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**Re: Tax Deduction for the Business Use of a Vehicle**

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The purpose of this memo is to provide you with a general understanding of current tax deductibility laws pertaining to the use of a business vehicle and their potential applicability to your business.

**Business Use of a Vehicle in General**

Generally, if you use a vehicle in your business, you are entitled to certain tax deductions for expenses incurred in connection with the vehicle. If a vehicle is used exclusively for business purposes, you may deduct the full cost of operating the vehicle. However, if you use the vehicle for both business and personal purposes, you may deduct only the cost of its business use.

Thus, if 10,000 miles were placed on a vehicle in a given year, 8,000 of which were for personal purposes, and 2,000 of which were for business purposes, only 20% (2,000/10,000) would be deductible.

**What is a Business Use**

The Internal Revenue Service ("IRS") divides all vehicle usage into three categories: business, commuting, and personal. Business use generally means travel between two business destinations, one of which may include your regular place of business. Typical business use may include:

1. Getting from one workplace to another in the course of your business or profession when you are traveling within the city or general area;
2. Visiting clients or customers;
3. Going to a business meeting away from your regular workplace;
4. Getting from your home to a temporary workplace when you have one or more regular places of work; and

5. Traveling from your home or workplace to a location in order to perform business activities, such as purchasing office supplies.

Vehicle expenses incurred in commuting between your home and your main or regular place of business are not deductible expenses. This is true even if you have an advertising display on your car, or you are performing business activities, such as speaking to a client while commuting.

Additionally, toll or parking fees incurred while performing business-related matters are deductible expenses. However, toll or parking fees incurred while commuting or parking at your regular place of business are not deductible expenses.

### **Methods of Deduction**

Once a vehicle is deemed to have been used for a business purpose, the deductible amount is determined using one of two methods, the standard mileage rate method or the actual expense method.

#### **A. Standard Mileage Rate Method**

The standard mileage rate is a fixed rate allowed by the IRS for business transportation expenses in place of deducting actual expenses. Currently, the standard mileage rate is 58.5 cents a mile for all business miles driven. The standard mileage is usually adjusted by the IRS on a yearly basis.

If you use the standard mileage rate, you cannot deduct your actual car expenses, such as depreciation, lease payments, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, or vehicle registration fees. However, toll and parking fees incurred while performing business-related matters are deductible in addition to the standard mileage rate.

#### **B. Actual Expense Method**

The actual expense method is based on what it actually cost to operate the vehicle for business purposes. This includes gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to business miles driven.

Further, depending on your particular circumstances, additional rules might apply in dictating which method to use, including specific limitations found within each respective method.

### **Record Keeping**

Regardless of which method of deduction is used, you must be able to prove certain elements of an expense. Expenses are generally proven by keeping adequate documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. The IRS will deem the documentary evidence adequate if it shows the amount, date, place, and essential character of the expense.

Additionally, you are required to provide a written statement of the business purpose of an expense as part of the documentary evidence. However, the degree of proof varies according to

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the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then you do not need to give a written explanation.

For instance, if you are a sales representative who calls on customers on an established sales route, you do not have to give a written explanation of the business purpose for traveling that route. You can satisfy the requirements by recording the length of the delivery route once, the date of each trip at or near the time of the trips, and the total miles you drove the car during the tax year.

The IRS recommends that a diary, log, or other systematic format, such as an excel spreadsheet, be kept to record the use of a vehicle for business purposes. The record need not be made contemporaneously, however the IRS suggests that records made "at or near" the time of the expenditure are the strongest form of evidence.

Bottom line, it is best to keep up-to-date records of your business expenses along with copies of vehicular receipts and/or bills, as the IRS will generally disallow deductions that are approximated or estimated.

### **Conclusion**

As you can see, in order to receive a tax deduction for the business use of a vehicle, both a valid business use must be established, and adequate records must be maintained.