

Writing Off The Business Use Of Your Vehicle

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Writing Off The Business Use Of Your Vehicle

Whether you're self employed or work for someone else, the tax code permits you to take a deduction for the unreimbursed business use of your auto. The IRS standard mileage rate is the simplest way to deduct the business use of your car but it may not yield the highest writeoff.

Now for the details:

You begin the process by recording total miles and business miles driven during the year. Some folks keep a detailed mileage log (IRS wants you to do this). Many others estimate the information, hoping IRS doesn't audit them. However you come up with it, the info is used to calculate the business use percentage.

The first option is to deduct actual business expenses by multiplying total expenses times the business use percentage. Actual expenses include gas and oil, depreciation or lease payments, insurance, automobile club memberships, license fees, car washes, repairs, maintenance and the like.

The other option is to use the IRS standard mileage rate plus parking and tolls. The IRS mileage rate is 34.5 cents in 2001, up from 32.5 cents in 2000. The standard mileage rate formerly was permitted only for cars you owned. But beginning in 1998, IRS allowed the mileage rate to also be used for leased cars.

This is good news for those who lease their cars and don't want to keep the records required to compute actual expenses. Even if they do keep the records, many prefer the standard mileage rate

because it's much simpler than adding up a mountain of receipts.

So which option is best?

The only way to know for sure is to calculate the writeoff under both options and use the one with the best result.

My experience tells me, however, that the actual expense option does, on average, produce a bigger deduction. The result depends on how many miles you drive and how expensive your car is to maintain.

The difference between the two options does tend to be greater for leased cars. You'll probably get a larger deduction on a leased car if you choose the actual expense option.

To use the standard mileage rate option for a car you own, you must choose it for the first year that the car has a business function. If you do this, then you'll have the choice in future years of using either the mileage rate or the actual cost method.

If you want to use the standard mileage rate for a leased car, you must use it for the entire lease period.

Also remember that driving to the office from your house does not meet the business use test. Therefore, it's really tough to prove that a vehicle is used 100% for business.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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