STANDARD MILEAGE RATE INCREASES BY 3¢ FOR 2005

The IRS has announced that the optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) is 40.5¢ for business travel after 2004. That's 3¢ more than the 37.5¢ allowance for 2004 business travel. This largest-ever, year-to-year mileage-rate increase is due to higher prices for vehicles and fuel.

- **Simplified deduction method**

The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance, license and registration fees. The taxpayer may, however, claim separate deductions for parking fees and tolls connected to business driving.

The standard mileage rate may not be used for a purchased auto if:

- it was previously depreciated using a method other than straight-line for its estimated useful life;
- a Code Sec. 179 expensing deduction was claimed for the auto;
- the taxpayer depreciated it using MACRS under Code Sec. 168 ; or
- the vehicle is used for hire, such as a taxicab.

Also, the standard mileage rate can't be used to compute the deductible expenses of five or more autos owned or leased by a taxpayer and used simultaneously (such as in fleet operations).

Rural mail carriers who receive qualified reimbursements also can't use the standard mileage rate.

A taxpayer who uses the mileage allowance method for an auto he owns may switch in a later year to deducting the business connected portion of actual expenses, so long as he depreciates it from that point on using straight line depreciation over the auto's remaining life. The depreciation deductions would still be subject to the Code Sec. 280F dollar caps.

A taxpayer may use the mileage allowance method for a leased auto only if he uses that method (or a fixed and variable rate(FAVR) allowance method) for the entire lease period (including renewals). If the lease period began before 1998, this rule applies only for the post-1997 portion of the lease period (including renewals).

- **Other business mileage rate rules**

  For 2005, the depreciation component of the mileage rate is 17¢ a mile (16¢ a mile for 2004 and 2003, 15¢ for 2002 and 2001 and 14¢ for 2000). The depreciation component reduces the basis of the auto for gain or loss purposes.

- **Advantages of using standard mileage rate**

  For those taxpayers eligible to use it, the standard mileage rate offers the following advantages:

  - Mileage rate users need not keep a record of actual expenses, or retain receipts for operating expenses of the auto. A record of the time, place, business purpose and number of miles traveled suffices.

  - If an auto's business expenses are deducted via the mileage rate, it is not subject to the Code Sec. 280F dollar caps or the special rules which apply if qualified business use does not exceed 50% of total use.

  - The mileage rate method may yield bigger deductions than the actual expense method if the auto is a thrifty, high-mileage model.

- **Disadvantages of mileage rate method**

  The mileage rate method may produce a smaller deduction than would be obtained by claiming actual business-connected operating expenses plus depreciation (or lease payments). Also, use of the mileage rate method prevents the taxpayer from claiming regular MACRS deductions (subject to the luxury auto dollar caps) for the auto in later years.

- **Other applications of mileage allowance method**

  Employers who require employees to supply their own autos may reimburse them at a rate which doesn't exceed 40.5¢ a mile for employment-connected business mileage during 2005 (37.5¢ a mile for 2004), whether the autos are owned or leased. The reimbursement is treated as a tax-free, accountable-plan reimbursement if the employee substantiates the time, place, business purpose and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos during 2005 may be valued at 40.5¢ per mile if the conditions specified in the regulations are met.

- **Other mileage rules for 2005**

  Employers may use a FAVR method to reimburse employees who supply their own cars for business (whether the cars are leased or owned). For 2005, the standard auto cost used to compute the FAVR cannot exceed $27,600 ($500 less than the $28,100 standard-auto cost that applies under the FAVR method for 2004).

In addition, for 2005, the rate for using a car to get medical care or in connection with a move which qualifies for the moving expense deduction is 15¢ a mile (14¢ a mile for 2004). The mileage rate for driving an auto for charitable use during 2005 will remain unchanged at 14¢ a mile (a statutory rate that's not adjusted for inflation).