

Should You Buy or Lease a Vehicle?

Are you thinking about buying or leasing a vehicle for your business? Most experts agree that, right now, buying is a better choice. Due to a strapped economy, U.S. automobile manufacturers are now offering zero-percent financing. These incentives are often too good to pass up.

However, you do need to look at the big picture before making your decision. There are still advantages and disadvantages to buying, leasing, and even reimbursing your employees for using their own vehicles.

Reasons to Buy

- You 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. Those who lease may also choose the standard mileage rate in the first year, but must use it for the life of the lease.
- The purchase of a new car qualifies for the 30% special depreciation allowance which increases total first year depreciation to \$7,660. Leased vehicles do not qualify for this special allowance.
- Buy if you intend to keep the vehicle more than four years, or until it is ready for the junkyard.
- Buy if the vehicle will be driven more than 15,000 miles per year. Most lease contracts have a 15,000 mile limit with an \$.08 to \$.15 charge for every excess mile.
- Buy if the vehicle is not subject to the luxury auto rules.

Reasons to Lease

- Lower monthly payments and little or no money down. This leaves a business owner with more cash to invest in the business.
- Figuring deductions on a leased auto is much simpler than calculating allowable depreciation deductions.
- Those who trade in their business autos every two or three years usually end up with a realized loss that they cannot deduct.
- Those who 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 those who desire a new car every few years and who would borrow to pay for a new car.
- Off-balance-sheet financing.
- Cost of interest is included in lease payments (100% deductible). Interest is not deductible for employees who purchase their vehicles.

Other Alternatives

Another trend is for employees to use their own vehicles and have the business reimburse them. The employees must track their miles which allows them to be reimbursed at a rate of \$.36 per mile. This rate includes gas, insurance, etc.

If you are wondering which method is best for you, consult with your tax advisor. Questions? Contact Pete Oettinger, CPA, Partner at (608) 442-1945 or peter.oettinger@wegnercpas.com.