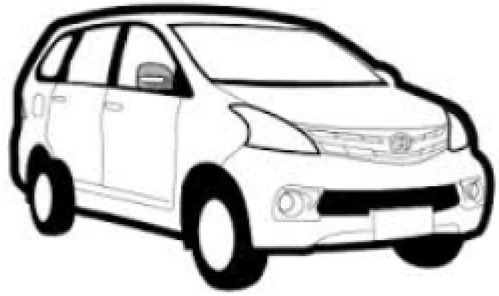
Vehicle Expense Deduction



Since there is plenty of opportunity for abuse with automobile related deductions, the IRS has established some very specific rules to keep to claim the expense – and most importantly keep the expense in the event you are audited. While these rules may seem detailed, complex, cumbersome and onerous, ignoring them may result in costly tax and penalty assessments in the event you are audited by the IRS. Below I attempt to briefly and simply explain this “hot button” topic for the IRS.

Qualifying mileage deductions

The most basic of the IRS specific rules covers what types of business driving are eligible for a mileage deduction. Your daily commute from your home to your permanent work location does not qualify for a business mileage deduction. On the other hand, if you need to travel to a second company location, you may be able to deduct your mileage costs. You can also take a mileage deduction for travel to and from business conferences, off-site meetings, and business-related events, including lunches or dinners with current or prospective customers. You can also deduct your mileage if you travel to visit customers or use your vehicle to run business-related errands, such as obtaining supplies or getting documents notarized.

Keeping a mileage log

The IRS is strict in its documentation requirements for business mileage deductions. For this reason, you'll need to keep a thorough, accurate mileage log each year you attempt to claim a deduction. The IRS also requires that the information be kept “contemporaneously,” which means as close to the time the trip occurred as practically possible. Estimates or reconstructions of records after the fact are frequently disallowed under IRS audit or in tax court.

As per IRS requirements, your mileage log must include the starting mileage on your vehicle's odometer at the beginning of the year and its ending mileage at the conclusion of the year. Each time you use your vehicle for business purposes, you must record the following information:

- The date of your trip
- Your starting point
- Your destination
- The purpose of your trip
- Your vehicle's starting mileage*
- Your vehicle's ending mileage*
- Tolls or other trip-related costs

Driver:__________ Department:__________ Start Date:__________ End Date:________ Vehicle Name :__________

Start Date	End Date	Description	Purpose	From	To	Start	Finish	Total

*IRS guidance specify odometer mileage for each trip, although pragmatically speaking the distance is generally accepted under audit when the other requirements are met and the distances do not appear unreasonable.

You can keep a mileage log in a notebook and update it by hand, or use a spreadsheet to continuously track your mileage. You can also use a mileage-tracking app; there are several now available that are useful and adequate for IRS documentation purposes. The key is to update your records regularly to ensure that they're precise. Additionally, the IRS requires you to keep your mileage log for three years from the date on which you file the income tax return containing your deduction.

Elimination of the mileage log

Although unworkable for many taxpayers, one way does exist to avoid the mileage log requirements, that is devoting 100% use of the vehicle for business purposes. This does not work for many small business owners because it is frequently cost prohibitive to eliminate all personal use of one of their vehicles. Frequently the pitfall is the commute from home to work. However, if you are able to park your vehicle at your office location and eliminate all commuting from home and other personal mileage, keeping the mileage log may be eliminated as well as the resulting limitation calculation on the vehicle expense deduction. Thus, you will be able to deduct 100% of the allowable vehicle expenses, with no limitation or adjustment due to personal benefits from using a business vehicle.

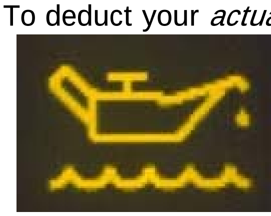
Calculating your deductions – two options

You may use the *standard mileage* rate as determined by the IRS, or you can deduct your actual expenses.

If you use the standard mileage rate, you take a preset deduction for every mile you drive for business purposes, as calculated from your mileage log. The IRS establishes a standard mileage rate each year. For 2016, the rate is 54 cents per mile and for 2017 it is 53.5 cents per mile. If you drive 2,000 miles for business purposes in 2016, using the standard mileage rate, you'd claim $1,080 as a deduction on your taxable income.

When you use the standard mileage rate, you cannot deduct any other vehicle operating expenses, including repairs, maintenance, and registration fees. All of these items, including depreciation on your vehicle, are factored into the IRS's standard mileage rate. This makes the standard mileage method a little bit less cumbersome and it is frequently more beneficial than the actual expense method, particularly for the initial use of an older vehicle. If you choose the standard mileage method you are permitted to later switch to use the actual expense method, but such a switch is typically not better for the taxpayer. Also, if you do not use the standard mileage rate in the first year of business use (for example, if in year one the amount was minimal and provided little or no benefit, so was not claimed), then you must use the actual expense method.

To deduct your *actual expenses*, you'll need to keep a thorough record of all vehicle-related costs, including acquisition costs, financing or lease costs, as well as standard maintenance and repairs. These records include receipts for all of the expenditures. From there, you'll need to use your mileage log to determine what percentage of your total mileage qualifies as eligible business mileage and then deduct that percentage on your taxes. If your



vehicle-related expenses equal $4,000 and 50% of your total mileage qualifies as business mileage, you can deduct $2,000 from your taxable income. If you choose the actual expense method, you may not later switch to use the standard mileage method. There are extensive and complex rules regarding the depreciation deduction expense for vehicles, however a new vehicle that is used 50% or more for business frequently provides a better deduction when the actual expense method is chosen.

Further guidance available

The professionals at SBC-CPA are here to help you with any specific questions you may have regarding the deduction of vehicle expenses, including performing calculations to assist you with choosing between the standard mileage and actual expense methods, as well as establishing procedures to properly capture the information necessary to claim your rightful vehicle expense deduction. Please contact us if you have further questions or would like a consultation to help you make decisions and/or set up procedures.

If you need any assistance or have further questions, call us at 407-847-7466 or email us at team@sbc-cpa.com.

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