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VEHICLE DEPRECIATION AND DEDUCTIONS

As part of our ongoing tax planning you should consider the tax benefits available from the use of your car for business purposes. In general taxpayers, including employees, who use their vehicles, including passenger cars, in pursuit of a trade or business are allowed deductions for ordinary and necessary business expenses of operating those vehicles and may also be entitled to depreciation. However, no deductions are allowed for personal expenses or personal use of the vehicle, including commuting, deductions are allowed only for the part of the expenses attributable to business use. For purposes of these deductions, "car" includes a van, pickup or panel truck.

Business use of your car can include traveling from one work location to another work location within your tax home area, visiting customers, attending a business meeting away from the regular workplace and traveling from home to a temporary workplace if you have one or more regular places of work. The costs of travel between home and a regular place of work, however, are nondeductible commuting expenses.

There are two basic methods for computing vehicle expenses: the standard mileage rate or actual expense method. There are restrictions and benefits to the use of each method. The 2010 standard mileage rate is 50 cents per mile. You may not depreciate your car or deduct least payments if you use the standard mileage rate method. If you use the actual cost method, you may take deductions for depreciation, lease payments, registration fees, licenses, gas, insurance, oil, repairs, garage rent, tolls, tires and parking fees. Regardless of the method you use, if your vehicle is used for personal as well as business purposes only expenses or mileage attributable to the percentage of business use are deductible. There are separate considerations involved in leasing a car for business.

If you are using your car for business purposes, whether owned or leased, proper recordkeeping is critical. The recordkeeping requirements vary depending upon which method you use. If you are using the standard mileage rate you should keep a daily log showing the miles traveled, destination and business purpose. Recordkeeping under the actual cost method is somewhat more onerous. You should also keep a mileage log if you use the actual cost method in order to establish business use percentage. In addition, you must keep receipts, invoices and other documentation to verify expenses. Finally, you must be able to prove the original cost of the vehicle and the date it was placed in service for business use in order to claim depreciation.

The restrictions and limitations involved in determining whether and the extent to which you are entitled to deductions and depreciation for the business use of your vehicle are complex and detailed. Please call us at your earliest opportunity so that we may help you evaluate your entitlement to these deductions and the detail involved in recordkeeping for the method you use.