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March 2004 - How to Claim a Bigger Write-Off for Your Car.

There are several opportunities to claim car or truck expense as a deduction on your income tax return. Most people are familiar with the standard mileage rates, which for the 2004 calendar year are 37.5 cents per mile for business, and 14 cents per mile for charitable, medical, or moving purposes. In many cases, you may be able to claim a bigger car write-off than just what the standard mileage rates provide.

Actual Cost

The actual cost method allows you to record most of your expenses for operating your vehicle, including insurance, repairs and maintenance, licensing, gas and oil, accessories, parking, toll road fees, and more. To the extent you use the vehicle for business you can also consider depreciation or lease expenses. To use this method, you must keep records of all of these costs and of the miles you drive. The miles are used to determine the percentage that applies to each use.

For example, let's suppose your vehicle operating expenses total \$2,000, and your depreciation is \$3,000. Let's also assume you drove a total of 10,000 miles for the year, broken down as follows: Commuting to work 2,000 miles (20%), business use after arriving at work 3,000 miles (30%), charitable use 1,000 miles (10%), medical use 500 miles (5%), and all other (personal) use 3,500 miles (35%).

Commuting to work is considered personal, and you wouldn't get a tax deduction for those miles. Business use after arriving at work would be the mileage percentage of 30% times \$5,000 (total of both vehicle operating expenses and depreciation) or \$1,500. Note this is higher than the standard mileage rate in this example, which would produce a deduction of 3,000 miles times 37.5 cents per mile, or \$1,125.

Charitable use would be the mileage percentage in our example of 10% times \$2,000 (depreciation is not allowed for charitable use) or \$200. This is again higher than the standard mileage rate, which would produce a deduction of 1,000 miles times 14 cents per mile or \$140. Medical use would be the mileage percentage of 5% times \$2,000 (again, depreciation is not allowed) or \$100, compared with the standard mileage rate of 500 miles times 14 cents per mile or \$70.

Be sure to consider when choosing the actual cost or standard mileage method that you get to choose for the first year you use each vehicle. After that, you continue with the same method for as long as you continue to use it. Sometimes that can make a difference in the method you choose! Be sure to get professional help if you need it to make the best choice for you.

Additional Allowed Expenses

Of course, there are also cases where the standard mileage rate produces the higher deduction. This is most often true for those who drive more than 15,000 miles per year in an older car with low depreciation.

If you do take the standard mileage rate, there are a few expenses you can claim over and above the mileage rate. These include car registration, parking, and toll road fees, so be sure to keep records of those!

The IRS Mileage Rate Is Higher Than Your Reimbursement

It is always best for you if you get a reimbursement for the full IRS rate for the miles you drive. Some people get reimbursed a lower rate; say 20 cents per mile, for their business use of their vehicle. If this is the case for you, you are allowed to take a tax deduction for the difference. You do this by claiming the deduction for the full expense of operating your vehicle, and then subtracting the total amount you were reimbursed. The difference is the deduction you are receiving, and it can be sizeable!

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (doug@accuteksolutions.com) for an initial consultation to discuss your personal situation and how the tax laws might benefit you. Your first 30-minute visit is free to let you sample what we can do for you at no cost or obligation. We also invite you to submit questions you'd like to have answered in a future article!

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