

Vehicle and Equipment Trade Ins – What Changes under the New Tax Law?

By Ben Kaup

Amongst the many changes starting in 2018, one that will affect almost every farmer, rancher, and business owner are the changes made to the tax treatment of trade-ins on vehicles and equipment. In the past, it was only necessary that we know the “trade difference” in cash paid for the new piece of equipment. We would take that amount and add it to the basis of the old under the like kind exchange provisions and defer the gain on the disposal of the old equipment. Under the new tax law, like kind exchanges are not allowed for anything but real estate. This means that even though you trade in your old equipment for a new piece, the “trade value” of the old will be taxed as a sale. This isn’t as bad as it sounds. In some cases, it may save taxpayers self-employment tax as the old equipment “gain” is taxed at ordinary rates WITHOUT self-employment tax and the new equipment can be fully deducted against Self Employment income.

See the example below on how trade ins will be treated under the new tax law:

| | |
|--------------------------------|------------------|
| New Tractor Fair Market Price: | \$100,000 |
| Old Tractor Trade In Value: | <u>\$-50,000</u> |
| Net Cash Paid on New Tractor: | \$50,000 |

In the case above, the old tractor will be “sold” for a value of \$50,000 and gain would be recognized by calculating \$50,000 less any remaining basis. Then the new tractor would be added to the depreciation schedule at its full purchase price, NOT just the cash paid. The \$100,000 could be depreciated using either regular depreciation, 100% bonus, or Section 179 provisions.

These changes mean that we will need to get more information from our clients on asset purchases when another asset is traded in. We will now need the following for every trade in:

1. Date of the Transaction
2. Full Value of the New Piece of Equipment
3. The Trade Allowance on the Old Equipment
4. Cash Difference Paid

If you have any questions as you are preparing for your 2018 tax filings, please don’t hesitate to give us a call.

Thanks,

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