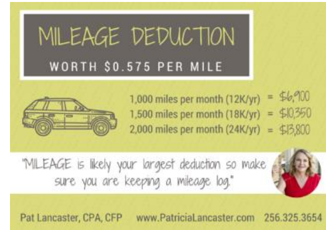
# Mileage Deduction




Mileage Deduction for Small Business Owners (SBO)

**The IRS understands there is a cost associated with using a personal vehicle for business purposes. That's why you can take a deduction on your business drives. However, the IRS has clear definitions for what is a business drive.**

## Mileage Deduction

For many SBOs, mileage will be your largest deduction. The IRS allows you to choose between two methods for deducting mileage: ***Actual vs. Standard***. For most SBO's, the *Standard Method* is the most advantageous, which is the focus of this handout. However, it's best to speak with your CPA about your unique tax position. **Regardless of the method chosen, you are required to keep a mileage log. Finally, you are not permitted to switch between methods from year to year.**

## Standard versus Actual Mileage Deduction:

The ***Actual*** method requires that you track the actual costs you incur each year to operate your car (gas, oil changes, tire rotation), etc. Then, you multiply the total cost by your car's business use percentage (as determined by your mileage log). *Plus*, you must calculate depreciation. The ***Standard*** method is simpler and requires less recordkeeping; no need to track gas receipts and etc.

## Standard Mileage Deduction: How It Works

- You deduct $0.545 (2018 TY) for every business mile you drive.
- It requires **less record-keeping**; you *only* keep track of how many miles you drive; you do not track actual expenses – gas, maintenance, repairs, etc…
- If you choose the standard mileage rate, you can't deduct actual car operating expenses or depreciation.
- The only additional expenses you can deduct are (1) Interest on a car loan (2) Personal property tax; auto registration fee – car tag.

Table 5-2. **Daily Business Mileage and Expense Log** **Name:**

| Date | Destination (City, Town, or Area) | Business Purpose | Odometer Readings: Start | Odometer Readings: Stop | Odometer Readings: Miles this trip | Expenses: Type (Gas, oil, tolls, etc.) | Expenses: Amount |
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| | Weekly Total | | | | | | |
| Total Year-to-Date | | | | | | | |

**Source: IRS Publication 463, Cat. No. 11081L, Travel,Entertainment,Gift, and Car Expenses**

## The Rules for Deducting Mileage

On your tax return, your accountant must list the total miles for each of the following categories: Business, Commuting, and Other (personal). See *Schedule C excerpt* below. Therefore, it's important to track total miles (in addition to business miles). We recommend that you routinely record your odometer throughout the year.

## Schedule C Excerpt:

**Part IV** **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

**43** When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /

**44** Of the total number of miles you drove your vehicle during 2014, enter the number of miles you used your vehicle for:

**a** Business **b** Commuting (see instructions) **c** Other

**45** Was your vehicle available for personal use during off-duty hours? . . . . . . . . . . . . . . ☐ Yes ☐ No

**46** Do you (or your spouse) have another vehicle available for personal use?. . . . . . . . . . . . . ☐ Yes ☐ No

**47a** Do you have evidence to support your deduction? . . . . . . . . . . . . . . . . . ☐ Yes ☐ No

**b** If "Yes," is the evidence written? . . . . . . . . . . . . . . . . . . . . . . . . ☐ Yes ☐ No

1. **Business:** Deductible.
   - Ex: Overnight business travel, Listing Appointment, Sales Appointment, Post Office, Bank, Office Max, Client or Business Luncheon.
   - Business travel to and from your **Home Office** is generally deductible. A home office is most beneficial for deducting mileage.
   - Business travel to a ***temporary* business location** is generally deductible if the duration is less than one year. Ex: Builder's agent at a "model home".
2. **Commuting:** Never Deductible.
   - Generally speaking, all of your travel is either *Business* or *Other (personal)* if you have a **home office**. Many Realtors have a **broker office** where they work on a regular basis. Depending on your unique circumstances, your mileage to and from your broker's office may be business (deductible) or commuting (not deductible). Talk with your CPA.
3. **Other (Personal):** Never Deductible.
   - Almost no one can claim 100% business use of their vehicle. Your mileage to the grocery or church is not deductible just because you passed out your business card or spoke with a potential new client.

## It works until you're audited.

If you claim **a large percentage of your vehicle as business** (60% or greater), you better make sure you have an excellent mileage log to back it up. Why? Look again at the Sch C excerpt above – **Line 47a-b.** By checking the box "yes", you have certified that you kept a mileage log – which is exactly what the IRS needs to disallow your mileage deduction in an audit when they request your mileage log. You may check the box "No", but then you don't get to claim the mileage deduction.