

Your Business: Maximize Car and Truck Deductions

Filing Guide

IRS Publication 463:
[Travel, Entertainment, Gift, and Car Expenses](#)

Tax Savers

You can deduct costs to plaster your name and logo on your car or truck. But this won't convert personal/commuting miles into business miles.⁵

Tax Savers

The IRS approves four methods to track business miles. All of them require "adequate records or other sufficient evidence" to support business use. This means logging mileage at least weekly⁶ and keeping receipts for all expenses over \$75.⁷

1. **"Brute Force."** Record every business mile for the year. Divide by the year's total miles to calculate BUP. (If you use more than one car for business, this is the method you have to use.⁸)
2. **"90 days."** Record business miles for a "typical" 90-day period. Calculate BUP for that period, and use it for the entire year.⁹
3. **"First Week."** Record business miles for the first week of each month. Calculate BUP and use it for the entire year.¹⁰
4. **"Simplified."** Record starting and ending mileage for a 90-day period. Record personal and commuting miles for that period, and assume all the rest are for business. Calculate BUP and use it for the entire year.¹¹

Vehicle Actual Costs (2008)			
	Miles/Yr, c/mile		
Vehicle	10K	15K	20K
Small Sedan	55.1	42.1	35.7
Med. Sedan	71.9	55.2	46.9
Large Sedan	85.8	65.1	54.8
4WD SUV	91.0	69.7	59.1
Minivan	74.9	57.6	49.1

Sources

- ¹Rev. Rul. 94-47.
²IRS Pub. 17, page 193 (2003).
³IR 2005-138.
⁴Rev. Proc. 2002-61.
⁵IRS Pub. 17, page 193 (2003).
⁶IRC §280F(d)(5).
⁷Regs. §1.274-5T(c)(3)(ii)(A).
⁸Regs. §1.274-5T(c)(3)(ii)(B).
⁹Regs. §1.274-5T(c)(3)(ii).
¹⁰Regs. §1.274-5T(c)(3)(ii).
¹¹Frankel v. Comm'r, 27 TCM 817 (1968).

Car and truck expenses for trips on behalf of your trade or business are a deductible business expense.

Your first step involves calculating your Business Use Percentage ("BUP;" see sidebar) for your vehicle. The IRS divides mileage into three categories: 1) business; 2) commuting; and 3) personal. Ordinary commuting and personal trips are nondeductible. Trips from home to your first business stop and trips from your last business stop to home are personal. (Daily trips to the bank, post office, and similar stops where you perform no service don't qualify.)

Travel between temporary business stops is deductible. So, for example, if you leave home, make six business stops, meet a prospect for dinner, then drive home, your mileage between your first stop and the restaurant is deductible. However, if you have a regular business stop (one that you make at least 8 to 10 times in a six-month period) that you expect to last less than a year, you can count those as business miles, too.¹ If home is your principal place of business, then all business trips are deductible.²

Once you've calculated your BUP, you have two ways to calculate your deduction:

1. The mileage allowance is 58.5 cents/mile (July-December 2008) *plus* parking, tolls, and your BUP of interest on your car loan and state and local personal property tax on the vehicle.³
2. With "actual expenses," deduct your BUP of all expenses:
 - Depreciation and interest (purchased vehicles)
 - Lease payments (leased vehicles)
 - Insurance
 - Gasoline, oil, and car washes
 - Tires, maintenance, repairs
 - Licenses, tags, and personal property tax
 - Parking and tolls

Don't assume that easier recordkeeping justifies settling for the "one size fits all" allowance. It's the same for every vehicle, no matter how big or expensive. And the wrong choice can cost you thousands. The American Automobile Association estimates that 2008 actual costs per mile exceed the IRS flat rate in almost all categories of vehicles and driving habits, at a gasoline cost of \$2.941/gallon (see table).

If you own rather than lease your car, you can switch from the allowance to actual expenses. You'll have to use straight-line, rather than accelerated depreciation. You can't go the other direction, switching from actual expenses to the allowance, if you've claimed any first-year expensing or accelerated depreciation.⁴