Title:
How To Drive The Irs Crazy

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600

Summary:
Looking for an easy way to increase your business deductions? Look no further than your driveway.

First, the general rule: your vehicle is deductible to the extent you use it for business.

So, if you drive your car 100% for business, all car-related expenses are deductible.

But if you use it less than 100% for business, do not despair. Less-than-100% use is very typical among small business owners and the self-employed -- you'll still come out way ahead by keeping g...

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Article Body:
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So, if you drive your car 100% for business, all car-related expenses are deductible.

But if you use it less than 100% for business, do not despair. Less-than-100% use is very typical among small business owners and the self-employed -- you'll still come out way ahead by keeping good vehicle expense records.

For example, if you drive your car 75% for business, then you get to deduct 75% of your vehicle expenses.

Now to the fun part.

There are two methods for reporting your car expenses:

1. Actual Expense Method
2. Mileage Method

With the Actual Expense Method, you have to keep track of all your vehicle related expenses, such as:

-- gasoline
-- oil
-- maintenance & repairs
-- insurance
-- license & registration
-- wash & wax
-- supplies & equipment
-- depreciation expense (including Section 179 deduction)
-- lease payments
-- loan interest
-- state and local taxes

So you add up all those deductions and multiply the total by your business use percentage, which is determined by dividing business miles by total miles driven.

The Mileage Method works like this: instead of tracking all the actual expenses listed above, you
only need the number of business miles driven, which is multiplied by the standard mileage rate published each year by the IRS.

For 2003 the mileage rate was 36 cents per mile.
For 2004 the mileage rate was 37.5 cents per mile.
For 2005 there are two mileage rates: 40.5 cents/mile
from January 1 through August 31, and 48.5 cents/mile
from September 1 through December 31.
For 2006 the mileage rate is 44.5 cents per mile.

If you drove your car 10,000 miles in 2005, your deduction is at least $4,000 (depending on how many miles you drove during the last four months) -- regardless of what your actual expenses might have been.

NOTE: There are 2 actual expenses that are also deductible under the Mileage Method -- interest and taxes.

Now for the obvious question: Which method is better?

Well, here's how I look at it. If you want to get the highest deduction, you should "run the numbers" under both methods and then use whichever method results in the higher deduction.

You are allowed to pick whichever method you want.

But once you pick a method, be careful to follow the rules on "switching" from one method to the other: You can switch from the Mileage Method to the Actual Method, but generally are not allowed to switch from the Actual Method to the Mileage Method.

Having said that, let's be practical. If you hate recordkeeping, use the Mileage Method. It's much simpler and faster. You won't have to keep all those receipts.

Even the Mileage Method requires some recordkeeping, however. You should keep a log that documents the business use of the vehicle. Here are 3 IRS-approved car logs:

1. Daily Log. Yep, you just record all business miles for all 365 days of the year.

2. 90-Day Log. Here's a little-known rule -- instead of keeping mileage records for the entire year, you can get by with just a representative portion of the year -- and a 90-day period is considered an adequate representation of the entire year.

So you would keep a Daily Log for a 3-month period, say January through March. To get your annual mileage total, you multiply the 3-month total by 4.

3. One-week Log. Here's another short-cut: The IRS also allows you to keep a log for just the first week of each month. Then you multiply that week's mileage by 4 to get the monthly total.

Regardless of which method you use, there's a goldmine of deductions sitting right there in the garage.