

## **NEW RULES TO INCREASE YOUR BUSINESS MILES**

Congress, the IRS, and the courts have combined during the past decade to identify business miles. It used to be that a trip from your home to your office was always a personal commute. No longer. The new rules give you several options to eliminate the commute.

Keep in mind that business mileage is very important. It decides your business car deductions. Let's say, for example, that you bought a \$40,000 car and sold it some years later for \$10,000. In this case, you have:

- \$30,000 of depreciation and loss deductions with 100% business use.
- \$18,000 of depreciation and loss deductions with 60% business use.

Obviously, you want the \$30,000 in deductions. That beats the \$18,000 by 67% or \$12,000. And these are the minimum deductions – the deductions you would get if you were using the IRS mileage rate.

You might think, hold it! How can that be the minimum deduction using the IRS mileage rate? Easy. The IRS mileage rate is computed using a component for depreciation and components for the other expenses like gas, oil, insurance, car washes, license, tags, and repairs.

Thus, in the example above, you achieve the \$30,000 in deductions with

1. depreciation of 21 cents a mile built into the mileage rate, and
2. loss on sale when you sell the vehicle to a third party.

Actually, the benefits of more business mileage could easily add a lot more in deductions. For example, the IRS currently uses 58.5 cents a mile for expenses like gas, oil, insurance, car washes, licenses, tags, and repairs. With 100,000 miles, that gives you a total of \$58,500 in potential deductions where

1. 100% business use gives you all \$58,500, and
2. 60% business use gives you only \$35,100 in deductions.

In other words, by knowing how to increase your business miles from 60% to 100%, you can increase your deductions another \$23,400 besides the \$12,000 increase generated earlier for a total of \$35,400 in deductions.

In addition to IRS rates, you may deduct interest on your business car, assuming you use it in the business of being self employed, and not as an employee. The higher your business percentage, the higher your interest deductions.

Finally, you may use the actual expense method and deduct far more than the IRS method. Obviously, here you want every mile to count as a business mile.

And what if you bought one of those tax-advantaged vehicles that qualifies as equipment for the Section 179 expensing of up to \$25,000? The higher your business percentage, the higher your expensing.

So let's get on with it. Let's increase those business miles.

### **Strategy 1 – put an administrative office in your home**

A 1999 change in the law grants the home office to every tax payer who wants it. The taxpayer simply does her administration at home and—presto!—she is well on her way to qualifying for the home office deduction. Further, the administrative office in your home eliminates the commute to your secondary office outside the home.

### **Strategy 2 – have an office outside the home and make temporary stops**

If you have no office in your home, your trip from home to the outside office is a personal commute. Similarly, your trip from home to a client and back is a personal commute. In this case, the first and last stop rule applies. Here, your trip from home to the first business stop is commuting and from your last business stop back home is commuting.

Revenue Ruling 99-7 contains a big break on commuting when you have no office in the home and an office outside the home. In this ruling, when you drive from home to your office outside the home, and you make a “temporary stop” on the way to your office, you have a business trip. The temporary stop negates the usual commute.

The IRS defines a “temporary stop” as any location where you perform services for one year or less. The self employed who subscribe to this letter generally have no trouble at all with the one-year requirement. For example, a trip from home to a client and then to the outside office meets this rule. It makes no difference that you are going to see this client year after year, you are not going to “spend the year” with her.

Forget the post office and the bank as temporary stops! Where's the service in these stops? And, are you going to stop at the post office and bank on a regular basis, year after year? Protect yourself! Stay with client and customer stops.

### **Strategy 3 – make the stops for the same business**

Revenue Ruling 99-7 grants the temporary stop benefits only if the temporary stop and the office are in the same business. In other words, you may not make a

temporary stop for business one on the way to business two and have that stop nullify the personal mileage. In this case, the business mileage is only the “out of the way” mileage.

Once at a business location, you may deduct the costs of going between one business location and a second business location – even stops for second businesses. But the trips from home to the first and last locations still produce personal commuting miles.

**Strategy 4 – with no office at home and no office outside the home, make trips outside the metropolitan area**

If you do not deduct your home office and you do not have an office outside your home, you have no office for tax purposes. The rules favor people with offices. With no offices, you

- may deduct mileage between your home and a temporary work site outside the metro area, but
- may not deduct mileage to temporary work sites within the metro area.

In *Walker*, the IRS and court agreed that the metropolitan area was the Black Hills National Forest. The court noted that the Forest seems large, but it covers less than 54% of the Chicago Metropolitan area. Generally, the metropolitan area covers the city, its suburbs, and some distance beyond.

Unless you travel outside your metro area, you want an office so that you are exempt from the metro area rules.

**Summary**

Just by knowing how to increase your business miles, you can add substantially to your bottom line. You must drive those miles, no matter what. With application of the tax knowledge in this article you can make those miles business miles.

If you live a good distance from your “outside the home” office, you want an administrative office in your home. With the administrative office, which the law makes a principal office, you eliminate the commute to your outside office. This is definitely to your advantage.

With no office in the home, make temporary stops on the way to your outside office. The temporary stops convert this otherwise personal commute to a business trip.

When you have no office in your home and you are not going to drive to your outside office, you face the “first and last stop” rule. If this is the case, make sure you drive a short distance to your first business stop and a short distance from your last business stop back home so that you get the maximum number of business miles.

Keep in mind that the administrative office and temporary stop rules apply to trips for the *same* business. If you have multiple businesses, you solve your problems with an administrative office in your home that covers all of your businesses.

Finally, make sure you have at least one office some place so that you can avoid the first and last stop rule. Otherwise, you will always commute when you drive inside your metropolitan area.

When you think of the rewards, you have to pay attention to the commuting rules. First, the rules are easy. Second, you could easily add \$30,000 or more in deductions on your return over the next few years, just by paying attention.

Feel free to contact Derek D. Simmons or Donald R. Laird at Watkinson Laird Rubenstein Baldwin & Burgess, P.C., at (541) 484-2277 in Eugene, (541) 673-5528 in Roseburg, (541) 923-8767 in Redmond, or (541) 757-1365 in Corvallis for more information.

