

SBIS, Inc.

Accounting, Tax, and Financial Services

Philip H. Unsworth, EA, MBA, ATA, ABA

Enrolled to Practice Before the IRS

Accredited Tax Advisor (ATA)/Accredited Business Advisor(ABA)

Registered Representative*

Tracking Automotive Expenses for Your Business

As a business owner, you know that automotive operating expenses like fuel, repairs & maintenance, insurance, and property taxes, really add up over the course of a year. Then there is also the purchase cost of the vehicle itself. The good news is that these costs are generally tax deductible if tracked and reported properly.

Depending on a variety of issues regarding your business (entity type, number of vehicles, ownership percentage, size and design of vehicle, etc.) there several methods to deduct auto expenses. Listed below are some of the most common ones. Remember that if a vehicle is used for personal purposes in addition to the business use, **generally a mileage log is required to be able to deduct the business use.**

1. **Actual Expenses** – the actual business use portion of all auto operating expenses are deducted by the business, and the cost of the vehicle is deducted over the life of the vehicle in accordance with IRS depreciation rules. The costs can be paid by the company directly, or reimbursed to the employee if a formalized plan is established.
2. **Standard Mileage Rate** – the value business miles driven in the vehicle can be deducted based on the IRS established standard mileage rate. The rate is adjusted by IRS once or twice a year and typically is in the \$0.50/mile range (+/- \$0.05). This amount can either be deducted by the company, or can be reimbursed to the employee if they are using their personal car for business. Again, a formalized plan must be established.
3. **Lease Valuation Method** – if the company provides a car to an employee, and the employee uses the car for some amount of personal use, the employee typically must pay tax on the personal use as a taxable fringe benefit. The way it is taxed to the employee is by adding the value of the personal use to the employee's W2 wages (in box 1 only – no Social Security or Medicare is paid by the employee or employer for the benefit). The amount added to the W2 is the equivalent "lease value" of the vehicle (as determined by IRS tables, and includes the value of the vehicle plus repairs & maintenance, and insurance), plus the operational expenses paid by the company attributable to the employee's personal use. The IRS has determined that a rate of \$0.055/mi of personal use is to be added to the W2 to account for each mile of personal use. Again, a formal plan is required.

Although they may sound complicated and confusing, once established and in use for a little while, you'll see that the deduction is worth the extra effort. **Remember, to be able to deduct automotive expenses, some type of system is required.**

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If you have questions, or need assistance to determine which method is acceptable and most beneficial for your company and situation, please don't hesitate to call us at 757-898-5000 to schedule an appointment.

Sincerely,



Philip H. Unsworth, EA, MBA, ATA, ABA

IRS Circular 230 Notice

Any US tax advice included in this written or electronic communication was not intended to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or the applicable state or local tax laws.

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