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AUTOMOBILE EXPENSES

Additional reading and reference: Please see IRS publication 463 for information on travel, transportation, gifts & entertainment, local transportation & car expenses (www.irs.gov or call 1-800-829-3676 to order your free copy)

When you use your car for business, you must keep very good records of your business use. These recordkeeping requirements are prescribed by Congress and are detailed in the Internal Revenue Code and Regulations. If you have a second car that you only use for business, 100% of the costs of operating the vehicle may be used. If you have a car that you use for mixed business and personal use, the percentage of the costs attributable to business use are deducted. For example, if you drove 15000 total miles and 10000 of those miles were business-related, then 66.67% (10000/15000) of your auto expenses would be deducted subject to additional limitations described below.

These rules do not apply to short-term vehicle rentals (30 days or less). If you rent a car for short-term business use (i.e. for an out of town business trip), you may deduct 100% of the auto rental plus any amounts spent for fuel, parking, tolls.

There are two methods for taking deductions for business use of your car:

- 1) Actual Expense Method
- 2) Standard Mileage Deduction

For both of these methods, you must keep track of total miles driven during the year (odometer reading on 12/31/2021 minus odometer reading 1/1/2021) and the business miles driven during the year. You must keep a detailed and accurate mileage log of your business usage in order to substantiate the deduction. You may purchase a mileage log in any stationery store, make your own log, purchase an app (recommended) or I am happy to provide a template for you. Your log should include the date, business purposes/destination, beginning odometer reading, ending odometer reading, miles traveled, and parking & tolls for each business use. At the end of this article, I have included web links for mileage log resources.

For the actual expense method, in addition, you must keep track of the total amounts spent for all operating expenses (i.e. fuel, insurance, repair, service, car wash, registration, oil, lease payments. N.B. If you pay for monthly parking of your car, include the total monthly parking [garage] as part of the total operating expenses. Any specific parking and tolls related to specific business trips are stated separately as

ADMITTED TO PRACTICE BEFORE THE INTERNAL REVENUE SERVICE

described above). You may also depreciate the business percentage of the cost of the car. Congress has prescribed limits for depreciation deductions for “luxury” autos. There is a statutory ceiling that is prescribed each year for depreciation claimed. You cannot claim more than the statutory limit multiplied by the business percentage of usage. For example, if you use your car 75% for business (business miles/total miles) and the statutory limit on depreciation is \$18200, your maximum depreciation deduction for the year is \$13650. If you have purchased your car and are using the actual expense method, please provide the date of purchase and/or date the vehicle was put into service, make & model of the car and total purchase price (including freight, sales tax, etc.) plus cost of any improvements.

With the standard mileage deduction, you keep track of your business miles and total miles driven (as described above) in your mileage log. There is a statutory cents per mile amount designated each year. Business miles are multiplied by the standard mileage amount (56 cents per mile for 2021/58.5 cents per mile for 2022) to arrive at your deduction. In addition, you may take business parking and tolls. The standard mileage rate is, therefore, designed to take into account depreciation and operating expenses and simplify the recordkeeping requirements. The standard mileage method is not available for vehicles that you do not own (exception for leased autos as described below) or for vehicles operated as part of a fleet. **IMPORTANT: Keep your service receipts! Even if you use standard deduction an IRS auditor will request the service receipts to verify your odometer readings in your mileage log.**

Although the recordkeeping requirements are less onerous for the standard mileage method, the actual expense method very often produces a higher deduction (particularly in states with high insurance rates). Especially in an environment of rising fuel costs, I’d strongly urge keeping track of the actual expenses in the year you put your vehicle into service so that we can choose the method that gives you the larger deduction.

Please be certain that you have reviewed the rules for when local transportation is deductible (i.e. commuting from home to your main job is not a deduction – **unless you have a qualified home office**). I will be happy to explain these rules to you (see chart in IRS Publication 463).

A note on leasing your car: If you lease your car and use it for business use, you may also use either standard mileage or actual expense method (this is a change—used to be only the actual expense method was allowed for leased vehicles). Your lease payments are included in your total operating expenses as described above (and the business percentage is applied to total operating expenses). If you pay an amount up front/make any advance payments on the lease, these payments are spread over the lease term and deducted ratably each year (i.e. if you made an advance payment of \$10000 on a 2-year lease, \$5000 would be included in operating expenses in year one and \$5000 would be included in operating expenses in year two). In addition, there is a provision for an “inclusion amount” to be calculated for “luxury” cars (**FMV \$51000+ for 2021**/limits yet to be announced for 2022). This provision prevents taxpayers who lease their autos from circumventing the depreciation limits described above. If you choose the standard

mileage method for your leased vehicle, that method must be continued for the life of the lease.

A note on financing your car: If you pay interest on a loan used to finance your car purchase, you may deduct the interest paid (subject to your business use percentage), but only if you are self-employed. This interest deduction is not available for employees using their car for business.

If you live in a state that imposes personal property taxes on your car, the business portion of these taxes may be deducted, but only if you are self-employed. Personal property taxes are otherwise deductible as a personal itemized deduction on Schedule A. Some states (CT for one) also allow a credit for personal property taxes on autos.

When you give your deduction information to your tax professional, do not calculate any of these amounts on your own. Please provide the “raw” information as described above.

If you have more than one business and/or use your car in your self-employed business and in your business as an employee, separate mileage information must be tracked for each business.

If you use more than one car for business, separate mileage information and records must be kept for each vehicle.

If you are married and/or co-own a car with another person and you both use the same car for business you must keep separate mileage logs/records for each of you.

Please do not hesitate to contact me should you have any questions concerning expenses for the business use of your car.

NAME: _____ SSN: XXX-XX-_____
TAX YEAR: _____

MAKE/MODEL OF AUTOMOBILE: _____
DATE OF PURCHASE: _____
PURCHASE PRICE: _____ (sales tax = _____)
(Including sales tax)
ODOMETER READING ON 12/31/2021: _____
ODOMETER READING ON 1/1/2021 (or date of purchase if auto not owned for full
year): _____
TOTAL MILES DRIVEN DURING 2021: _____

BUSINESS MILES DRIVEN TO W-2 JOBS 1/1/21-12/31/21*: _____
BUSINESS PARKING FOR W-2 WORK*: _____
BUSINESS TOLLS FOR W-2 WORK*: _____

**N.B. The Tax Cuts and Jobs Act enacted in 12/2017 eliminates the deduction for
employee business expenses beginning 1/1/2018. NYS (and some other states) have
decoupled from TCJA and will accept employee business expenses.*

BUSINESS MILES DRIVEN TO OTHER NON-W-2-RELATED WORK 1/1/21-
12/31/21 (including freelance, education, auditions, etc.): _____
BUSINESS PARKING FOR NON-W-2 WORK: _____
BUSINESS TOLLS FOR NON-W-2 WORK: _____

MEDICAL MILES _____ CHARITABLE MILES _____

**IF YOU KNOW YOU ARE USING THE STANDARD MILEAGE METHOD,
PLEASE STOP HERE. Remember to save your service records even if you are
using standard mileage/IRS will use these to check your odometer readings.**

IF YOU ARE USING THE ACTUAL EXPENSE METHOD AND/OR HAVE
PURCHASED A NEW CAR AND WISH TO USE THE METHOD THAT GIVES THE
LARGER DEDUCTION, PLEASE CONTINUE.

TOTAL FUEL: _____
TOTAL REPAIR/MAINTENANCE: _____
TOTAL AUTO CLUB: _____
TOTAL LICENSE/REGISTRATION: _____
TOTAL CAR WASH: _____
TOTAL TIRES: _____
TOTAL INSURANCE: _____
TOTAL PERSONAL PROPERTY TAX ON CAR: _____
OTHER: _____
MONTHLY PARKING: _____
LEASE PMTS (PLEASE PROVIDE COPY OF LEASE AGREEMENT): _____

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MILEAGE LOGS ONLINE

Here are some online resources for mileage logs:

<https://www.mileiq.com/> - **Mileage Tracking App (use discount code PKUB483A) – HIGHLY RECOMMENDED**

<http://www.triplogik.com/> - GPS mileage tracker – HIGHLY RECOMMENDED

<http://office.microsoft.com/en-us/templates/TC060884581033.aspx> - Excel template from MS Office - free

<http://www.mileagebooks.com> - Mileage Books Paper Log Books

<http://www.vertex42.com> - Vertex42 Mileage Log for Excel - free

<http://www.mileagewiz.com> - MileageWiz Software Log Book - free trial

Here is a great website for all automobile-related tax information:

<http://www.smbiz.com/sbrl003.html>

<http://milebugblog.blogspot.com/p/home.html> - Both iPhone and Android versions available