

AUTO EXPENSES

BUSINESS ADVISORY ACTIONABLE PRINCIPLES



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DEDUCTIBLE AUTOMOBILE EXPENSES

Actual Expenses

- » Calculation:
Actual expenses x percent business use
- » Includes:
Gas, oil, maintenance, repair, insurance
- » Purchased auto:
Add depreciation of auto
- » Leased auto:
Lease payment based on percentage
- » Must keep detailed records of each expenditure for the vehicle
- » Once you use this method you cannot switch back to SMR

Standard Mileage Rate (SMR)

- » Calculation:
Total Business Miles x SMR Rate
- » Current SMR:
 - irs.gov/tax-professionals/standard-mileage-rates
- » Must use in first year the vehicle is used for business if you choose this method
- » In addition to SMR calculation:
 - Auto loan interest is also deductible based on business percentage use
 - Tolls and parking fees are deductible
 - Personal property tax on vehicle based on value



Calculate expenses both ways and generally take the method that gives you the best tax benefit!

Business miles / total miles = percent business use
With either method, you will still need to track miles



AUTO EXPENSE – TRACKING



Protect your deduction

- » One of the first records an IRS examiner will review in an audit
- » You will need to provide written evidence of business percent use on all autos
- » Receipts and invoices for expenses must be kept
- » Taxpayers cannot estimate expenses related to automobiles (Cohen doctrine does not apply)

Possible use of 3-month random sample?

- » Must be a representative sample of use for the entire year

Business use of home (home office)?

- » Can count miles from when you leave your home if you have a "Qualified" home office
- » The registered address to your Corporation/LLC should be your home or be deemed your administrative office



AUTO EXPENSE – MILEAGE LOG

Smartphone app



- » Use an app to track miles for you
- » Automated tracking based on trips
 - Example: Mile IQ

Date	# of Miles	Ending Odometer Reading	Details, Locations
1/1		20,140	See calendar
1/2	155	20,295	See calendar
1/3	76	20,371	See calendar
1/4	225	20,596	See calendar
1/6	55	20,651	See calendar

Traditional method



- » Calendar entry
- » Individual data entry in logbook
- » Or use a handwritten logbook
 - Old-school paper and pencil with same information as above
- » Take photo of odometer at beginning and end of the year



AUTO EXPENSE – DEPRECIATION

Only used when taking actual expenses

Vehicles under 6,000 lbs (GVW)

- » Bonus depreciation and Section 179 deductions are limited (luxury vehicle limitation)

What about autos over 6,000 lbs. (GVW)?

- » Can deduct part of the purchase price in first year placed in service under bonus depreciation rules
- » Higher Section 179 depreciation limits (indexed for inflation)



Requirements

- » **PURCHASE:** Auto must be a purchase - not a lease
- » **BUSINESS % USE:** Must maintain at least 50% business use

Best Practice

have the 50% or more use auto titled in the Corporation/LLC name when depreciating



AUTO EXPENSE REIMBURSEMENTS

If vehicle is titled to the business:

- » Expenses should be paid by the business
- » Any personal use should be included in W-2 as taxable income
 - Use the cents-per-mile rule at the Standard Mileage Rate (SMR)

If vehicle is titled to the individual:

- » Considered to be a business vehicle to the extent of business use
- » Expenses should be submitted under a documented accountable plan
- » Reimbursement for business portion should be reimbursed before end of the year
 - May reimburse for actual expenses or at the SMR



FAQS

» **Can I use estimates to determine my miles driven?**

- » Automobile use not substantiated by adequate records or by other sufficient corroborating evidence is considered personal use and not deductible as a business expense

» **From which account should I pay for the expenses?**

- » If auto is at least 50% business use, all payments and operation costs paid from the business accounts

» **Can I pay my auto loan payments from my business account?**

- » Loan payments for the primary business auto can be paid by your business directly. A loan payment is not a deduction, you will need a separate category for this.

» **Are the miles driven to and from the office considered business miles?**

- » The costs of commuting from a personal residence to places of business or employment generally are nondeductible personal expenditures.

» **Why is the weight of the vehicle important?**

- » First-year tax deductions on a vehicle greater than 6,000 GVW can vastly surpass first-year tax deductions on those less than 6,000 GVW.

» **Which vehicles typically qualify for the > 6,000 GVW limits?**

- » These are generally heavy SUV's, Pickups, and Vans

» **Can I deduct auto expenses if my vehicle is used less than 50% in the business?**

- » Yes, you may still deduct these expenses, but you will not be able to use Section 179 or bonus depreciation. You must still track the business miles driven to take the deduction.

» **Is it better to use Standard Mileage Rate or actual expenses?**

- » There are many variables that factor into this answer. Please contact us to determine which is best for your situation

