

Auto Rules You Need to Know!

by Renee Daggett

Probably one of the most frequently asked questions I receive revolves around auto use for business: What can I deduct?; Lease or buy?; What miles count?, etc. Here are some general rules you need to know to make sure you get every deduction allowed on your auto use!

First, you need to understand that the IRS allows you to take the higher of two amounts when it comes to your auto. You can deduct the business miles driven at the IRS rate for that year OR you can deduct actual costs; such as, gas, repairs, insurance and the amount allowed for depreciation. What most business owners miss is the percentage of business use. Usually the percentage is less than 100%. Each owner needs to determine the business percentage for the year.

You also need to know that a mileage log is required in order to get the deduction. This includes the date, starting odometer reading, ending odometer reading and business purpose. You are allowed to recreate the log using your calendar and receipts. One simple thing you can do that takes 2 minutes is to write down your odometer reading each year on December 31st. This number gives you a starting point knowing how many miles you drove each year.

One of the top mistakes business owners make is tracking miles driven from their home to work. These miles are called commuting miles which you must qualify for in order to deduct them. How do you qualify? You can only count those miles IF you have a home office and qualify for a home office. If you don't have a home office, those first miles to work are NOT deductible.

Do you ever wonder if it is better to lease a vehicle or buy? Tax-wise, it does not matter. You are going to get a deduction for the amount you paid based upon the business percentage of use. What you should be asking is what the better financial choice is. In my opinion, buying is better than leasing. You might not like my next recommendation, but I feel that it is better to buy used than new. I know, I too like the "new car smell", but you can pay thousands less for a reliable used car than a new car. Just my two cents.

I have had someone tell me that they want to deduct their auto 100% because they have a business sign on the vehicle. They said they see this as advertising. Sorry...the IRS' rules don't agree. You can deduct the cost of the signs, but the auto rules are the same – based on the percentage of business miles.

Know the auto rules so you know what is expected of you! This will get you every deduction allowed!

