



TAX IMPLICATIONS OF TRANSFERRING A VEHICLE TO YOUR BUSINESS

Before you transfer ownership of a vehicle you use for your business to your LLC or S-Corp, there are several tax considerations that you should be aware of.

Standard Mileage Rate vs. Actual Costs

There are two primary methods for deducting the cost of using a vehicle for business purposes: The standard mileage rate method and the actual costs method. The standard mileage rate allows you to deduct a specific dollar amount for each business mile you drive (currently 53.5 cents per mile). The actual expense method requires you to determine all actual expenses you incurred for your vehicle (gas, insurance, repairs, etc) and deduct the portion that applies to business use.

Generally, you can choose the method that is more beneficial, although oftentimes people choose the standard mileage method as it is easier to calculate. However, you will only have these two options if you use your personal vehicle for business purposes. Once the vehicle is owned by the business, you can only use the actual expenses method. Therefore, before you transfer the vehicle to your business you should determine if you will generally receive a better deduction with the actual expense method or the standard mileage method.

Personal Usage of Vehicle

When a vehicle is a personal asset you only need to determine the percentage or total miles that are for business use and then reimburse yourself for those expenses. However, when the vehicle is owned by the business, any personal use of the vehicle is considered a benefit to you as an employee of the business and needs to be reported as income on your W2. If the vehicle is used 100% for business, then this is not an issue.

Fair Market Value of Vehicle

When you transfer a vehicle into your business, its value is considered to be the lower of your cost or its fair market value. This means that if you purchase a car for \$80,000 but it is only worth \$65,000 when you transfer it to the business you can only claim \$65,000 as the value of the vehicle for purposes of depreciation and shareholder basis.