Increase Your Tax Deductions—Switching from the IRS Mileage Rate to Actual Expenses

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Do you feel like you're not getting as much as you should from your business vehicle mileage deductions? For some business owners, gas and maintenance for a vehicle can be significant business expenses. If you're not already using the actual expense method to calculate your mileage deduction, that may be your ticket to getting more from your vehicle expenses.

Usually, you'll make a decision once regarding whether to use the IRS mileage rate for your deductions or to use the actual-expense method. If you choose the IRS mileage rate, you also lose out on MACRS depreciation.[1] However, you're not locked into your choice forever. You have two different options for switching to claiming actual expenses.

Option 1: Amending Your Tax Return

If you realize fairly quickly that you've made the wrong decision in choosing to use the IRS mileage rate, you can act quickly and change your decision. That means you'll have to file an amendment to your tax return *before* its original due date (if you filed extensions, the deadline includes the extensions).[2]

This option is fairly easy to enact. You'll file the amendment, electing actual mileage expenses, Section 179 deductions, and MACRS depreciation. But, you have to act fast. This method essentially replaces the election on your original tax return.

Option 2: Straight-Line Depreciation

If you've already missed out on your chance to amend your return, you do have other options. You could still switch to the actual-expense method with MACRS depreciation, but you'll have to get permission from the IRS commissioner . . . if you enjoy wasting time and money with the possibility of rejection.[3] Let's be smart here; the commissioner is not a good option.

Instead, you can opt for straight-line depreciation for the remainder of your vehicle's useful life.[4] This allows you to make the actual expense deductions. For calculating the straight-line depreciation, you'll need the following information on your vehicle:[5]

- **Its Adjusted Basis—**This is typically the original cost of the vehicle minus

depreciation. When you use the IRS mileage rate, depreciation is included in it (22 cents per mile in 2014 and 24 cents per mile in 2015).[6] If you pay $30,000 for your car and drive it 5,000 miles for business (with no personal miles), you would calculate your depreciation at 5,000 miles x $0.22, which equals $1,100. Your adjusted basis is $28,900 ($30,000 - $1,100).
- **Its Estimated Remaining Useful Life—**You don't need to think too hard about this. It's simply how long you expect to keep the vehicle.[7] We'll call it 5 years for our example.
- **An Estimate of Its Salvage Value when the Useful Life Ends—**To get a salvage value, you should use a respected pricing source, such as *Kelly Blue Book*. In our example, the value is what you estimate you could sell the vehicle for in 5 years (the remaining useful life). Let's say this number is $4,000. Don't forget to document where you get this number from!

Now, when you switch to actual mileage expenses, the IRS gives you a bonus on the salvage value if you plan to keep the vehicle for more than three years. Our example vehicle meets that requirement, which means you can reduce the salvage value by $3,000 (10 percent of the basis). If 10 percent of the basis exceeds the salvage value, that's no problem. You'll simply claim a salvage value of zero.

An Additional Consideration

When claiming actual expenses, you'll have to pay attention to the luxury vehicle depreciation limits. These apply to passenger vehicles, and the limits differ between cars, vans, and trucks. You'll need to find the amounts for the year you placed your vehicle in service.

For 2014 the limits for cars placed in service that year are:

The limits for vans and trucks are:

Note: These are amounts for used vehicles only. If your leased or purchased a new vehicle, use the tables in [Rev. Proc. 2014-21] . Regardless of the type of vehicle or whether it is new or used, you must reduce the limit by your personal use. So, if you use your car for 80 percent business and 20 percent personal purposes, your first year limit is $2,528. If these limits affect your depreciation, you can simply claim the rest of the depreciation in a later year—you do not lose it.

Some vehicles are exempt from the luxury limits. Your truck, van, crossover, or SUV may be exempt if it 1) is classified as a truck by the Department of Transportation, and 2) has a gross vehicle weight rating over 6,000 pounds. Note that some passenger trucks are not classified as a "truck" by this definition.

If you don't like the choice you made for your mileage deductions, you can fix it. If you catch it early, you'll still get all the additional benefits that come with the actual-expense method (Section 179 expensing and bonus depreciation). However, if you make the switch later, you can still get some benefit from actual expense deductions with straight-line depreciation. What you need to know is that the choice to switch is available to you.

1. Rev. Proc. 2010-51; IRC Section 168(f)(1) ^
2. Reg. Section 301.9100-2(d) ^
3. Rev. Proc. 2011-14, Appendix 6.02 ^
4. Rev. Proc. 2010-51 ^
5. IRS Pub. 534, Depreciating Property Placed in Service Before 1987, (Rev. Nov. 1995), p. 7 ^
6. Notice 2014-79; http://www.irs.gov/2014-Standard-Mileage-Rates-for-Business,-Medical-and-Moving-Announced ^
7. IRS Pub. 534, Depreciating Property Placed in Service Before 1987, (Rev. Nov. 1995), p. 7 ^