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## *Tax Aspects of Dealership Asset Purchases*

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<b>Category</b>	<b>Deduction</b>	<b>Depreciation / Amortization Period</b>
<b>Inventory</b>	When sold	N/A
<b>Fixed Assets</b> - machinery, shop furniture, company vehicles	Depreciate	5 to 7 years
<b>Intangible Assets</b> – goodwill, franchise value, customer lists	Amortize	15 years
<b>Non-compete Agreement</b>	Amortize	15 years
<b>Land</b>	None	N/A
<b>Land Improvements</b>	Depreciate	15 years
<b>Buildings</b>	Depreciate	39 years*
<b>Other Expenses Resulting from the Purchase:</b>		
<b>Rental expense</b>	Deduct	As paid
<b>Consulting Expenses</b>	Deduct	As paid
<b>Wages to the Seller</b>	Deduct	As paid

Note: The Economic Stimulus Act of 2008, under IRS code section 179, has increased the election to expense rather than capitalize certain eligible property. The maximum section 179 expense is \$250,000 for 2008. Eligible dealership property includes machinery and shop equipment, computer equipment, furniture and land improvements. A dealership can not use the section 179 deduction to create a taxable loss for the year. The maximum deduction will revert to \$125,000 for 2009.

The Act also allows a dealership to take bonus depreciation equal to 50% of the cost of eligible property for 2008. The eligible property must be original use property (new). Therefore, a dealer that acquires eligible property from another dealer would not qualify.

\* A dealer can reduce the allocation to 39 year property by performing a cost segregation study. See the article [Defer Taxes by Performing a Cost Segregation Study](#) in our archive of dealer related newsletters.

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