

Taxpayers who use a passenger automobile in the pursuit of business or in an income-producing activity can deduct certain costs related to its acquisition and maintenance. The deductible items include gas, oil, tolls, parking fees, insurance, and depreciation. All of the expenses must be allocated between business use and nondeductible personal use. Use of an automobile for commuting to and from work is a personal, nondeductible use. You can deduct actual expenses incurred as a result of the business use or you can use the standard mileage rate.

Instead of figuring actual expenses, you can use the standard mileage rate of 34.5 cents per mile for travel in 2001 (36.5 cents per mile in 2002). The standard mileage deduction is in lieu of deducting operating and fixed costs of the automobile. Depreciation is a component of the standard mileage rate, therefore, the basis in the automobile must be reduced by the depreciation allowed. However, if you use the standard mileage deduction, you can still deduct parking fees, tolls, interest relating to the automobile's purchase, and state and local taxes.

If you want to use the standard mileage rate for a car in any year, you must choose to use it in the first year you place the car in service in your business. After the first year you can switch to deducting actual expenses.

If you choose to deduct actual expenses, you can deduct such items as oil, gas, insurance, depreciation, etc. However, there are special rules that apply if you use your car 50% or less in your business. Generally, you must use a car more than 50% for business to qualify for the §179 deduction (election to treat a portion of the cost of the car as an expense) and the depreciation deduction. Using your car as an employee is treated as business use only if that use is for the convenience of your employer and required as a condition of your employment.

Generally, the cost of an automobile is a capital expenditure, however, you can elect to treat a portion of the cost, subject to yearly limits, as an expense in the year the automobile is placed in service. To make this election, you must use the automobile more than 50% for business purposes. The yearly limit allowed is determined by the year the automobile is placed in service and the percentage of business use. If an automobile is placed in service in 2000 or 2001, the depreciation deduction cannot be more than \$3,060. This limit is reduced if the taxpayer uses the automobile more than 50%, but less than 100%, for business use.

You may also compute the automobile expense deduction based on a mileage allowance. A mileage allowance is an amount paid by an employer for expenses he reasonably anticipates the employee will incur, calculated not to exceed the amount of the expenses, and paid at the applicable standard mileage rate, a flat rate, or in accordance with any IRS-specified rate or schedule. The allowance may be paid periodically at a fixed rate, at a cents-per-mile rate, at a variable rate based on a stated schedule, at a rate that combines any of these rates, or on any other basis that is consistently applied and is in accordance with reasonable business practice.