



NELSON CPAs

Vehicle Expenses

The IRS has strict rules for substantiating business vehicle expenses. As long as all the IRS documentation requirements are met, you should qualify for a deduction of the business portion of your vehicle expenses. Failure to comply with the IRS documentation and other requirements can result in the loss of the deduction. Please contact our office with any questions regarding your specific business.

- **Reporting Requirements** – We are required to report the following information on all business tax returns for each vehicle used for a business, rental, or farming activity if vehicle expenses are included as a deduction.
 - total business miles;
 - total commuting miles;
 - total other personal miles;
 - total miles driven during the year.

In addition, we are required to answer the following questions on your behalf:

1. Do you have evidence to support the business use claimed?
2. If “Yes,” is the evidence written?
3. Was the vehicle available for personal use?
4. Was the vehicle used primarily by a more than 5% owner or related person?
5. Is another vehicle available for personal use?

- **Methods** - The IRS allows two methods for determining allowable vehicle deductions.

1. Standard Mileage:

- The 2020 standard mileage rate for business travel is 57.5 cents per mile.
- No other vehicle expenses are allowed if you use the standard mileage rate.
- The standard mileage method may not be allowed if you have previously claimed depreciation expense on your vehicle.

2. Actual Expenses:

- Including depreciation, lease payments, loan interest, gas, insurance, tabs, repairs and maintenance.

- **General Documentation Requirements:**

- Regardless of the method used, the IRS generally requires taxpayers to keep a written mileage log that includes:
 - the date;
 - destination;
 - mileage;
 - and business purpose for each trip.

- **Use of Sampling:**

- You may be able to reduce your record keeping burden by using a sampling method if you follow a consistent pattern throughout the year and all corroborating evidence supports a consistent pattern.

- **Personal Use of Company Vehicles:**

- If an employee uses a company vehicle for personal use, the IRS requires employers to include the value of personal use as additional compensation on the employee's W-2 if the employee does not reimburse the employer.
- The IRS allows different methods to calculate the value of personal use for vehicles provided to employees. This includes the Annual Lease Value Method, Standard Mileage Rate Method, and Special Commuting Method. The IRS has rules regarding when each of these methods can be used. One or more of these methods may not be available to you.
- The IRS requires employers to keep written records to substantiate business use of company vehicles. The substantiation requirements can be met by:
 1. The employer keeping a detailed mileage log including the date, destination, miles, and business purpose for each trip. The employer should also keep records of the beginning and ending odometer readings for each company vehicle that should match the mileage logs.

The employer may put in place a written policy that requires all employees who use company vehicles to be responsible for keeping the detailed mileage logs.

2. The Company can put in place a written policy that either prohibits any personal use or prohibits all personal use other than commuting between home and work.

Companies that put either of these two policies in place are considered to have met their substantiation requirements and do not have to keep detailed mileage logs as long as they have a written policy, follow the policy, and the employer reasonably believes that the employee does not use the vehicle for any prohibited personal use.

- **Exceptions to the Rules:**

- Non-personal vehicles are exempt from the substantiation requirements. This includes ambulances, busses, and special purpose vehicles.
- **For further information** – See the IRS publication number 463 Travel, Entertainment, Gift, and Car Expenses that can be found on the IRS website at www.irs.gov.