



## TAX COACH FOR YOU

### Diane Gardner EA, CTC

*Certified Tax Coach*

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It's hard to know which automobile expenses are deductible. You may have a deduction coming for any of the following vehicle uses: business, medical travel, charitable activities, or moving expenses.

#### for BUSINESS

Do you use your car for business? If so, you are allowed to deduct your automobile expenses attributed to business driving. It is, however, a windy road. For starters, you can't deduct the cost of commuting back and forth to work. This is considered a personal expense by the IRS. Trips between your regular work place and a client's business location count as business travel and are therefore deductible. In addition, you may deduct expenses for traveling between the different branches of your business.

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

#### standard mileage method

The *standard mileage method* is the simpler of the two methods. You simply multiply the number of business miles you drove by the annual flat rate prescribed by the IRS, 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 factored into the flat rate.

In certain cases you can not use the *standard mileage method*. If you have previously claimed Section 179 "expensing" or accelerated depreciation for the vehicle, this method is not available to you.

Although the *standard mileage method* is usually more convenient than the *actual expense method*, you still must keep records of the date, mileage, business location, names and relationships of clients, and the business purpose for each trip.

#### actual expense method

With the *actual expense method*, you can deduct the actual costs of using your vehicle for business travel. This includes expenses such as gas, oil, repairs, insurance, license and registration fees, etc. You are also entitled to an annual depreciation deduction, although this amount may be limited by the "luxury car" rules, but this can be a significant deduction.

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

If you also drive your vehicle for personal use, you must divide your expenses between business and personal use based on mileage. You can only deduct the percentage of your actual expenses that match the percentage of business miles driven.

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

It is recommended that you keep a detailed diary for either method. The better records you keep, the better you are protecting yourself from the IRS.



## BUSINESS DRIVING

two methods—what can you deduct?

### ACTUAL EXPENSES

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

### STANDARD MILEAGE

- **Business miles driven times IRS-approved rate**
- **Business portion of parking fees, tolls, car loan interest** (except employees)

*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 use the standard mileage method plus parking fees and tolls.

### for MEDICAL SERVICES

**If you drive your car to obtain medical care**, you may deduct either your actual vehicle expenses or use the standard mileage method plus parking fees and tolls.

### for MOVING

**If you use your car in a tax-deductible move**, you may deduct either your 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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