



Claiming Transportation Expenses



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1. Resources

IRS Publications:

- 225- Farmer's Tax Guide
- 463-Travel, Entertainment, Gift, and Car Expenses
- 529- Miscellaneous Deductions
- 535- Business Expenses
- 946- How to Depreciate Property
- 1542- Per Diem Rates

Forms

- 1040:
 - Schedule A – Itemized Deductions
 - Schedule C – Profit or Loss from Business
 - Schedule C-EZ – Net Profit from Business
 - Schedule F – Profit or Loss from Farming
- 2106: Employee Business Expenses
- 2106-EZ: Unreimbursed Employee Business Expenses
- 4562: Depreciation and amortization



TRAINING

2. Training Objectives

When you have completed this training, you will



Be familiar with the general terms associated with transportation-related expenses



Know the difference between which transportation-related expenses can be claimed and which cannot



Know what qualifies as business use or a business purpose



Understand how to substantiate expenses



Be familiar with the resources at your disposal



3. Overview

This training module, *Transportation Expenses*, introduces and discusses deducting the expenses incurred from traveling by automobile, air, rail, bus, taxi, and ferry when not traveling away from home.

Traveling away from home occurs when an individual is required to be away from his/ her tax home for longer than an average work day or when an individual needs to obtain sleep in order to perform the work duties while traveling (but does not include napping in a vehicle or on a train en route, for example).

For information about claiming transportation expenses when traveling, refer to *IRS Publication 463*.



4. Tax Home

- a. An individual is away from his or her tax home for the purpose of performing his or her job. A tax home can be defined as
 1. A person's regular place of business and includes the region in which the business is located.



Example: A person's place of business is just outside of the city limits in Hometown, USA. The city of Hometown as well as other outlying regions is included in the definition of the tax home.

- If a person has two places of business, the tax home is the main business location. To determine the main place of business, consider

1. The total time spent in each location
 2. The level of business activity in each location
 3. The amount of income generated from each location
- If a person does not have a regular business location due to the nature of the work, the tax home may then be where the person lives.



Note: If a person does not live in his or her tax home, the cost of traveling between the tax home and the family home is not deductible. Expenses associated with meals and lodging while at the tax home are not deductible.



5. What kinds of transportation-related expenses can be claimed?

Expenses related to transportation include the ordinary and necessary costs of any of the following:

- b. Going from one work place to another work place in one day within an individual's tax home for work purposes, including attending Armed Forces reserve meetings.



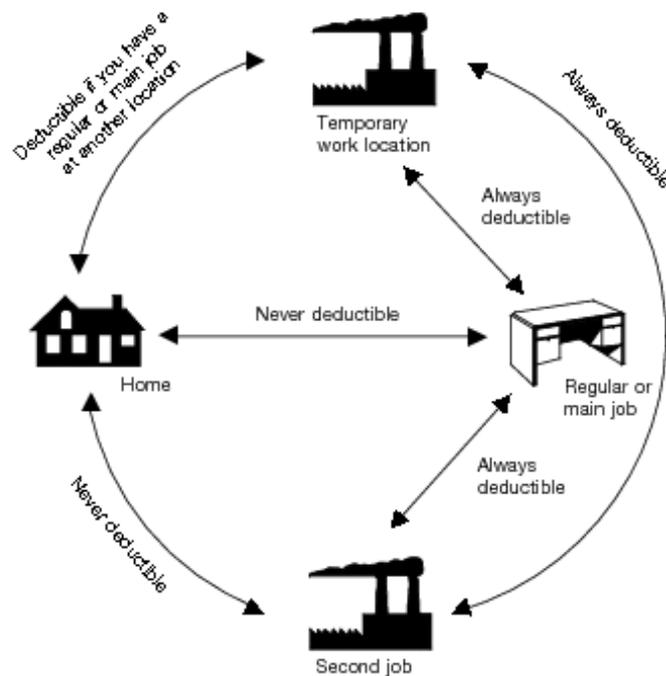
Example: An Armed Forces reservist works a regular full time job. She has a meeting with her military unit at a facility across town from her regular job on the evening of a day she has worked at her full-time job. She is able to deduct the expenses of traveling across town to the meeting.

- c. Visiting clients or customers
- d. Attending a business meeting at a location different from an individual's tax home
- e. Going to a temporary work location that differs from a regular work location
- f. Not having a regular place of work; however, the individual usually works in the general vicinity of his/ her home (as in a metropolitan area), - any of the costs incurred for work travel beyond the regular general vicinity can be claimed
- g. Parking fees incurred while visiting a client or customer
- h. The costs of hauling additional items—tools or instruments—behind a vehicle are deductible. For example, the cost of renting a trailer is deductible if it is used to haul tools associated with an individual's work or business.
- i. Having an office or workplace in an individual's home allows transportation expenses to be deductible when he/she travels to another workplace.



6. What kinds of expenses cannot be claimed?

Figure A illustrates expenses that can and cannot be claimed.



Source: <http://www.irs.gov/publications/p463/ch03.html>

- j. Expenses incurred while traveling overnight are not included since they are considered business travel expenses. Transportation (versus regular transportation expenses).
- k. Parking fees for parking at a regular place of business
- l. Using a vehicle or other mode of transportation as an advertisement (as with a display decal) does not change the vehicle or commute status in any way.
- m. Using a vehicle to haul goods—tools or instruments—within the car does not allow you to claim the vehicle expenses.



Note: The rules in this module can be used to determine the expenses that can be claimed for overnight/business travel when using a personal vehicle.

- n. Transportation expenses incurred when traveling from home to a regular place of business on a daily basis are not generally deductible, unless:
 - The place of business is a temporary workstation, in which case daily transportation expenses are deductible.
 - There is more than one regular places of business
 - The regular place of business is the home or residence, and expenses are incurred when traveling to another work site.



Note: Do not use the illustration if the home is the principal place of business. Refer instead to the Office in the Home section of the IRS Publication 463 and noted later in this module.

- o. If an individual has no regular place of work, but usually works in the general vicinity of his or her home (as in a metropolitan area),

costs incurred for work travel within the regular general vicinity cannot be claimed.

- p. If an individual works both a regular full-time job and a part-time job, going from home to one job is not deductible if only one job is attended that day.



Example: An Armed Forces reservist has a meeting at a location across town from his regular full-time job. He does not work at his regular job the day of the meeting. He is not able to claim expenses for transportation across town to the meeting.

- q. Using a vehicle as a car pool does not change the status of the vehicle use to a deductible expense.



7. Car Expenses

When a car is used for business purposes beyond a regular commute, the expenses incurred for business use are generally deductible. The term “car” includes any four-wheeled vehicle weighing less than 6,000 pounds intended for use on public streets, and includes vans, pickups, and panel trucks. A “car” does not include ambulances or hearses, or combinations of ambulance-hearse vehicles, vehicles that are used to transport persons for pay, or trucks or vans that qualify as non-personal use vehicles, such as delivery trucks that have only a seat for the driver.

Standard mileage rate

The 2011 standard mileage rate is 51 cents per mile before July 1, 2011. The standard mileage rate increases to 55 ½ cents per mile after June 30, 2011. For 2012, the standard mileage rate for business miles driven will be 55 ½ cents per mile.

Using the standard mileage rate means that no other “actual” car expenses can be deducted. Actual expenses include the following:

- Depreciation

- Lease payments
- Maintenance
- Repairs
- Fuel
- Fuel taxes
- Oil
- Insurance
- Vehicle registration fees

If the standard mileage rate method is chosen, it must be used the first year the car is claimed for qualified use. Actual mileage can be used in later years except:

If the car is leased, the standard mileage rate, if chosen, must be used for all the years the car is leased and claimed.

Other expenses attributable to business use such as tolls and parking fees are deductible separately, regardless of whether the standard mileage rate or actual expense method is used.

The standard mileage rate cannot be used when:

A fleet of five or more cars are used *at the same time*--unless the cars are used alternately.



Simultaneous-use example: Jerry runs a grocery delivery service and owns 5 vehicles. He uses all of the vehicles for the delivery of groceries. Jerry must use the actual expenses deduction method for his vehicles because he uses the cars all at the same time.



Alternate-use example: Mrs. Woo is a realtor who owns four cars and one van. She alternates the use of the vehicles when she shows her clients prospective houses. Mrs. Woo can use the standard mileage rate because she does not use all 5 of her vehicles simultaneously.

Other times when the standard mileage rate CANNOT be used:

- Any other depreciation deduction is claimed
- A section 179 deduction is claimed
- A special depreciation allowance is claimed
- Actual car expenses were claimed after 1997 for a leased car
- An individual is a rural mail carrier who received a qualified reimbursement.
- Employer-provided vehicles: The employer is generally required to report the value of the use or availability of a vehicle on an employee's income. Employees using an employer-provided vehicle cannot use the standard mileage rate.

Actual Car Expenses

Actual car expenses include the following:

- Depreciation
- Licenses
- Fuel
- Oil
- Tolls
- Lease payments
- Insurance
- Garage rent
- Parking fees (when not used for daily commute)
- Registration fees
- Repairs
- Tires

Expenses incurred for both business and personal use must be allocated accordingly.

Section 179 deduction allows the individual to use a portion or all of the cost of the car as an expense, instead of depreciating the vehicle over a period of years.

In order to claim the section 179 deduction:

- A car must be claimed in the year the car is placed in service. A car used for personal use and later used for business use does not qualify for the deduction.
- The car must be used more than 50% for business. The cost of the property multiplied by percent-business use is the cost of the property that can qualify for the section 179 deduction.



Example: A car purchased at \$24,500 in April of 2011 is used 75% for business. The total cost of the car that qualifies for the section 179 deduction is \$18,375 (\$24,500 X 75% business use).

Limits exist for using section 179 deduction. Refer to *IRS Publication 463* for the following information:

- The amount of the deduction
- The amount of the section 179 deduction for sport utility and certain other vehicles
- The total amount of the section 179 deduction, along with special depreciation allowance and depreciation deduction.

2. **Special depreciation allowance** allows cars, vans, and trucks placed in service in 2011 an additional depreciation allowance (refer to IRS Publication 463 for more information).

- a. If the vehicle was purchased before September 9, 2010, the special depreciation allowance is an additional depreciation deduction of 50% of the car's depreciable basis.
- b. If the vehicle was purchased after September 8, 2010 and placed in service before January 1, 2012, the additional depreciation increases to 100% of the depreciable basis.

3. **Depreciation deduction** can be claimed if actual car expenses are used to figure the deduction. A depreciation deduction allows an individual to recover a certain amount of costs each year as a deduction.

- a. **Determining basis.** The basis is usually the cost of the car, including money borrowed or property or services exchanged for the vehicle.
- **Unadjusted basis.** Usually an unadjusted basis is used to figure depreciation.
- **Adjusted basis.** The basis reduced by depreciation allowed or allowable in earlier years. Situations using adjusted basis are considered exceptions. See *IRS Publication 463* for more information.
- b. **“Placed in service”** refers to the date when the car was available for work or use in the individual's business, and is the date at which depreciation begins.
- c. **Modified Accelerated Cost Recovery System (MACRS)** is the common method used to figure car depreciation

- If the standard mileage rate is used in the first year that the car is in use and actual mileage is used later, MACRS cannot be the method used for depreciating the vehicle.
- A car must be used more than 50% for qualified business use to use the MACRS method.
- The maximum amount of the MACRS is limited depending on the year the car was placed in service:
 1. **Recovery period.** Cars are classified as 5-year property, and depreciation actually occurs over a 6-calendar year period.

Maximum Depreciation Deduction for Cars

Date				4th &
Placed	1st	2nd	3rd	Later
In Service	Year	Year	Year	Years
2010–2011	\$11,060 ¹	\$4,900	\$2,950	\$1,775
2008–2009	10,960 ²	4,800	2,850	1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775
2005	2,960	4,700	2,850	1,675
2004	10,610 ²	4,800	2,850	1,675
5/06/2003– 12/31/2003	10,710 ³	4,900	2,950	1,775
1/01/2003– 5/05/2003	7,660 ⁴	4,900	2,950	1,775
2001–2002	7,660 ⁴	4,900	2,950	1,775
2000	3,060	4,900	2,950	1,775
\$3,060 if the car is not qualified property or if you elect not to claim the				

special depreciation allowance.				
² \$2,960 if the car is not qualified property or if you elect not to claim the special depreciation allowance.				
³ \$7,660 if you acquired the car before 5/6/2003. \$3,060 if the car is not qualified property or if you elect not to claim any special depreciation allowance.				
⁴ \$3,060 if you acquired the car before 9/11/2001, the car is not qualified property, or you elect not to claim the special depreciation allowance.				

Source: http://www.irs.gov/publications/p463/ch04.html#en_US_2011_publink100034025



8. Leasing a car

Either the standard mileage rate or actual expense method can be used to figure the deductible expense.

- a. When using the actual expense method, the percent of the payment that is used for business can be deducted.
- b. Advance payments must be spread over the entire lease period.
- c. Inclusion amounts. A leased car, truck, or van in business use for 30 days or more may incur an inclusion amount on the individual's income for each tax year of the lease. The inclusion amount is calculated by taking a percentage of part of the fair market value of the leased vehicle multiplied by the percentage of business use of the vehicle for the tax year. The inclusion amount reduction can be equated to the depreciation limitation that is taken when a person owns a vehicle outright.



9. Disposition of a car

- A. Disposing of a vehicle may result in either a taxable gain or a deductible loss.
- B. The portion of any gain due to any kind of depreciation will be treated as ordinary income (not capital gain).
- C. If the vehicle is disposed of because of a casualty, theft, or trade-in, neither a gain nor loss may result. A gain occurs when insurance reimbursements are more than the adjusted basis of the car. No gain when the entire reimbursement is used to acquire replacement property with a specified time period.
- D. Trade-in is considered a like-kind exchange-- no gain or loss is recognized.



10. Recordkeeping

- a. Deductions for transportation expenses must be substantiated.
- b. The following information should be provided as proof:
 - i. Amount
 - ii. Time
 - iii. Place or description
 - iv. Business purpose or business relationship
- c. Evidence of the expense may include:
 - i. Receipts
 - ii. Canceled checks
 - iii. Bills
- d. Accurate and adequate recordkeeping should be kept in a timely fashion. Records should be kept in something similar to one of the following:
 - i. An account book
 - ii. Diary
 - iii. Log
 - iv. Statement of expense
 - v. Trip details
- e. Evidence/records are not needed when:

- i. Meals or lodging expenses while traveling away from home that are accounted for under a plan with an employer
 - ii. Meals or lodging expenses while traveling for which a per diem allowance is used
- f. Proof of business purposes must be provided. A written statement of the purpose will usually suffice and is not necessary when the purpose is clear based on the circumstances/documentary evidence.
- g. Keeping incomplete records will require a written or oral statement be used instead and any other supporting evidence that can substantiate the expense.
- h. Destruction of records can be reconstructed to prove expenses.
- i. Separate events require separate expense records.
 - i. Car expenses incurred as part of a round trip event or uninterrupted business use can be substantiated with one record.
- j. Records should be kept as long as necessary to meet the provisions of the Internal Revenue Code, which is generally 3 years from the date of the return.



11. How to report expenses

- Self-employed individuals must use:
 - Schedule C or C-EZ of Form 1040, if a sole proprietor
 - Schedule F of Form 1040, if a farmer.
- Car and truck expenses may require use of Form 1040 Schedule C, Schedule C-EZ, or Form 4562. Refer to *IRS Publication 463* for further information.
- Individuals who are both self-employed and employees use Form 1040 Schedule C, C-EZ, or F as above, and Form 2106 or 2106-EZ.
- Individuals who are employees use Form 2106 or 2106-EZ.



12. What is New in 2012?

- The 2012 standard mileage rate is 55 ½ cents per mile.



4. **Glossary**

Placed in service: Refers to the date when a car was available for work or use in the individual's business, and is the date at which depreciation begins.

Recovery period: Cars are classified as 5-year property, and depreciation actually occurs over a 6-calendar year period.

Disposition: Disposing of a car through casualty, theft, or trade-in.