

Business and Personal Automobile Expenses

When can you deduct car and truck expenses for business purposes?

The cost of operating a car, truck or other vehicle is tax-deductible for certain circumstances. The amount of your deduction is prorated based on the number of miles you've spent driving for the tax-deductible purpose. In lieu of calculating your actual car expenses, you can opt for a standard mileage rate.

Business purpose involves driving from your place of employment to another work site, to meet with a client, or going to a business meeting. Commuting from your home to the office doesn't count as a business purpose. However, if you have an office in your home, then traveling from your home office to meet with a client or conduct business is tax-deductible.

Actual Expenses

What counts as a car or truck expense? Here's a list of what can be deducted:

- Parking fees and tolls
- Interest on a loan (for self-employed people only)
- Vehicle registration fees
- Personal property tax
- Lease and rental expense
- Insurance
- Fuel and gasoline
- Repairs, including oil changes, tires, and other routine maintenance
- Depreciation

What's not deductible? Fines and tickets, including parking tickets, are not deductible. Also, expenses related to personal use or commuting are not deductible.

Standard Mileage Rates

Instead of tallying up all your actual car expenses, you can use a standard mileage rate to figure your deduction. The standard mileage rates for 2011 are as follows:

For 1/1 – 6/30/11:

- 51 cents per mile for business,
- 19 cents per mile for medical or moving purposes, and
- 14 cents per mile for charitable service.

For 7/1 – 12/31/11:

- 55.5 cents per mile for business,
- 23.5 cents per mile for medical or moving purposes, and
- 14 cents per mile for charitable service.

Taxpayers can also deduct parking fees and tolls in addition to the standard rate based on miles driven.

Which is Better: Actual Expenses or the Standard Mileage Rate?

You should use whichever method will result in a larger deduction. It varies from person to person depending on how many miles you drive, the amount of depreciation you are claiming, and all the other expense variables.

Generally speaking, claiming the standard mileage rate works results in less paperwork and is best suited for situations in which you drive your car sometimes for work and you don't want to have to dig up all your car-related expenses.

Just be aware that in order to claim the standard mileage rate, you will need to choose that method in the first year that you use your car for business purposes. If you begin by claiming actual expenses, you'll need to stick with the actual expense method for the as long as the vehicle is used for business purposes.

Keeping Good Records

To prove you are eligible to deduct your car and truck expenses, you should keep a mileage log.

A mileage log needs to contain the date of each tax-deductible trip you make, showing how many miles you drove and for what purpose. You'll also need to know the total number of miles you drove for the year, so it would be a good idea to indicate your odometer reading at the first of each year.

You will also need to keep track of your automobile expenses. An easy way to keep track of these expenses is to use a personal finance program such as QuickBooks. This will make it easier at tax time to generate a report of your total car expenses for the year.