Deduction

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Ken Berry, JD • Sep. 01, 2014

[This is part of a series of articles on maximizing deductions for travel and entertainment (T&E) expenses.]

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Admittedly, the record keeping requirements for passenger vehicles used for business driving are a hassle. The IRS offers a short-cut, but this isn't always the best avenue – in fact, it frequently isn't. Let's take a closer look at each method.

1. Actual expense method: As implied by the name, you can deduct the actual expenses attributable to business use of the vehicle, including gasoline, oil, tires, insurance, repairs, licenses, registration fees, etc. In addition, you may claim be able to claim a specified depreciation deduction for the vehicle, based on the percentage of business use. For instance, if you use an auto 80 percent for business use, you're entitled to a depreciation deduction of 80% of the allowable amount for the particular year of service.

However, your annual depreciation deductions are limited by "luxury car" rules that

business purpose of the travel.

2. Standard mileage rate: Alternatively, you can use the standard mileage rate established annually by the IRS. This flat rate is applied to every business mile plus you can tack on business-related parking fees and tolls. The flat rate for 2014 is 56 cents per mile. As an example, if you travel 10,000 business miles in 2014 and incur $200 in business-related parking fees and tolls, you may deduct $5,800 under this method.

With the standard mileage deduction, the beauty is that you don't have to account for all your actual expenses, although you still must keep records of the mileage for each business trip, the date, the destinations, the names and relationships of the business parties and the business purpose of the travel.

Although the more convenient standard mileage rate is available to most taxpayers, it can't be used if you:

- Operate cars for hire (e.g., taxis and limos);
- Use five or more cars at a time (e.g., fleet operations);
- Have claimed an accelerated depreciation deduction for the vehicle in the past;
- Have claimed a Section 179 deduction for the vehicle in the past;
- Have claimed actual expenses after 1997 for a vehicle that is leased; or
- Are a rural mail carrier who has received a qualified reimbursement.

Note that the actual expense method will often produce a larger deduction, especially if you drive few business miles during the year because you still benefit from the depreciation allowance. Can you switch to the actual expense method if you've used the standard mileage rate in the past? Yes, but you generally can't do things the other way around. It's getting late in the year to make a switch, so make sure the numbers work before you commit to keeping the extra records.

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