Vehicle Depreciation Recapture

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If you use your vehicle for business purposes, you are allowed to **deduct the loss in value due to time, and general wear and tear in the form of depreciation**. When you deduct this depreciation you are reducing the basis in your vehicle by the amount of the depreciation you deducted.

When you use an accelerated method (section 179 expense, bonus depreciation, MACRS) to depreciate your vehicle you are actually **reducing your basis in the vehicle faster than it's normal wear and tear**. This may cause you to have a taxable gain when you sell, trade in your vehicle or your business use drops to 50% or less.

When you have a taxable gain, you may have to recapture, or include in your income, **the part of the depreciation that you took that was in excess of the normal loss in value**.

When you use the standard mileage allowance, part of the rate is for depreciation. This is why you can't take an additional amount specifically for depreciation when you use the standard mileage rate.

If you are using the standard mileage allowance **you may still be subject to recapture.** For each year you used the standard mileage rate, you must multiply your business mileage for the year by the depreciation component shown in the table below, and then reduce your car's tax basis (and increase your potential taxable gains) by that amount.

Year	Standard Mileage Allowance (cents per mile)	Depreciation Component (cents per mile)
2006	44.5	17
2005	Jan. - Aug. 40.5 Sep – Dec. 44.5	17
2004	37.5	16
2003	36	16
2002	36	15
2001	36.5	15

If part of the depreciation you have taken is subject to recapture, it is **recaptured at your ordinary income rates**, not at the more favorable capital gains rates. In order to avoid this recapture you should consider how long (and how much) you intend to use the vehicle for business purposes before you decide which method of depreciation you want to take.

Gina L. Gwozdz *is a CPA who has chosen to specialize in taxes.* Visit her website at http://GLGcpa.com to view more Tax Tip Articles.