# TAX COMPLIANCE & PLANNING TRENDS

## IRS Raises the Standard Mileage Rate

*Responding to public pressure and the rising price of gas, the IRS just increased the standard mileage rate that can be used to claim deductions, as well as employee reimbursement, for business driving. For the second half of 2008 -- from July 1 through December 31 -- the rate jumps to 58.5 cents for every business mile traveled (plus business-related parking fees and tolls). The previous rate of 50.5 cents per mile remains in effect for January 1 through June 30.* (*IRS Announcement 2008-63*)

The change reflects the soaring cost of gasoline across the country. Normally, the IRS updates the rate before the start of each year. However, a mid-year increase is not unprecedented. The IRS used a blended rate for the 2005 tax year due to rising gas prices. If prices continue to escalate, another bump could be forthcoming.

*Background:* If you use your vehicle for business trips, you generally have a choice of deducting your actual expenses or using the standard mileage rate:

**Actual Expenses -** As the name implies, you can write off the actual expenses attributable to business travel, including gas, oil, tires, insurance, repairs, licenses and registration fees and so on. In addition, you can claim a depreciation deduction for the vehicle, based on its business use. For example, if you use your car 80 percent for business, you're entitled to deduct 80 percent of the regular depreciation allowance.

However, annual depreciation deductions are limited by the "luxury car" rules. The main drawback to this method is that you must account for every expense you incur as well as keep detailed records of every business trip.

**Standard Mileage Rate**
Alternatively, you might opt to use the standard mileage rate established by the IRS. With this method, you don't have to account for all of your actual expenses, although you still must record the mileage for each business trip, the date, the destinations, the names and relationships of the business parties and the business purpose of the travel

Let's look at how the blended rate works in 2008. For simplicity, let's say you drive 1,000 miles a month on business. Your deduction for the first half of 2008 is $3,030 (50.5 cents times 6,000 miles) while your deduction for the second half is $3,510 (58.5 cents times 6,000 miles). Thus, the total deduction for the year is $6,540, plus business-related parking fees and tolls.

The standard rate cannot be used if you:

- Operate cars for hire (such as taxis and limos)
- Use five or more cars at a time (such as fleet operations)
- Have claimed an accelerated depreciation deduction for the vehicle in the past
- Have claimed a Section 179 deduction for the vehicle in the past
- Have claimed actual expenses after 1997 for a vehicle that is leased
- Are a rural mail carrier who has received a qualified reimbursement

*Note:* You still may fare better with the actual expense method than you do with the increased standard mileage rate. Consult with your tax adviser about your situation.

**Non-Business Rates**

Besides the standard mileage rate for business driving, you may also use an IRS-approved rate if you use your vehicle for medical reasons, a job-related move or charitable purposes. The rate for medical travel and job-related moves increases for the second half of 2008 from 19 cents a mile to 27 cents a mile. However, the rate for charitable driving remains at 14 cents a mile. This statutory rate must be amended by Congress.

Source: Bizactions.com