

Pamela Price EA Inc.

Pamela Price EA & Associates
Enrolled to practice before the Internal Revenue Service

Frequently Asked Questions

❖ **Should I buy or lease a car?**

There is no one right answer to this question. Your decision should be based on two factors. First, how each affects your return. If you buy a car that cost more than \$15,300, unless it weighs more than 6,000 pounds, your depreciation (write off) will be limited to the applicable percentage of that amount. It could take 7 or 8 years to get the full amount of deduction to which you are entitled. With leasing, although there is a small limitation called an inclusion, the write off is much quicker. Therefore, you usually get a better deduction from leasing than buying in the early years.

You must remember, however, that taxes are only one part of your financial life. All the money comes out of the same pocket, and leasing usually costs more than buying in the long run. Does the bigger deduction make up for this? It depends on how much you use your car for business and what kind of lease deal you make.

This brings us to the second factor, your individual circumstances. If you tend to keep a car for ten years, leasing is probably not for you. You get the same write off from buying in the long run, and buying at the end of a lease may not be economical. If you are the type of person who, because of high use or just preference, turns a car over every two or three years, leasing may be for you. It may also be that the smaller downpayment makes it possible for you to get more car for your money.

Conclusion: If there is reason that leasing works for you, the tax benefits are frosting on the cake, but not they are not enough on their own to lease otherwise.

❖ **I'm getting a new car. Should I sell my old car or will I do better to donate it?**

Of course, donating your car is tax deductible, but it's not a dollar per dollar reimbursement. Your taxable income is lowered by the amount of the deduction. In other words, if the car brought the charity \$2,000 and your taxable income was \$68,000 it would be lowered to \$66,000. This would mean a tax savings of \$700 to \$750. If, on the other hand, you sold the car for \$2,000, that would be \$2,000 in your pocket. Get it? Still, there can be reasons that you would prefer to donate the car, like maybe it's not running and they are willing to haul it off for you, or you just don't want to deal with the ads and the people; maybe you want to help a particular cause. Just be aware that it's a deduction not a credit, and that you must have a written acknowledgment from the done organization which must be attached to your tax return if the value is greater than \$500. If the organization sells the vehicle, the deduction is limited to the proceeds of received from the sale. You must have a written acknowledgment in any case, but if the proceeds from the sale were less than \$500 it does not have to be attached to your return, allowing you to still file electronically.

❖ **How many exemptions should I claim on my W-4?**

It is relatively safe to claim your actual number & status (example: 1 person: 1 Single/ a couple: each 1 Married/ or one takes 2 Married & the other takes 0 Married). If, however, this individual has untaxed income or both people in the couple situation earn \$100,000 and they rent, this formula won't work. Conversely, had these taxpayers owned a big house with a matching mortgage and had tons of business expenses, they could have claimed more exemptions. Instead they will probably have to settle for a real big refund. Gross. How many exemptions could they have claimed? I broke my crystal ball, and am unable to answer that question. As you may have guessed, I am not big on claiming lots of extra exemptions. I have seen it overdone too many times, and have observed that the happy clients are the ones getting the refunds now rather than the ones who had an extra \$30 in each paycheck. Still, there are situations that justify extra exemptions. In these cases, it's really just a matter of trial & error. Nine is the maximum number that you can claim without running the risk of being required to fill out a tacky form sent to you courtesy of the IRS which usually results in your being required to claim no more than 3 or 4 deductions for a year.