CLIENT REPORT
IRS Summarizes Rules for Deducting Car and Truck Expenses

Dear Client:

As part of an ongoing effort to make a dent in the estimated $30 billion of annual tax revenue lost as a result of overstated deductions, credits and exemptions, the IRS has issued a fact sheet that provides an overview of the rules for deducting car and truck expenses. The fact sheet covers the types of deductible transportation expenses, the methods for calculating the deduction (i.e., standard mileage rate or actual cost method), and recordkeeping requirements. This letter summarizes the major rules for deducting car and truck expenses.

You may deduct transportation expenses for:

1. traveling from one work location to another work location within your tax home area;
2. visiting customers;
3. attending a business meeting away from the regular workplace; and
4. 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 are nondeductible commuting expenses.

The standard mileage rate method may be used to compute vehicle expenses. If the method is used for a leased vehicle, it must be used for the entire term of the lease. The 2006 standard mileage rate is 44.5 cents per mile and the 2007 standard mileage rate is 48.5 cents per mile.

The standard mileage rate is used in place of the actual cost method. Certain taxpayers may not use the standard mileage rate, including: taxpayers who offer the car for hire (e.g., taxis), use five or more business cars at the same time, claim depreciation or the section 179 allowance on the car, or are rural mail carriers who receive a qualified reimbursement.

If your vehicle is used for personal as well as business purposes, only expenses attributable to the percentage of business use are deductible under the actual cost method. Depreciation, lease payments, registration fees, licenses, gas, insurance, oil, repairs, garage rent, tolls, tires and parking fees may be deducted under the actual cost method.

Recordkeeping requirements depend upon whether the standard mileage rate or actual expense method is used. If the standard mileage rate is used, you should keep a daily log showing the miles traveled, destination and business purpose.

A mileage log should be maintained by persons using the actual cost method in order to establish business use percentage. Receipts, invoices and other documentation are needed to verify expenses. 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.

Please call us at your earliest opportunity if you would like more information about how this development affects you, or if you have any questions about the deductibility of car and truck expenses.

Sincerely yours,

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