Deducting business-related expenses on your taxes

Rural carriers have the option of deducting their business-related vehicle expenses on their 2006 income taxes, but only if they report their equipment maintenance allowance as income. In other words, the laborious process of figuring and reporting expenses will only be beneficial if your total expenses exceed your equipment maintenance allowance.

To deduct expenses, you must fill out IRS Form 2106 (Employee Business Expenses) and IRS Form 4562 (Depreciation and Amortization), and attach them to your income tax return.

The process of figuring vehicle depreciation has become a great deal more complicated in recent years, so we strongly advise you to enlist the help of a professional tax preparer if you choose this route.

Deductible vehicle expenses consist of depreciation plus gasoline, oil, repairs, insurance, tires, license plates, and similar items, all reduced by the percentage of personal use.

Unless you purchased your vehicle during 2006 or 2005, the amount of depreciation allowable will probably not be sufficient to make it worth your while to deduct actual expenses, unless you had extraordinarily high maintenance expenses.

For less than 6,000-pound passenger autos purchased in 2006, the first-year depreciation limit is $2,960, and for trucks and vans, it is $3,260 (minus the personal use portion). The limit goes up in the second year, then for succeeding years, the depreciation limits go down considerably. See the IRS instructions for Form 4562 for more details.

In all cases, you can take a first-year write-off under "Section 179" of the Internal Revenue Code, explained below, but that write-off is part of total depreciation subject to the annual limits.

Section 179

If your vehicle's gross weight is more than 6,000 pounds, the limits listed above do not apply. The Section 179 limit is $25,000 (less personal use portion) for most heavy vehicles up to 14,000 pounds in weight. However, this limit does not apply to mini-buses (nine or more seats behind the driver's seat), nor does it apply to 6,000-pound pick-up trucks (with 6-foot truck beds) and cargo vans. Those types of vehicles can be written off up to $108,000.

If the cost of your 6,000-pound SUV exceeded the $25,000 limit, you may also depreciate the amount of that excess, using one of a number of complicated depreciation tables. Anyone who elects the Section 179 write-off should be aware of a significant tax trap. If you dispose of the vehicle, or cease to use it in business, at any time before its normal five-year depreciation period is up, you must "recapture" (that is, report as income), the excess of the Section 179 and other depreciation deductions you have taken, over the normal depreciation that would have been allowed if you had not elected to take Section 179. Another way of saying that is if you don't keep the vehicle in service for 5 years, you are only allowed normal depreciation, and the extra tax benefit you got from Section 179 will have to be repaid.