Understanding the Mileage Deduction when you own a business or provide 1099 contractor work

- The IRS has two methods for deducting vehicle expenses. BOTH methods require you to track your business use miles. The IRS requires a detailed log of your business use to include the following:
  - Who you met with (person, business, conference, store etc...)
  - Why you met with them/what was the business purpose for the meeting
  - When you met with them (Exact date(s))
  - Where you met with them-address of the destination
  - Total miles driven from your office to the destination address and back.

- Per the IRS rules, you are also required to track the total miles the vehicle is driven for the year-we recommend setting a reminder in your phone for 1/1 each year to write down your odometer reading. And of course, if you start using a different vehicle, be sure to write the odometer reading down the first day you start using it for business purposes.

- Tools for tracking your mileage/business use:
  - Apps-there are a lot of apps available for tracking your mileage-do a search in your app store or ask colleagues/fellow business owners what they use.
  - Keep a notebook in your vehicle to document.
  - Keep a pocket calendar in your vehicle and write the information in the corresponding date page.

- Method 1-Mileage rate
  - The IRS issues a mileage rate each year which takes into account everything (gas, repairs, maintenance, etc).
  - Calculation is simply the total business miles driven times the mileage rate for the year.
  - You can still deduct business related tolls and parking separately from the mileage rate deduction.

- Method 2-Actual expenses
  - Track all of your expenses for the year:
    - Gas
    - Maintenance
    - Repairs

        - Auto insurance
        - Registration
        - Original purchase (expensed through depreciation)
    - Calculation of the deductible amount is the business miles as a percentage of total miles driven and multiply by the actual expenses incurred during the year.
    - When you stop using the vehicle (dispose of it) for business use (by either selling, trading in, or using for personal 100%), you will pay ordinary income tax on the disposition…

- What about deducting the total cost of a vehicle in the first year, aka bonus depreciation on 6,000+ pound vehicles?
    - It is not as cut and dry as tik Tok and other social media platforms make it sound.
    - You have to buy a vehicle over a certain size/weight
    - You need to have a conversation with your tax preparer to see if this is a good strategy for you and your situation.

- Other things to consider:
    - If you purchase it in your business name, you will pay higher property taxes vs if you purchase it in your personal name.
    - Regardless of how you purchase it, make sure your auto insurance coverage includes business use.
    - You may want to consider an umbrella policy as well.

- At our firm, we look at the big picture and make the determination of which method to choose when we are working on your return.
    - If you use Method 2 in the first year you place your vehicle in service with your business, you are required to use that method for the life of the vehicle. If you take the bonus depreciation in the first year, you are giving up an expense deduction in future years.
    - If you use Method 1 in the first year you place your vehicle in service with your business, you can switch between the two methods (but can never take the full year bonus depreciation the first year you use Method 2 after having used Method 1).