

TAX GUIDE

for vehicle expenses



Which automobile expenses are deductible? You may have a deduction coming for any of the following vehicle uses: business, charitable activities, medical travel, or moving expenses.

for BUSINESS

Do you use your car for business trips? If so, you're entitled to deduct your automobile expenses attributable to business driving. However, there are several twists and turns along the way. For starters, you can't deduct the cost of commuting back and forth from work. This is a purely personal expense. But trips between your regular workplace and a client's business location count as business travel. In addition, you may deduct expenses for traveling between different branches of your business.

There are two basic ways to deduct business auto expenses: the actual expense method or the standard mileage rate.

■ Actual expense method

As the name implies, you can deduct the actual costs of using your automobile for business travel. This includes expenses such as oil and gas, insurance, repairs, license and registration fees, etc. Significantly, you're also entitled to an annual depreciation deduction, although this amount may be limited by the "luxury car" rules.

If you lease the car, you can deduct the lease payments instead, subject to limits under IRS tables.

If you also use your vehicle for personal driving, you must divide your expenses between business and personal use, based on the mileage.

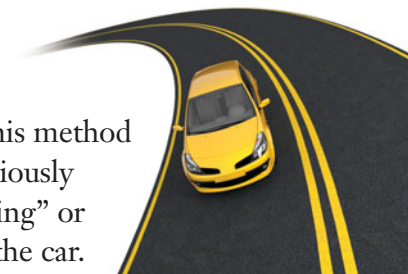
Example: You drive your car 16,000 business miles and 4,000 personal miles during the year. Thus, 80% of your mileage (16,000 business miles divided by 20,000 total miles) is business-related. So you can deduct 80% of your actual expenses.

A drawback to the actual expense method is that you must account for all of your expenses in addition to keeping records of each business trip.

■ Standard mileage rate

With this method, you multiply the annual flat rate prescribed by the IRS by the number of business miles you drive, and add on any business-related parking fees, taxes, tolls, and interest expense on your car loan. (Interest expense is not deductible by employees.) All other costs, including depreciation, are built into the flat rate.

However, you can't use the standard mileage rate in certain cases. For instance, this method is not available if you've previously claimed Section 179 "expensing" or accelerated depreciation for the car.



■ Standard mileage rate *(continued)*

Although the standard mileage rate is generally more convenient than the actual expense method, you still must record the date, mileage, business location, names and relationships of clients, and the business purpose for each trip. It is recommended that you keep a contemporaneous diary for both methods.



BUSINESS DRIVING

Two methods – What can you deduct?

Actual expenses

- Gas and oil.
- Repairs, maintenance, tires.
- Insurance and licenses.
- Depreciation (may include first-year expensing).
- Car loan interest (except employees).
- Car lease payments (special rules).
- Parking fees and tolls.

Standard rate

- Business miles driven times IRS-approved rate.
- Business portion of parking fees, tolls, car personal property tax, and, except for employees, car loan interest.

Note that with either option, other special tax rules may come into play.

for CHARITY

If you drive your car on behalf of a charitable organization and there is no element of personal pleasure, recreation, or vacation involved, you may deduct either your actual vehicle expenses or the standard mileage rate for charitable driving plus parking fees and tolls.

for MEDICAL SERVICES

If you drive to obtain medical care, you may deduct either your actual vehicle costs or the standard mileage rate for medical driving plus parking fees and tolls.

for MOVING

If you use your car in a tax-deductible move, you may deduct either your actual out-of-pocket expenses incurred or the standard mileage allowance for moving plus parking fees and tolls.

The rules governing vehicle deductions are full of exceptions and limitations. To be certain you use the method that's right for you – and that maximizes tax savings – give us a call. We can review your situation and your options with you.

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