



# Dollars & Sense



*Pam Schoelles, EA*

As the end of 2006 approaches we are confident that all of you are gathering, sorting and totaling your receipts and records of tax deductions. These may include everything except business vehicle expenses since many taxpayers think if they take the Standard Mileage Rate they can avoid record keeping. They say "I'll just guesstimate." If you know anyone like this (we're sure it's not you) share the following article with them. It outlines not only the importance of good records but also describes another method of claiming vehicle business expenses that could possibly result in a greater tax deduction. If this isn't enough, call our office for more *incentive* to break the guesstimating habit.

## Vehicle Business Expenses

If you use a car or truck for business purposes, there are generally two methods available to account for the business expense of operating the vehicle: 1) standard mileage rate method or 2) actual expense method. Vehicles are "listed property" and have special depreciation and depreciation recapture rules if the qualified business use is 50% or less. The following record keeping is required with either method: the total miles driven for the year, the business miles for the year, the date the vehicle was placed in service, and the cost (or basis if acquired by trade). The business miles should be documented as to number of miles, date, and business reason.

The Standard Mileage Method may be used for owned and leased vehicles if they are not for hire (taxi), there are less than five vehicles used in the business, and only straight line method of depreciation was used in a prior year. The standard mileage rate beginning January of 2006 is \$.445 per mile. The rate effective January 1, 2007 is \$.485 per mile. This rate covers depreciation, gasoline, insurance, maintenance, servicing, tires, repairs, registration, and lease payments. An employee can add parking fees and tolls and a self-employed person can also include interest on the auto loan as well as the above.

The Actual Expense Method must be used if any method of depreciation other than straight line over the estimated useful life of the auto has been claimed.

The business mileage as a percent of the total mileage is determined on an annual basis; i.e., business miles = 27,000, total miles = 30,000, business use is 90.00%. This percentage of the operating expenses (depreciation, gasoline, insurance, maintenance, servicing, tires, repairs, registration, and lease payments) is allowable as a business deduction.

Generally, taxpayers may choose the method most beneficial to them. If the vehicle is leased, the election to use the standard mileage method must be used for the term of the lease. If the vehicle is owned, the election to use the standard mileage method is usually made when the car is placed in service. If the actual method appears better in later years and the vehicle is not considered fully depreciated, the straight line method must be used for the estimated life of the car.

The key to either method is good records of the usage. Without it, your expenses may be disallowed unless you can substantiate the business use by recreating records from receipts, invoices, appointments, etc. Whether you operate as a sole proprietor, partnership, corporation, or limited liability company, the above methods and rules apply.

**The standard mileage rate beginning January of 2006 is \$.445 per mile.**