



Cents-per-mile rate for business miles decreases slightly for 2020

This year, the optional standard mileage rate used to calculate the deductible costs of operating an automobile for business decreased by one-half cent, to 57.5 cents per mile. As a result, you might claim a lower deduction for vehicle-related expense for 2020 than you can for 2019.

Calculating your deduction

Businesses can generally deduct the actual expenses attributable to business use of vehicles. This includes gas, oil, tires, insurance, repairs, licenses and vehicle registration fees. In addition, you can claim a depreciation allowance for the vehicle. However, in many cases depreciation write-offs on vehicles are subject to certain limits that don't apply to other types of business assets.

The cents-per-mile rate comes into play if you don't want to keep track of *actual* vehicle-related expenses. With this approach, you don't have to account for all your actual expenses, although you still must record certain information, such as the mileage for each business trip, the date and the destination.

Using the mileage rate is also popular with businesses that reimburse employees for business use of their personal vehicles. Such reimbursements can help attract and retain employees who drive their personal vehicles extensively for business purposes. Why? Under the Tax Cuts and Jobs Act, employees can no longer deduct unreimbursed employee business expenses, such as business mileage, on their own income tax returns.

If you do use the cents-per-mile rate, be aware that you must comply with various rules. If you don't, the reimbursements could be considered taxable wages to the employees.

The rate for 2020

Beginning on January 1, 2020, the standard mileage rate for the business use of a car (van, pickup or panel truck) is 57.5 cents per mile. It was 58 cents for 2019 and 54.5 cents for 2018.

The business cents-per-mile rate is adjusted annually. It's based on an annual study commissioned by the IRS about the fixed and variable costs of operating a vehicle, such as gas, maintenance, repair and depreciation. Occasionally, if there's a substantial change in average gas prices, the IRS will change the mileage rate midyear.

Factors to consider

There are some situations when you can't use the cents-per-mile rate. In some cases, it partly depends on how you've claimed deductions for the same vehicle in the past. In other cases, it depends on if the vehicle is new to your business this year or whether you want to take advantage of certain first-year depreciation tax breaks on it.

As you can see, there are many factors to consider in deciding whether to use the mileage rate to deduct vehicle expenses. We can help if you have questions about tracking and claiming such expenses in 2020 — or claiming them on your 2019 income tax return.

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