DG Advisors LLC
Proactive Tax & Profitability Solutions™
A DENTAL GROUP COMPANY

RESOURCE

Updated January 2019

Tax Rules for Business Use of Automobiles for Dentists©

The following is a brief overview of the practical tax rules related to dentists' use of automobiles for dental related purposes. You should consult with your DG Advisor regarding the best method for you and your practice as well as how to optimize your deduction and properly document it.

TWO METHODS

There are generally two methods of deducting auto expenses. The first is the standard mileage rate and the second is the "percentage of actual" method.

STANDARD MILEAGE

This is the simpler of the two methods and requires only documenting the business mileage driven. With this method, you simply multiply the mileage rate (see below) times the number of business miles driven and deduct the result on the applicable tax return.

The advantage to this method is its simplicity. It is highly recommend for those dentists who only do a little dental related driving of an automobile that is generally used for personal purposes.

You can keep a log to track business miles or you can utilize a good faith estimate of the business miles you typically drive. Please see Dental Group Resource **Auto Worksheet** which includes a list of typical auto travel conducted by dentists. In the case of a log, you could keep this daily throughout the year or you could use two or three months as a "sample" from which to extrapolate.

The reimbursement rate in cents per mile is:

2018 54.5

ACTUAL METHOD

In this case, you must track business miles and non-business related miles as well as track all expenses such as gas, oil, maintenance, insurance, etc. You are then allowed to deduct all expenses by the business use percentage. In addition, you will be allowed to deduct a portion of the lease payment and/or a portion of the cost via "depreciation".

The depreciation deduction is also limited by the luxury auto rules and further limited to your business use percentage. If business use is less than 50%, accelerated methods generally may not be used – including the Section 179 Expensing Election (however see 1st Year Bonus Depreciation below).

DG Advisors LLC – A Dental Group Company
5808 Lake Washington Blvd NE, Suite 101 | Kirkland WA 98033
425.216.1612 o. | 425.216.1613 f.

The “actual method” can result in significantly higher tax deductions – particularly if the business use percentage is significant. However, this method also requires much more detailed documentation of both the expenses as well as the business miles driven.

With **either method** we recommend that you keep a log daily throughout the year or alternatively, you could use one to three months as a “sample” from which to extrapolate. **The larger your auto deductions – the more thorough you should keep your records.**

2018 TAX ACT

The Tax Cuts and Jobs Act of 2017 which chiefly took effect in 2018 has more generous “luxury” automobile limits making the actual (deduction) method look a bit better. Further, with the current 100% 1st-year bonus depreciation rule now in effect, it is possible to deduct the business use percentage of a current year “heavy” vehicle (SUV’s, Pick-ups, Vans exceeding 6000 pounds Gross Vehicle Weight Rating) up to 100% of the purchase price (reduced to the business use percentage). EXMAPLE: Jane purchases a qualifying $60,000 SUV in November and drives it 50% for business and has contemporaneous and detailed records. Jane may write off $30,000 of her purchase on her current tax return ($60,000 x 50% business use).

Vehicles that do not meet the 6000 pounds Gross Vehicle Weight Rating and are considered “Luxury Vehicles.” Maximum first-year deductions on Luxury Vehicles are still helped by higher depreciation allowances and by a partial first-year bonus depreciation rule that would allow up to an $18,000 deduction in year-one (then multiplied by the business use percentage). For example, if we substituted Jane’s purchase above for a luxury vehicle – her deduction would be $9,000 ($18,000 maximum by 50% business use).

SOLE PROPRIETORS INCLUDING PLLC

Sole proprietors may deduct either actual expenses or the standard mileage rate against their sole proprietorship income -- ***this can result in income tax and self-employment tax savings.*** Sole proprietors may want to run some or all of their auto expenses through their business accounts, depending on a number of variables that we can help you evaluate.

INCORPORATED DENTISTS

Incorporated dentists have two options:

1. Utilize the mileage method to track business use of your personally owned vehicle and reimburse yourself each month or year (prior to December 31); or

2. Use the actual method and reimburse from the corporation. In this case, you will capture 100% of the vehicle expense personally. To these cash expenses your DG account manager can prepare a depreciation schedule and or determine the amount of your lease that is deductible. This total along with a “packet” for documentation is presented to your corporation prior to December 31 each year for reimbursement. You should follow the rules related to the “actual method” discussed above.

Questions? Please do not hesitate to call your DG Advisor!

DG Advisors LLC – A Dental Group Company
5808 Lake Washington Blvd NE, Suite 101 | Kirkland WA 98033
425.216.1612 o. | 425.216.1613 f.