Better to Sell or Trade a Business Vehicle?

Article Highlights:
- Replacing a Business Vehicle
- Selling the Old Vehicle at a Loss
- Trade-in is Treated as an Exchange
- Prorate if Used for Business and Personal

When replacing a business vehicle, it does make a difference for tax purposes if you decide to sell or trade it in for the replacement vehicle. If you sell a vehicle, the resulting gain or loss is reported on your tax return. As a result, it is generally better to sell a vehicle if the disposition of the vehicle will result in a loss. Since trade-ins are treated as an exchange and any gain or loss is absorbed into the replacement vehicle's depreciable basis, it is generally better to trade in a vehicle that would result in a gain.

As an example, suppose you sell your business vehicle for $12,000. Your original purchase price was $32,000, and $17,000 has been taken in depreciation. As illustrated below, the sale results in a loss, so it generally would be better for you to sell the vehicle and deduct the loss rather than trading in the vehicle.

Sales price		*$12,000*
Cost	*$32,000*	
Depreciation Taken	*<$17,000>*	
Depreciated Basis		*<$15,000>*
Loss		*<$ 3,000>*

On the other hand, had you sold the business vehicle for $16,000, the sale would result in a $1,000 taxable gain and trading it in would be a better option.

If the vehicle is used for both business and personal purposes, the loss or gain must be prorated for the business use. No loss would be deductible on the personal portion.

Since trade-in values are generally lower than the actual sales value of the vehicle, the trade-in decision must also consider whether the tax benefits exceed the additional money that might be received from selling the old business vehicle.

This concept can also be used when selling or disposing of other business assets.

If you are planning to replace a business vehicle and would like to discuss how its disposition and the purchase of a new vehicle will affect your tax situation, please give this office a call.