

## Reasons to Buy or Lease an Automobile

See “Lease Agreement Negotiation”

### BUY:

- Taxpayers who own autos can choose the standard mileage rate in the first year an auto is placed in service and switch to the actual expense method in a later year if it becomes more favorable. Taxpayers who lease may also choose the standard mileage rate in the first year, but must use it for the life of the lease.
- A taxpayer intends to keep the vehicle more than four years, or until it is ready for the junkyard.
- The vehicle will be driven more than 10-12,000 miles per year. Most lease contracts have a mileage limit with an additional charge for every excess mile.
- The taxpayer has cash for the purchase or down payment and the car is not subject to the luxury auto rules.

### LEASE:

- Lower monthly payments and little or no money down. This leaves a business owner with more cash to invest in business. Monthly lease payments usually average about one-third less than loan payments on a comparable vehicle.
- Figuring deductions on a leased auto is much simpler than calculating allowable depreciation deductions.
- Taxpayers who trade in their business autos every two or three years usually end up with a realized loss that they cannot deduct. The taxpayer’s basis (after the limited depreciation deductions) exceeds the trade-in value, but the loss is not recognized due to the Section 1301 like-kind exchange rules.
- Taxpayers who need or desire a high-priced vehicle or one that is difficult to resell should lease. Tax advantages of leasing over buying increase with a car’s value and percentage of business use. A lease provides more car for less money.
- Leasing is suited to taxpayers who desire a new car every few years and who would borrow to pay for a new car.
- Service, convenience and flexibility.
- Off-balance-sheet financing.
- Cost of interest is included in lease payments (100% deductible). Interest is not deductible for employees who purchase their vehicles.
- When it is time for a new car, there are no worries about disposing of the old one

\*This information should be used as a guideline. Specific questions regarding this “Biz Facts” should be directed to a Business by Design tax professional.