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Why do I need to know about depreciation?

What is Depreciation?

- Depreciation is defined as:
 - A reduction in the value of an asset with the passage of time, due in particular to wear and tear
- Depreciation is applied to the purchase of long-lived assets
 - A long-lived asset is any asset that a business expect to retain for at least one year



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How is depreciation calculated?

- For the purposes of tax deductions:
 - The Internal Revenue Code (IRC) determines the way assets are depreciated – Modified Accelerated Cost Recovery System (MACRS)
 - They categorize assets by type:
 - Autos
 - Equipment
 - Real Estate
 - Each asset type is assigned a useful life
 - Autos – 5 years
 - Equipment – 7 years
 - Real Estate
 - Commercial – 39 years
 - Residential Rental – 27.5 years



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What IRC sections are important?

- For the purposes of tax depreciation:
 - Section 280(f)
 - Luxury auto rules
 - Limits the annual amount of annual depreciation deductions for “passenger” automobiles
 - “Passenger” Automobiles
 - Defined as any four-wheel vehicle that is manufactured primarily for use on public streets, roads, and highways, and that is rated at 6,000 pounds gross vehicle weight or less
 - For autos, the 6,000-pound limit is based on the unloaded gross vehicle weight of the auto
 - For trucks and vans, the 6,000-pound limit is based on **LOADED** gross vehicle weight, which includes passengers and cargo
 - This means that most full-size pickups and larger vans will be over the 6,000-pound limit and not subject to the Sec. 280F depreciation limits
 - Another test, if the **bed length** is longer than **6 feet**, it is **NOT** subject to this limitation



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- For the purposes of tax depreciation:

- Section 280(f)

<https://www.thetaxadviser.com/issues/2015/feb/tax-trends-01.html>

Trucks and Vans Over 6,000 Pounds

There is no limit on regular and bonus depreciation for trucks and vans that do not qualify as passenger automobiles. As with SUVs, the Sec. 179 expense deduction for trucks and vans rated at more than 6,000 pounds but not more than 14,000 pounds gross vehicle weight (loaded) is \$25,000. However, the limit does not apply to trucks and vans in this weight class if the vehicle:

1. Is designed to have a seating capacity of more than nine persons behind the driver's seat; or
2. Is equipped with a cargo area at least 6 feet in interior length that is an open area or is designed for use as an open area but is enclosed by a cap and is not readily accessible directly from the passenger compartment; or
3. Has an integral enclosure, fully enclosing the driver compartment and load-carrying device, does not have seating behind the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

This means that no limits apply to the Sec. 179 expense deduction or bonus depreciation under Sec. 168(k) if one of these exceptions applies, which will allow many taxpayers to deduct the full cost of a vehicle in the year of purchase. Practitioners must be aware of these definitions to ensure that the Sec. 179 deduction limit is not improperly applied.

What IRC sections are important?
(Continued)



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- For the purposes of tax depreciation:
 - Section 280(f) annual amounts allowed
 - Year 1- \$20,200
 - Year 2 - \$19,600
 - Year 3 - \$11,800
 - Year 4 and all subsequent years - \$7,060
- Example \$65,000 truck subject to the 280(f) rules

	280(f) Annual Limit	Net Book Value
Year 1	\$20,200	\$44,800
Year 2	\$19,600	\$25,200
Year 3	\$11,800	\$13,400
Year 4	\$ 7,060	\$ 6,340
Year 5	\$ 6,340	\$ -0-

What IRC sections are important?
(Continued)



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- For the purposes of tax depreciation:
 - Section 179
 - Election to expense entire asset value in the year of purchase
 - Maximum of \$2,500,000 in these elections allowed in a year (2028)
 - Available for all non-real estate purchases in a year if less than \$4,000,000 in assets are put into service in a year
 - The election is reduced if annual purchases of these assets are between \$4,000,001 and \$6,500,000
 - Section 168(k)
 - Bonus depreciation election
 - One Big Beautiful Bill (OBBB) signed July 4, 2025 gave 100% bonus depreciation to all assets purchased after January 19, 2025.
 - There is no limit on amount allowed in a year
 - There is no limit on the amount of asset value placed in service in a year

What IRC sections are important?
(Continued)



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How do I use
this
information
to sell a
truck?

- **Develop a relationship with your customer**
 - Ask about how business is this year – Have you made money?
 - Ask if they are concerned about how much taxes they are going to owe
 - Explain how they can finance the truck and still get to potentially deduct the entire amount of the cost of the vehicle reducing the amount of taxes they owe
 - Have you talked to your tax professional about how to reduce your tax burden
 - I'll bet you this is one of the first ideas they will mention to you – Buy something you really want or need for your business – and you NEED this truck!!!



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Any questions?

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