

# VEHICLE ACQUISITIONS IN A BUSINESS PRACTICE:

## KEY CONSIDERATIONS FOR DENTAL PRACTICE OWNERS

Many tax advisors consider business deductions related to vehicle ownership in your practice to be a great tax planning tool and express the availability of large tax deductions on heavy SUV's and similar autos. However, they do not often talk about the compliance risks and complexity associated with this type of deduction. This white paper outlines critical areas of concern, regulatory requirements, and offers alternative strategies to practice owners.

### Audit Risk and Proper Classification of Business Vehicles

Vehicle acquisitions are a common trigger for IRS audits, largely due to misclassification and improper documentation. To reduce exposure to audit risk, vehicles intended as business assets must be treated as such across all legal and financial aspects. The following requirements must be met:

- 1. Title and Registration**

The vehicle must be titled and registered under the business entity's name, not the individual owner's.

- 2. Business Financing**

Any loan or lease must be issued to the business entity, not the individual.

- 3. Commercial Insurance**

Insurance coverage must be obtained through a business policy rather than personal auto insurance.

Failure to align vehicle ownership and financing with the business structure may invalidate business deductions and increase audit risk. Vehicles purchased personally but claimed as business assets typically do not withstand IRS scrutiny.

### Differentiating Business and Personal Use

Clear distinction between business and personal use is essential. Some examples include:

Business use includes activities such as:	Personal use includes activities such as:
<ul style="list-style-type: none"> <li>• Traveling between practice locations</li> <li>• Visiting suppliers or vendors</li> <li>• Making business-related bank deposits</li> <li>• Meeting with clients or other professional contacts</li> </ul>	<ul style="list-style-type: none"> <li>• Commuting to and from home</li> <li>• Personal errands</li> <li>• Family travel or recreational use</li> </ul>

Vehicles primarily used for personal purposes should not be capitalized as business assets. For those that are, personal usage must be tracked and reported accordingly.

### **Tax Treatment of Personal Use**

Personal use of a business vehicle must be reported as taxable income on the owner's W-2. This requires:

- Calculating the proportion of personal miles relative to total use
- Reporting the personal portion as additional income for tax purposes

### **Mileage Tracking and Reimbursement**

For vehicles not owned or capitalized by the business, tracking mileage remains a valid—and often preferable—method of expense reimbursement.

#### **Requirements for Compliance:**

- Detailed Logs: Document the purpose, date, and miles driven for each business trip.
- Reimbursement Method: Owners and employees of S corporations may receive mileage reimbursement via payroll at the IRS standard rate (e.g., \$0.70 per mile). Note: The IRS sets the standard mileage rate, which is reviewed annually and may change based on economic factors.

#### **Advantages of Mileage Reimbursement:**

- The company deducts the mileage as a business expense
- The reimbursement is non-taxable income to the recipient
- No need to capitalize the vehicle, simplifying compliance and reducing audit exposure
- Lower insurance costs compared to business-owned vehicles

### **Depreciation and Tax Implications**

When a vehicle is capitalized within the business, depreciation becomes a key factor in its tax treatment. However, depreciation deductions come with potential future tax liability:

#### **Depreciation Recapture**

If a business vehicle is sold or traded, any amount received above its depreciated tax basis is subject to ordinary income tax.

**Example:** A vehicle purchased for \$80,000 and fully depreciated to \$0 is later traded in for \$50,000. The \$50,000 is treated as taxable ordinary income due to depreciation recapture rules.

For many owners, the long-term tax impact of depreciation recapture outweighs the short-term deduction benefits, making mileage reimbursement a more efficient option.



## Comparative Options for Vehicle Management

### Option 1: Capitalize the Vehicle in the Business

- Title, loan, and insurance must all be in the business's name
- Personal use must be tracked and reported as taxable income
- Depreciation and potential recapture must be accounted for upon disposal

### Option 2: Use a Personal Vehicle and Track Business Mileage

- Simplifies compliance
- Avoids complex depreciation and recapture rules
- Results in a business deduction with non-taxable reimbursement
- Generally leads to lower insurance premiums

This approach is often more practical for practice owners, especially when vehicle use is mixed or occasional.

## Conclusion and Best Practices

Vehicle acquisitions within a dental practice require strategic planning and strict adherence to IRS guidelines.

### Key takeaways include:

1. Ensure title, insurance, and financing are all aligned under the business entity if capitalizing the vehicle
2. Track and report personal use of any business vehicle to avoid compliance penalties
3. Consider mileage reimbursement as a simpler, tax-advantaged alternative
4. Be aware of depreciation recapture implications before disposing of a business vehicle


## Your Next Step

At Pro-Fi 20/20 Dental CPAs, we help dental practice owners evaluate vehicle acquisition options within the context of their broader financial goals. Whether you're considering capitalizing a vehicle or opting for mileage reimbursement, our team can provide guidance tailored to your specific situation.


**For personalized advice, consult your trusted Pro-Fi tax professional.**

**Together, we'll ensure your practice remains on the road to success—mile after mile.**

## CONTACT US

 [www.profi2020.com](http://www.profi2020.com)

 [info@profi2020.com](mailto:info@profi2020.com)

 (404)495-4895



**PRO-FI 20/20  
DENTAL CPAs**

