

Claiming tax deductions for business use of your personal vehicle can be tricky, so we've created this cheat sheet to help make your tax season less hectic.

The key initial steps to reducing your taxes and maximizing your profit as a self-employed individual are:

1. Learn what qualifies as a business expense and which business expenses can and cannot be deducted
2. Split business use of your car and your personal car expenses
3. Keep proper records to document the business vehicle expenses you qualify for
4. Figure out which IRS deduction method works best for you

The essential prerequisites that qualify you for claiming your vehicle's deductible business expenses are that you:

- use your personal vehicle for carrying out your professional duties and
- keep impeccable and timely records including a detailed log of your business mileage, receipts, bills, invoices or other documentary evidence that proves all your vehicle business-related costs you want to write off.

WHAT CAR EXPENSES ARE TAX DEDUCTIBLE?

If you're a self-employed individual, i.e. a small business owner and you frequently use your personal vehicle (car, van, pickup or panel truck) for business purposes, pay special attention to the following list of car expenses that can and cannot be qualified for tax deductions.

This list will help you learn what car and business transportation expenses to deduct so that you lower your taxes. Some business expenses are fully or partially deductible.

DEDUCTIBLE WORK-RELATED VEHICLE COSTS

- Gas
- Oil changes
- Business mileage traveled (e.g. visiting clients, business meetings)
- Mileage tracking tools/apps
- Tires
- Supplies
- Tolls
- Parking fees
- Repair and maintenance costs
- Insurance
- Registration fees and taxes
- Loan interest
- Property tax (you paid when you bought your car-deductible only if you itemize)
- Licenses
- Depreciation
- Lease or rental payments
- Garage rent
- Car wash
- Casualty and theft losses (maybe only the part not covered by insurance)

NON-DEDUCTIBLE VEHICLE COSTS

- ✗ Your commuting miles to the office, which include the very first drive to work and the last drive home from work (even if you're working on the way)
- ✗ Use of luxury vehicles
- ✗ Miles you drive for personal purposes
- ✗ Car pool (unless you operate it for a profit)
- ✗ Hauling tools or instruments (apart from additional costs you've had for them)
- ✗ Fines or collateral for traffic violations
- ✗ Parking at your regular workplace
- ✗ Union members trips
- ✗ Lavish business trip expenses

"If you use your car for both business and personal purposes, you must divide your expenses based on actual mileage."

Source: IRS - Deducting Business Expenses

How Do I Claim Work-Related Car Expenses?

Keep a **mileage log** of all the miles you drove in your personal car for business.

At the end of each tax year, multiply the number of your business miles by the **IRS standard mileage rate** (which is updated every year) and deduct the total.

PERIOD	RATES IN CENTS PER MILE			SOURCE
	BUSINESS	CHARITY	MEDICAL MOVING	
2019	58	14	20	IR-2018-251
2018	54.5	14	18	IR-2017-204
2017	53.5	14	17	IR-2016-169
2016	54	14	19	IR-2015-137

Another option is to calculate and deduct all your **actual car expenses**, i.e. the percentage of mileage you drove for business all year and the total cost of operating your car. Learn about each deduction method and which is the most appropriate for yourself in the section below titled, 'Standard Mileage Rates vs. Actual Car Expenses'.

HOW TO TRACK YOUR MILEAGE AND EXPENSES EFFICIENTLY FOR MAXIMUM TAX DEDUCTION?

Tracking your business mileage has to be **accurate** and **detailed** so that you can provide **evidence** for all your work-related vehicle expenses to maximize your tax deductions in case the IRS decides to audit your taxes.

This task can be done in a few different ways:

- Using the **old-fashioned pen and paper method**, i.e. keeping a printed mileage log book in your car and remembering to write down every business mile you drive and every single driving expense, which is quite **onerous** and challenging in today's business owners' hectic schedules.
- Using a **spreadsheet** for tracking all your work-related expenses and mileage, which doesn't differ from the previous **strenuous** method much (instead of writing down all the records, you need to remember to type them all in).
- Using a **reliable mileage tracker** app and device which automatically tracks all your business mileage and expenses and allows you to export IRS compliant reports at tax time completely **hassle-free** so that you can concentrate on running your business and rest assured you'll deduct every single dollar you qualify for.

What Details Should Be Included in Your Records?



- The exact miles traveled for each business trip (start and end odometer reading)
- The date of the business drive
- Your business destination
- The purpose of your travel
- The type and cost of each separate work-related vehicle expense
- The total miles traveled exclusively for business for the whole year

How Long Must You Keep Records and Receipts?

According to the **IRS Publication 463 - Recordkeeping** section, you must keep records of the business use of your personal vehicle for as long as you need to prove the deductions on your tax return.

In practice, it's typically **"3 years from the date you file the income tax return"** on which the deduction is claimed".

Note: The same publication (Section 6) also offers thorough guidelines on how and where to report your vehicle expenses.



Standard Mileage Rates VERSUS Actual Car Expenses

- Which Method to use?

You can use one of these two IRS methods to calculate your deductible car expenses:

1. Standard Mileage Rate (SMR)
2. Actual Car Expenses (ACE)

If you use the easier **Standard Mileage Rate** method, which includes all expenses except finance charges, you calculate your expenses as explained in the section above titled, 'How Do I Claim Work-Related Car Expenses?'

It's important to know the [Standard Mileage Rates](#) for the current tax year, though. For instance, the rate is 54.5 cents per mile of business use for the 2018 tax year, whereas it's 58c per mile for 2019.

If you decide to use the **Actual Car Expenses method**, i.e. to deduct the actual expenses of operating your vehicle, bear in mind that this method also includes:

- gas
- oil
- tires
- insurance
- car registration
- tolls
- parking fees
- repairs and maintenance
- garage rent
- depreciation and
- lease payments.

If you use Standard Mileage Rate for a year, you cannot deduct the costs from the list above for the same year.

If you want to choose the SMR for **a car you own**, you must choose to use it in the first year you use the car in your business. Otherwise, you won't be able to switch to the ACE method in the years to come.

However, if you **first** choose the SMR method, you'll be able to freely choose either of the two methods in later years.

Moreover, if you want to use the SMR for **a car you lease**, you must stick to it for the whole lease period.

Use the SMR method if:

- You own or lease a less expensive, efficient vehicle which requires low maintenance
- You are a driver who travels a large number of business miles
- You don't have the time, or want to minimize detailed accounting, record keeping and calculations (although you can't completely avoid it)
- You use less than 5 cars for your business simultaneously (you may alternate using them)
- This is your first year of using your own car for work purposes and you'd like to switch between the two deduction methods in the future

Use the ACE method if:

- You don't drive much for work and it's easier for you to track receipts than miles
- You drive an expensive vehicle and pay a lot for its upkeep (this method enables you to deduct depreciation for the car)
- Your car is a gas guzzler
- You own or lease 5+ cars and use them at the same time to operate a fleet
- You claimed actual car expenses after 1997 for a car you leased
- You claimed the [special depreciation allowance](#) on your car
- You claimed a [section 179 deduction](#) on your car

We recommend that you check the [full IRS document](#) (Publication 463 - Chapter 4) and find out about other limits that the SRM method doesn't allow.

There's no clear-cut answer as to which method you should choose. It's a numbers game and it's up to you to figure it out for yourself.

If you qualify to use both SMR and ACE methods, it's advisable to [calculate your deduction](#) using both ways and decide on the option which provides you with a larger deduction.

Generally speaking, the more economical your car is to operate, the more likely it is that the SMR will be more beneficial for you.

On the other hand, the higher the operating costs of your car are, the bigger deduction the ACE method is likely to provide.

Before reaching your final decision, make sure you double-check the [limitations](#), [forms to fill](#) and everything else you need to know about each of these two methods.

In A Nutshell

So, if you're self-employed and you use your own vehicle for business purposes, here's a brief checklist for taking your car expenses tax deductions:

- **Calculate how many miles you drove for work-related purposes** during the tax year to determine the exact business mileage of your vehicle use.
- **Collect detailed and accurate records** (mileage log, receipts, invoices etc. for every single work-related vehicle expense) to prove to the IRS that you're entitled to a deduction.
- **Figure out which method of deduction is more beneficial for you** by calculating your deduction both ways before you decide to use either the Standard Mileage Rate or Actual Car Expense method.
- As a self-employed tax filer, you can **use Schedule C (form 1040) to file your tax returns**. Learn more from the IRS [Self-Employed Individuals Tax Center](#).
- Make sure you **file your taxes by the due date** to avoid late payment penalties, interest charges and other possible issues with the IRS.
- **Keep abreast of any recent changes** that may affect your tax deductions BEFORE taking action.
- If you have any further questions or concerns, don't hesitate to **get IRS tax help** available [online](#), by phone and in person. Better safe than sorry.

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