



Business Auto Usage

Do you drive your car for business purposes? If so, you will need to track your total miles, as well as your business miles. Depending on your situation, you can use either the mileage method or the actual cost method. Both methods require you to know the annual total and business miles. You can track your mileage any way that works for you. Some people just keep track of the business miles on their calendar, others use Excel, and many people use one of the many available mileage-tracking apps.

If you use the mileage method, you will multiply your business miles by an IRS-provided rate. For 2023, this rate was 65.5 cents per mile and for 2024 the rate will be 67 cents. In addition to mileage, you can also claim a portion of your car financing costs.

If you use the actual method, you will take a percentage of your total costs of operating the vehicle. These costs include fuel, repairs, insurance, interest, and maintenance. You will also claim depreciation on your vehicle. The percentage is determined by taking your business use miles over your total miles for each car.

FAQ: Can you use one method one year and the other method the next year?

In some situations, you can change your method, but, in general, you will need to pick one method for each vehicle. However, different vehicles can have different methods.

FAQ: What if I just worry about the mileage records when and if I ever get audited?

Not a wise move. Your mileage records need to be contemporaneous, and after-the-fact mileage logs will not stand up to an audit. The IRS knows people are lax about their mileage records, and automobile expense is one of the most audited items on a business return.

FAQ: What happens if I sell the vehicle?

If you sell the vehicle, there may be a gain or loss that must be recognized on your tax return in the year of sale. Whether you use the mileage method or actual method, each year your cost basis is being reduced by depreciation.

FAQ: What if I just don't take depreciation? That way I won't have a gain!

Nice try, but the basis is reduced by the depreciation whether or not you take a deduction. Yes, this means you have to reduce the basis even if you never took a deduction for the depreciation. Not fair, but it is the rule.

FAQ: What happens if I trade it in? Isn't there an exception to reporting gain if I am trading it in on another car?

No, sorry. If you trade it in, the trade-in price will be considered the sales price, and you will have to report a gain if this amount is over the depreciated cost of the vehicle. Like-kind exchanges on personal property are no longer valid.

