

# 1 Tax

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In this issue, MILEAGE DECODED, we will break down the various rules for deductible mileage. The IRS is taking a very close look at this deduction, so we want to make sure that we are following the rules for deducting mileage and meeting the substantiation requirements. For each topic, there are one or more examples. Locate the example that most closely matches your current situation. If you need additional guidance, please contact me. The Recordkeeping Requirements section is particularly important. Please note - **no mileage will be allowed unless you have kept the required log - no exceptions!** I have included a sample log page as well as the Mileage Spreadsheet to assist you in documenting this important deduction.

## Business Mileage

**What Is Deductible Mileage** - In general, mileage is deductible if you are:

1. Going from workplace to workplace.
2. Driving out of town for business.

Commuting - is NEVER deductible.  
Commuting is:

1. Driving to/from home/work
2. "First Stop-Last Stop" Rule - driving from home to your first work stop and from your last work stop to home (unless your PRIMARY place of business is your deductible home office. More later.)

*Example 1* - Adam is a sales rep for the Cincinnati area. His employer requires him to use his vehicle for sales calls but does not provide mileage reimbursement. Each day, he leaves home and makes several sales calls, then comes home. The mileage from Adam's home to his first stop is commuting and non-deductible. His mileage between sales calls is deductible. Adam's mileage from his last stop to home is also commuting and non-deductible.

*Example 2* - John, a manager for a retail establishment, is required to make bank deposits each night. He makes the deposits on the way home from work each evening. John's employer does not offer reimbursement. Mileage from John's work to the bank is deductible, but not from the bank to his home.

*Example 3* - Jim, a carpenter who works for a contractor, travels from home directly to a customer's jobsite. His employer does not reimburse mileage. Since his mileage is commuting, Jim cannot deduct mileage.

*Example 4* - Same situation as Example 3, but Jim first travels to work to pick up supplies, then goes to the jobsite. Jim's mileage from home to work is non-deductible commuting, but his mileage from work to the jobsite is deductible.

**Employees** - In order to claim mileage, your employer must require that you use your vehicle AS A CONDITION OF EMPLOYMENT.

*Example 1* - Chris, an accountant at a factory regularly attends a monthly accountant networking

luncheon. Chris' employer does not require that he attend these luncheons. Therefore, the mileage is not deductible.

*Example 2* - Same as Example 1, but Chris attends Continuing Education required to maintain his CPA license. Chris' employer requires him to maintain his license but will not pay for his continuing education expenses or mileage. Chris' mileage is deductible.

### Reimbursement Available -

1. Mileage is not deductible if your employer will reimburse your mileage, whether or not you actually claim reimbursement.
2. If your employer pays for PART of your mileage (less than the allowable government rate), only the excess is deductible
3. If your employer pays you a flat fee for vehicle expense (which is part of your taxable wages), your work mileage is deductible, BUT YOU MUST KEEP RECORDS.

*Example 1* - Jim is an architect for a design firm. He regularly travels to clients to bid on jobs and oversee job sites. His employer has a full reimbursement policy, but

Jim is too busy to fill out the expenses reports. Jim cannot deduct his mileage.

*Example 2* - Same as *Example 1*, but Jim's employer offers non-taxable mileage reimbursement at 30 cents/mile. Again, Jim is too busy to fill out expense reports. Jim must reduce his mileage deduction by the AVAILABLE reimbursement of 30 cents/mile.

*Example 3* - Same as *Example 1*, but Jim's employer provides him with a flat fee for vehicle expenses which is included in his W-2 wages. Jim may deduct his vehicle expenses IF HE HAS KEPT THE REQUIRED RECORDS, see Recordkeeping later.

*Example 4* - Dave is an account representative for a tree-trimming service. His employer pays 40 cents/mile for Dave's business miles. Dave fills out all of his expense reports. Dave's mileage is deductible, but must be reduced by the 40 cents/mile reimbursement.

**Mileage Between Primary and Secondary Jobs** - If you drive directly from your primary job to a second job, your mileage is deductible.

*Example 1* - Flo works at a distribution center, but has a second job as a waitress in the evenings. Her mileage in going directly from the distribution center to the restaurant is deductible.

*Example 2* - Same as *Example 1*, but Flo stops by her home to change into her waitress uniform. Because all of her mileage is now commuting, none of it is deductible.

*Example 3* - Same as *Example 1*, but on Saturdays Flo only works at her waitress job. Her Saturday mileage is non-deductible commuting.

*Example 4* - Stan is an employee welder, but also owns a self-employed horse racing

operation. After work, Stan travels directly from work to the stable. The mileage is deductible.

**Out of Town Mileage** - The rules are slightly different if you use your vehicle for an out of town trip:

1. Out of Town is defined as being outside the general metropolitan area of your main employment, generally more than 50 miles.
2. The out of town location must be TEMPORARY. Temporary is defined generally as less than one year.
3. When you are on a temporary assignment away from home, mileage to travel to job sites and to drive to restaurants for meals is also deductible.

*Example 1* - Wes, a self-employed engineer travels to Texas to oversee the cleanup of a superfund site. His assignment lasts two years. His mileage is not deductible since his assignment is not temporary.

*Example 2* - Allen owns a string of retail stores across Ohio. He regularly travels to his store in Toledo, leaving from his residence in Cincinnati. Allen's mileage is not deductible.

*Example 3* - Same as *Example 2*, but Allen stops by his Cincinnati location before leaving for Toledo. Allen's mileage from his Cincinnati store to his Toledo store is deductible, but his mileage to restaurants in Toledo is not deductible.

*Example 4* - Rachel lives in Cincinnati but works for an investment banker in Indianapolis. She commutes to Indy each day. Since Rachel's primary job location is in Indy, her mileage is commuting and is non-deductible. The distance traveled does not change the fact that she is commuting.

*Example 5* - Steve, a self-employed electrician secures a temporary job

in Denver, lasting 6 months. Steve's mileage to Denver is deductible. His mileage from his Denver hotel to the job site as well as his mileage to restaurants is also deductible.

*Example 6* - Steve the electrician then takes a job in Wilmington, OH. The job is 47 miles from his primary place of business. Steve's mileage from his home to Wilmington is not deductible. HOWEVER, if Steve stopped by his primary place of business in Cincinnati first, then his mileage from work to Wilmington would be deductible.

**Home Office As Primary Business Location** - if your PRIMARY business location is in your home, then mileage from your home to other business locations would be deductible. Your primary business location is where you:

1. Perform substantially all of your business functions, including billing, bookkeeping, website maintenance, answering correspondence and emails, and the like.
2. Store equipment, inventory, and tools of the trade.
3. Regularly meet with clients as your primary office location.
4. Office space is not provided for you in another location such as a real estate office.

*Example 1* - Pete operates his general contracting business out of his home, maintaining a home office where he performs all of his billing, record keeping, and customer correspondence. He also stores all of his tools and equipment at his home. The mileage from Pete's home to a work site would be deductible.

*Example 2* - Same as *Example 1*, but Pete stops by the grocery store on his way to the work site. None of the mileage would be deductible.

*Example 3* - Patsy is a self-employed real estate agent. Although she performs virtually all

of her work at her home office, her real estate broker provides her with her own office space. Patsy's primary business location is her broker's office, so she cannot deduct mileage to and from her home office, but can deduct mileage from her broker's office to other business locations. She can also deduct mileage from one business location to another (e.g., showing clients multiple properties).

*Example 4* - Same as *Example 3*, but Patsy's broker only provides temporary meeting space on a first-come, first-served basis. Patsy's primary business location would then be her home office, so mileage to and from home to all business locations would be deductible.

**Job Search Mileage** - if you use your vehicle to search for employment, your mileage is deductible. Deductible mileage includes:

1. Driving to job interviews
2. Attending job fairs and similar events
3. Attending job networking

groups if there is a reasonable expectation that your attendance will increase the likelihood of securing employment

4. Meeting with job counselors, headhunters, and the like
5. Dropping off and picking up resumes

**Special Situations**

**No Primary Business Location** - if you do not have a primary business location, then none of your mileage is deductible. Your "tax home" travels with you.

*Example 1* - You are a manufacturer's rep who is in a constant state of travel from city to city selling your employer's products. You live in Cincinnati but perform little of no business there. Your mileage is not deductible.

*Example 2* - You are a circus clown who travels with your circus troupe. Because you have no tax home, your mileage is not deductible.

**S-Corporation Owners** - because you are by law an employee of your

corporation, your business mileage is an employee expense. It is very important that you turn your business mileage into your S-corp for reimbursement, preferably with your payroll. Failure to do so could result in your business mileage providing little or no tax benefit. Also, it is very important that you maintain detailed mileage records since you are a "Related Party".

*Example 1* - You incur mileage for your S-corporation, but do not turn the mileage in for the S-corp for reimbursement. Your expenses are only deductible as a miscellaneous itemized deduction subject to a trim of 2% of your income. The expenses do not affect your state income taxes and could potentially cause you to be subject to Alternative Minimum Tax.

*Example 2* - Same as *Example 1*, except you submit your mileage to your S-corp every month for reimbursement. This reduces BOTH Federal and state income taxes, with no trim and no Alternative Minimum Tax from your mileage!

## Recordkeeping Requirements

A major change to substantiation requirements was recently enacted which requires a log or other record to support your mileage deduction. The log must show:

1. Date
2. Number of miles
3. Business purpose
4. Business location visited

In addition, you should record the following additional information:

1. Year and make of your business vehicle(s)
2. Date placed in service
3. Total miles (i.e., January 1 and December 31 odometer readings)
4. Total commuting miles

Exceptions to the year-round recordkeeping rule:

1. Regular Route - if you travel a periodic regular route (e.g., a delivery driver or child care provider), you may log one instance of your route and still meet the substantiation requirements.
2. Certain Vehicles - if you drive one of the following types of vehicles which are impractical for personal use, mileage logs are not required:
  1. Ambulance
  2. Hearse
  3. Marked police car (and unmarked if use is officially authorized)
  4. Delivery truck with no back

- seats
5. Bus
6. Cargo vehicle weighing more than 14,000 pounds
7. Various other special purpose vehicles

**ESTIMATES ARE NEVER ACCEPTABLE!** - be aware that I will not allow ANY mileage unless you have met these recordkeeping requirements!

**Acceptable Mileage Logs:**

1. Mileage Spreadsheet
2. Smart phone apps, but only if you provide the mileage reports. Most smart phone apps allow you to save reports in .CSV format (accessible by

- Excel or similar spreadsheet programs).
- DOT logs if you are an interstate trucker

- Expense reports if you are required to account to your employer for mileage
- Any other system that records

the date, location, mileage, and business purpose of the miles traveled.

## Charitable and Medical Mileage

If you use your vehicle for volunteer work, the mileage is deductible. The miles must be for a qualified charitable organization (religious, educational, scientific, veterans, boy and girl scouts, hospitals, museums, animal shelters). The volunteer activity must be one of the organization's "exempt purposes"; therefore, your miles to deposit non-cash donations are unfortunately not deductible.

A "qualified organization" is one that has applied for and been accepted by the IRS as religious, educational, charitable, scientific, medical, or prevention of cruelty to children or animals, or a government unit such as a public school or fire department. If you are not sure whether your volunteer organization qualifies, please call or email me.

### Examples of volunteer miles:

- School event chaperone
- Booster club functions

- Unpaid fire and EMS departments
- After school reading programs
- Scouting, big brother/sister, and similar organizations
- Red Cross and United Way
- Unpaid arts organizations such as community theaters, community choruses, and the like.
- Food pantries, homeless shelters, and soup kitchens
- Unpaid participation at board meetings for charitable etc. organizations
- Participation in charity runs/walks

Note - the same documentation requirements apply to charitable mileage as for business mileage. You should maintain a separate log of these miles, as they are deductible in a different location on your tax return.

**Medical Mileage** - mileage for medical purposes is also deductible.

### Who's Medical Miles Are

**Deductible** - mileage for you, your spouse, and your dependents who were your dependents at the time of the expense can be deducted by you. The rules are less restrictive than rules for claiming a dependent, so please call me if you are unsure.

### Examples of Medical Mileage:

- Transportation to doctor visits, including dentist and eye appointments, fittings for eyeglasses and contact lenses
- Transportation to hospitals
- Transportation to therapy visits, including psychotherapy
- Transportation to pick up prescription medications and medical supplies
- Transportation to weight reduction groups, but only if specifically prescribed by a physician

Do keep the same documentation as for business and medical mileage.



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