Overview

While running your business, you can deduct certain transportation expenses without having to travel far from home. These deductions cover a variety of transportation modes including air, rail, bus, taxi, and notably, the use of your personal car. There are several ways to qualify.

Costs incurred while **traveling between different work locations** within your tax home area qualify for deductions. Your tax home is the city or general area where your business is based. Expenses for **visiting clients or attending business meetings** away from your regular workplace are deductible. You can deduct expenses when **traveling from your home to a temporary workplace**, provided you also have one or more regular workplaces. These temporary workplaces can be within or outside your tax home area.

If you travel overnight, different rules apply, particularly in calculating car expenses.

This brief on Publication 463, Travel, Gift, and Car Expenses, provides a basic understanding to help you get started with your deductions for business transportation. Pub 463 is sixty-one pages long and this brief covers **Chapter 4 Transportation** and **Chapter 5 Recordkeeping**. Refer to the comprehensive rules laid out in the IRS documentation for detailed guidance on car expenses and other specific situations.

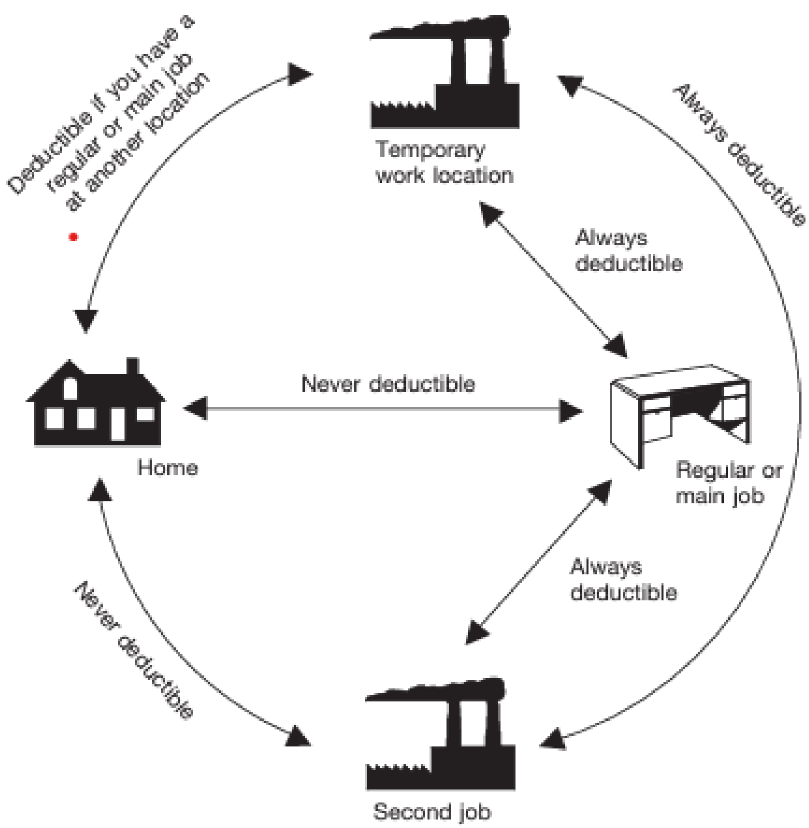
What you'll learn…

- When Are Transportation Expenses Deductible?
- How to Deduct the Car Expenses
- Recordkeeping

When Are Transportation Expenses Deductible?

Commuting costs are daily expenses of driving between home and regular workplaces. Generally, they are not deductible but there are some exceptions. Traveling to a temporary workplace outside your metropolitan area is deductible. If your home is your principal place of business, you can deduct transportation costs between your home and another work location in the same trade or business, regardless of the work's duration or distance.

Figure B. When Are Transportation Expenses Deductible?
If your home is your principal place of business, do not use this chart.



Home: The place where you reside. Transportation expenses between your home and your main or regular place of work are personal commuting expenses.

Regular or main job: Your principal place of business. If you have more than one job, you must determine which one is your regular or main job. Consider the time you spend at each, the activity you have at each, and the income you earn at each.

Temporary work location: A place where your work assignment is realistically expected to last (and does in fact last) one year or less. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary work location outside your metropolitan area.

Second job: If you regularly work at two or more places in one day, whether or not for the same employer, you can deduct your transportation expenses of getting from one workplace to another. If you don't go directly from your first job to your second job, you can only deduct the transportation expenses of going directly from your first job to your second job. You can't deduct your transportation expenses between your home and a second job on a day off from your main job.

Temporary Work Location

If you frequently travel between your home and a temporary work location, you might be able to deduct these transportation costs.

- **Regular and Temporary Sites:** If you have one or more regular work locations away from your home and commute to a temporary work location in the same trade or business, you can deduct daily round-trip.
- **Duration of Employment:** A job location is temporary if it is expected to last for one year or less.
- **Change in Duration:** If a job initially expected to last less than a year extends beyond that, it is still temporary until your expectations change. Once it is expected to last more than a year, it no longer qualifies as temporary.

Overnight Stays

If the temporary work location is far enough from your regular work area that you need to stay overnight, different rules apply. In this case, you may be eligible for travel expense deductions.

No regular place of work

If you do not have a fixed workplace but usually work within the metropolitan area where you reside, you can deduct transportation cost.

Temporary Work Sites Outside Your Metropolitan Area

You can deduct transportation costs for travel between your home and a temporary work location outside your metropolitan area. The metropolitan area typically includes the city and its suburbs.

Non-Deductible Commuting Expenses

Daily transportation costs between your home and any temporary work sites within your metropolitan area are not deductible. These are considered regular commuting expenses and are not eligible for tax deductions.

Two places of work

When your workday involves traveling between two different job locations, there are deductions you can take. You can deduct the costs of traveling directly from one workplace to another within the same day, regardless of whether these locations belong to the same employer. If you do not travel directly from one job to the other due to personal reasons, you can only deduct the amount it would have cost you to travel directly between the two.

Non-Deductible Commuting Expenses

Costs associated with traveling between your home and a part-time job on your days off from your main job are considered commuting expenses and are not deductible.

Commuting Expenses

When it comes to commuting between your home and your primary workplace, certain costs are not deductible. Expenses incurred while taking public or driving a car between your home and your main or regular workplace are non-deductible. These are personal commuting expenses. This non-deductibility applies regardless of the distance between your home and your workplace or whether you engage in work-related activities during the commute.

Specific Non-Deductible Expenses

- **Parking Fees:** Costs for parking at your place of business
- **Advertising Displays on Car:** Adding business advertisements to your car does not convert the vehicle's use from personal to business for tax purposes.
- **Car Pools:** Costs related to participating in a non-profit car pool are not deductible. However, if you run a car pool for profit, you can deduct car expenses.
- **Hauling Tools or Instruments:** Commuting with tools or instruments in your car is not deductible, but costs like renting a trailer are deductible.
- **Union Members' Travel:** Costs from traveling from a union hall to a workplace are non-deductible as your employment location is considered your workplace, not the union hall.

Business discussions or phone calls made during these trips do not change their classification from personal to business. Only expenses directly related to business activities, like visiting clients, are deductible.

Office in the home

If you maintain a qualifying home office that serves as your principal place of business, you are eligible to deduct certain travel expenses.

You can deduct the transportation costs for travel between your home office and another work location within the same trade or business. This includes the costs of driving your car or using other modes of transportation to get to these other work locations.

To determine if your home office qualifies as your principal place of business, refer to IRS Publication 587, Business Use of Your Home and Get the most out of your Home Office Deduction for 2024.

How to Deduct the Car Expenses

Business use of your car makes you eligible to deduct car expenses using one of two different methods. The **Standard Mileage Rate** allows you to deduct a set amount for each mile driven for business purposes. The **Actual Car Expenses** method involves deducting the actual costs of operating your car for business, including gas, repairs, insurance, and depreciation.

If you qualify to use both the standard mileage rate and actual expenses, try to calculate your deduction using both methods to see which one offers a larger deduction.

Important Changes to Note

- Under the Tax Cuts and Jobs Act, miscellaneous itemized deductions subject to the 2% floor are suspended for tax years beginning after December 2017 and before January 2026. This means you can no longer claim the cost of using your car as an employee for these expenses as a miscellaneous itemized deduction.
- **Exceptions:** Certain individuals, such as Armed Forces reservists, qualified performing artists, and fee-basis state or local government officials, can still deduct unreimbursed employee travel expenses directly from their adjusted gross income on Schedule 1 (Form 1040), Line 12.

Standard Mileage Rate

The standard mileage rate is an efficient way to calculate deductible costs. The rate is 65.5 cents per mile. If you cannot or choose not to use the standard mileage rate, you will calculate your car deduction using actual expenses.

Key Rules and Restrictions

- **Exclusive Use:** If you choose the standard mileage rate for any year, you cannot claim actual car expenses for that year.
- **First-Year Choice:** To use the standard mileage rate, you must use this method in the first year your car is used for business. In subsequent years, you can switch between standard mileage and actual expenses.
- **Leased Vehicles:** For leased vehicles, if you choose the standard mileage rate, you must continue to use it for the entire lease period.

Standard mileage rate not allowed

- If you use five or more vehicles simultaneously (like in fleet operations).
- If you have claimed a depreciation deduction using any method other than straight-line for the estimated useful life of the car.
- If you used the Modified Accelerated Cost Recovery System (MACRS) for depreciation.
- If you have claimed a Section 179 deduction, a special depreciation allowance, or have claimed actual car expenses after 1997 for a leased car.

Switching from Standard Mileage to Actual Expenses

If you switch to actual expenses after initially using the standard mileage rate, you must use straight-line depreciation for the remaining estimated life of the vehicle, adhering to specific depreciation limits.

Reimbursements

The standard mileage rate can be used regardless of whether you are reimbursed for your vehicle expenses and regardless of how the reimbursement compares to the calculated amount using the standard mileage rate.

Car for Hire

You can elect to use the standard mileage rate for vehicles used for hire, such as taxis, unless restricted by the general prohibitions mentioned earlier.

Ownership of Multiple Vehicles

- **Five or More Cars:** If you own or lease five or more cars that are used for business simultaneously, you cannot use the standard mileage rate for any of them. In this case, you would need to calculate your deductions based on actual car expenses.
- **Alternating Vehicle Use:** If you alternate the use of these cars for business (meaning you do not use them at the same time), this rule does not apply, and you may still be eligible to use the standard mileage rate.

Interest on Car Loans

If you are self-employed and use your car for business, you can deduct the portion of the interest expense that corresponds to the business use of the car. For example, if 60% of your car's use is for business, you can deduct 60% of the interest expense on Schedule C (Form 1040).

If you finance your car purchase through a home equity loan, you might be able to deduct the interest. Reference IRS Publication 936, "Home Mortgage Interest Deduction," for more details.

Personal Property Taxes

You can deduct the business portion of state and local property taxes for motor vehicles.

Parking Fees and Tolls

Business-related parking fees and tolls are deductible, even if you use the standard mileage rate. However, parking fees at your regular place of work are considered nondeductible commuting expenses.

Sale, Trade-in, or Disposal of a Car

If you sell, trade in, or dispose of your car in any way, you may need to calculate gain or loss for the transaction, or adjust the basis of your new car.

Actual Car Expenses

If you opt not to use the standard mileage rate, you can deduct the actual expenses associated with using your car for business. If your car serves both personal and business purposes, you must allocate expenses based on usage. For example, if 60% of your driving is for business, you can deduct 60% of your total car expenses.

Types of Deductible Car Expenses

- **Operating Expenses:** Gas, oil, and repairs.
- **Ownership Costs:** Depreciation, licenses, registration fees, lease payments, and insurance.
- **Other Expenses:** Garage rent, parking fees, and tolls.

Continued Deductions for Fully Depreciated Vehicles

Even if your car is fully depreciated, you can continue to deduct other operating costs associated with business use. Maintain proper records to support your deduction.

Special Considerations

- **Interest on Car Loans:** Interest is deductible. See **Interest on car loans** under the *Standard Mileage Rate*.
- **Taxes and Sales Tax:** Sales taxes are added to the car's basis and recovered through depreciation.

Non-Deductible Expenses

- **Fines and Collateral:** Expenses related to traffic violations are not deductible.
- **Casualty and Theft Losses:** Losses not covered by insurance may be deductible under certain conditions. Refer to IRS Publication 547, Casualties, Disasters, and Thefts, for details.

Depreciation and Section 179 Deduction

- **Capital Expenses:** The cost of the car, including sales tax and improvements, typically is not deductible immediately but can be depreciated.
- **Section 179 Deduction:** Allows for an immediate deduction of part or the entire purchase price of the vehicle, subject to certain limitations and conditions.

Specific Vehicle Definitions

- **Standard Vehicle Definition:** For depreciation, a car includes any four-wheeled vehicle primarily for use on public streets with an unloaded gross vehicle weight of 6,000 pounds or less.
- This definition excludes vehicles like ambulances or hearses used directly in a business, or vehicles used for transporting persons or property for pay.

Qualified Nonpersonal Use Vehicles

Vehicles modified for business (e.g., with permanent shelving or company logos) and unlikely to be used for personal purposes, like certain delivery trucks, qualify for different depreciative treatment.

Section 179 Deduction

Section 179 deductions allow businesses to deduct the full purchase price of qualifying vehicles and other assets used in a business, subject to certain limits.

Eligibility and Limits

You can elect to deduct the cost of a car that qualifies as Section 179 property in the year you place it in service. The vehicle must be used more than 50% for business to qualify for the Section 179 deduction. If it's used less, the benefit might be reduced or eliminated.

Financial Limits

- **2023 Deduction Limit:** The maximum deduction in 2023 is $1,160,000.
- **Total Investment Limitation:** This begins to phase out dollar-for-dollar after $2,890,000 of total property is placed in service during the tax year, eliminating the deduction entirely above $4,050,000.
- **Specific Vehicle Limit:** For certain heavy vehicles, including some SUVs primarily designed to carry passengers, the deduction is capped at $28,900.

Special Considerations for Vehicles

If you claim the Section 179 deduction, you must consider the first-year depreciation limits, which vary based on when the vehicle was acquired and placed in service:

- $12,200 for vehicles before September 28, 2017
- $20,200 after September 27, 2017, unless you do not claim the special depreciation allowance, then $12,200.

Electing the Deduction

The election must be made in the year the car is placed in service. Use Form 4562 for depreciation and amortization.

Recapture of Deduction

- **Business Use Decline:** If the business use of the vehicle drops to 50% or less in subsequent years, you must recapture (reclaim as income) any excess depreciation claimed. This includes adjusting for any Section 179 deduction taken.
- **Recapture Process:** This involves reporting the recaptured amount as ordinary income in the year the business use falls below 50%.

Disposing of the Vehicle

When you dispose of a vehicle on which you've claimed the Section 179 deduction, the deduction is treated like any other depreciation for recapture purposes. Any gain on the sale is considered ordinary income up to the amount of the Section 179 deduction plus any allowable depreciation.

Refer to IRS Publication 946, How to Depreciate Property, for comprehensive information on depreciation rules.

Leasing a Car

When leasing a vehicle for business, you can choose between the standard mileage rate or actual expenses to calculate your deductible costs.

Deductible Lease Payments

- **Business Use:** You can deduct the portion of each lease payment that corresponds to business use.
- **Advance Payments:** Any upfront payments made at the start of the lease must be spread out over the entire lease term for deduction purposes.

Inclusion Amounts

- **Purpose:** For leases of 30 days or more, you may need to reduce your lease payment deduction by an inclusion amount. This adjustment mirrors what would happen with depreciation limits if the vehicle were owned rather than leased.
- **Calculation:** The inclusion amount is calculated by taking a portion of the vehicle's fair market value, multiplied by the percentage of the vehicle's business use, then prorated for the number of days in the tax year.

Fair Market Value

- **Definition:** This is the price at which the vehicle would sell under normal conditions.
- **Use in Calculations:** Determine the fair market value on the first day of the lease term; if your lease agreement specifies a capitalized cost, use this as the fair market value.

Steps to Calculate Inclusion Amount

1. **Identify the Relevant Appendix:** Depending on the year the vehicle was placed in service; you will refer to a specific IRS appendix that provides inclusion amounts for different fair market values.
2. **Prorate the Amount:** Adjust the inclusion amount from the appendix based on the number of days in the tax year the lease covers.
3. **Apply Business Use Percentage:** Multiply the prorated amount by the percentage of the vehicle's business use.

Examples

- **2023 Lease Example:** If you leased a car on January 17, 2023, with a fair market value of $62,500 and used it 75% for business, you would refer to Appendix A-6 and adjust the inclusion amounts for each tax year based on usage and days in the year.
- **Change in Use Example:** If you initially leased a vehicle for personal use but later switched to business use (like starting a self-employed consulting job), you must reassess the fair market value at the time of conversion and calculate inclusion amounts accordingly.

Reporting Requirements

Reporting for sole proprietors and farmers should be done through Schedule C or Schedule F of Form 1040, respectively.

Disposition of a Car

When you dispose of a car used for business, consider the various tax outcomes selling, trading in, or losing the car to a casualty or theft.

Taxable Gains and Deductible Losses

- **Depreciation Recapture:** Any gain on the sale of the vehicle with depreciation deductions taken in previous years is taxed as ordinary income. This includes Section 179 deduction, clean-fuel vehicle deductions, and special depreciation allowances.
- **Casualty or Theft:** If the car is disposed of due to casualty or theft, and you receive insurance proceeds exceeding the car's adjusted basis, you may realize a gain. However, if you reinvest the insurance proceeds in similar property within a specific time frame, you might not have to recognize this gain. The basis of the new property is its cost minus any deferred gain.

Reporting and Calculation

- **Publication 544:** For detailed guidance on how to report the disposition of a car, refer to IRS Publication 544, which covers sales and other dispositions of assets.
- **Like-Kind Exchanges:** For exchanges completed after December 31, 2017, like-kind exchanges are generally limited to real property not held primarily for sale. When you trade in your car for another car, typically no gain or loss is recognized if the exchange qualifies as like-kind.

Depreciation Adjustment

- **Standard Mileage Rate:** If you used the standard mileage rate to deduct car expenses, depreciation is included in that rate. You must adjust the basis of your car by the amount of depreciation factored into the standard mileage rate over the years of usage.
- **Actual Expense Method:** If you used the actual expense method, refer to the depreciation tables in Publication 946 to calculate depreciation for the year of disposition, adjusting for any applicable conventions (e.g., half-year or mid-quarter).

Practical Example

Imagine you purchased a car for $25,500 in 2018 and used the standard mileage rate to calculate car expenses. Over the years, you accumulated a total depreciation deduction of $24,415. By the end of 2023, the adjusted basis of the car is $1,085. If you dispose of the car at this point, any sale price above $1,085 would potentially be subject to tax as a gain, largely as ordinary income due to depreciation recapture.

Key Considerations

- **Quarter of Disposal:** If disposing of the car within the recovery period using the actual expenses method, the depreciation deduction for the year of disposal must be adjusted based on the quarter in which the car is disposed, using percentages provided in Publication 946.
- **Depreciation Limits:** Ensure that the calculated depreciation does not exceed the limits set by the IRS, adjusting as necessary.

Recordkeeping

Proper recordkeeping is essential for proving transportation expenses and staying ready to withstand scrutiny if necessary. To effectively prove your business expenses, you need to maintain timely and accurate records that can support each element of the expense. Document the cost of the car, the date you started using it for business, business mileage, and total annual mileage.

Adequate records include an account book, diary, log, trip sheet, or similar record, and must be kept in a written format. A computer record is considered written documentation.

Documentary evidence generally includes receipts, canceled checks, bills, or similar documentation.

- Amount of the expense
- Date the expense happened
- Place or location of the expense
- Purpose of the expense

Exceptions to Documentary Evidence

- Expenses under $75 except lodging
- Transportation expenses where a receipt is not readily available

Timeliness and Accuracy

- **Timely Recordkeeping**: The IRS places great value on records that are kept at or near the time the expense is incurred. A weekly log can be sufficient if it accurately reflects the entire week's expenses.
- **Regular Updates**: Regular updates to your records help in maintaining their accuracy and relevance.

Special Considerations

- **Confidential Information**: If your records include confidential information, ensure it's recorded in a secure and compliant manner.
- **Invoices and Bills**: Invoices and other forms of direct evidence can supplement your records, especially for ongoing business uses like deliveries.
- **Destroyed Records**: In cases where records are destroyed due to circumstances beyond your control, such as natural disasters, you may reconstruct these records to substantiate your claims.

Record Retention

Keep your records for at least three years from the date you file your income tax return on which the deduction is claimed. For business use of a car, maintain records for each year of the recovery period.