX80	Tesla Model X	Lexus LX570 & GX460

In summary, I generally recommend leasing a vehicle to minimize your sales tax, improve cash flow, increase flexibility on vehicle choice and time you have to keep it, as well as allowing you to deduct up to 100% of the cost as opposed to dealing with depreciation luxury vehicle limitations.

If you plan on keeping the vehicle 5 years or more, then purchasing could make sense, but in order to maximize your tax savings, you should limit your choices to SUVs listed above.