Car and Truck Expenses

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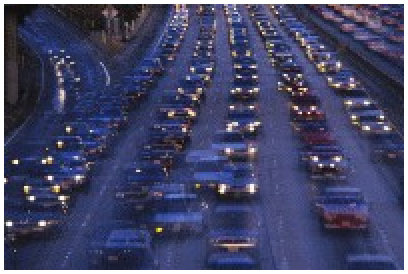

The IRS believes that taxpayers are not properly deducting their car and truck expenses to the tune of $30 billion in unpaid taxes annually. In an effort to curb this abuse, the IRS has issued another fact sheet, to help educate taxpayers on the proper deductions available for car and truck expenses.

Car and truck expenses for trips on behalf of your trade or business are a deductible business expense, but before you can deduct any car or truck expenses you have to determine your "business use percentage".

The IRS has 4 approved methods to determine your business use percentage. All of these methods require that you keep adequate records to support your business use. These methods include:

1. Recording **every business mile you drive for the year** and then divide the year's business miles by the year's total miles to determine your business use percentage.
2. Record all **your business mileage for a "typical" 90-day period** and calculate your business use percentage for that period and use it for the entire year.
3. Record your **mileage for the first week of each month** and calculate your business use for that period and use it for the entire year.
4. Record your **starting and ending mileage for a 90-day period**. Record your personal and commuting miles for that period, and assume all the rest are for business. Calculate your business use percentage for this period and use it for the whole year.

When you record your business use percentage keep in mind that the IRS divides mileage into three categories:

1. personal;
2. commuting; and
3. business.

Miles driven for **personal use** (taking your child to school, going to the grocery store, etc.) are not deductible. Miles drive during your **commute** (going to and from your work or business stop and home) are not deductible. Daily trips to the bank, post office, and similar stops **where you perform no service** are considered commuting miles and are not deductible. It should now be clear that unless you have a car parked and stored at your place of employment that only gets used for business purposes you will not have 100% business use on your car or truck (this includes realtors).

Travel between temporary business stops is deductible. So, for example, if you leave your home, make six business stops, meet a client for dinner, then drive home, your mileage between your first stop and the restaurant is deductible. **If your home is your principal place of business, then all your business trips are deductible.**

Once you've calculated your business use percentage, you have two ways to calculate your deduction:

1. The **standard mileage allowance** is 44.5 cents/mile for 2006 (48.5 cents/mile for 2007) plus parking, tolls, and your business use percentage of interest on your car loan and state and local personal property tax on the vehicle.
2. Your **business use percentage of your "actual expenses"** which include depreciation and interest (if you purchased your vehicle), your lease payments (if you leased your vehicle), car insurance, gasoline, oil, car washes, tires, maintenance, repairs, licenses, tags, personal property tax, parking and tolls.

Before you decide which method you want to take, keep in mind these two points:

1. The American Automobile Association estimates that actual costs for operating popular vehicles range from 47.6 cents/mile for the 2005 Chevy Cavalier to 63.4 cents/mile for the 2005 Mercury Grand Marquis. (These figures assumed 15,000 miles per year, and gas prices of just $1.939/gallon!)
2. You can only claim accelerated depreciation and the large first year expensing (Section 179 expense deduction) on a car that has a business use of at least 50% and you use the actual business expense method.

Gina L. Gwozdz *is a CPA who has chosen to specialize in taxes.* Visit her website at http://GLGcpa.com to view more Tax Tip Articles.