

Clothier & Head Tax Insight

Standard Mileage Rate Increases

On June 23, 2008, the Internal Revenue Service announced an increase in the optional standard mileage rates for the final six months of 2008. Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes. The rate will increase to 58.5 cents a mile for all business miles driven from July 1, 2008, through Dec. 31, 2008.

The IRS's increase in the business standard mileage rate is undoubtedly a result of recent pressure brought to bear on the IRS to take action to relieve taxpayers suffering from skyrocketing gas prices. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

The new six-month rate for computing deductible medical or moving expenses will also increase to 27 cents a mile. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

While gasoline is a significant factor in the mileage figure, other items enter into the calculation of mileage rates, such as depreciation and insurance and other fixed and variable costs. Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Mileage Rate Changes

Purpose	Rates 1/1 through 6/30/08	Rates 7/1 through 12/31/08
Business	50.5	58.5
Medical/Moving	19	27
Charitable	14	14

To claim the deduction, you must keep complete and accurate mileage records for each business use of your car. If you are unable to produce a clear record, the IRS may disallow the deduction. The IRS will allow a sampling (i.e. one month) as long as it is representative of the entire year. Two methods are available for claiming business car expenses:

Actual Expenses: Add your entire car operating expenses for the year, including gas, oil, tires, repairs, license fees, lease payments, registration fees, garage rental, insurance, and depreciation. For mileage driven, keep a written record of total business miles driven, start and end point, and the business purpose of each trip. Business-related parking and road tolls are fully deductible expenses that do not have to be reduced by the percentage of business usage. For corporations, the business should deduct 100% of the car expenses, and records the employee's personal use of the vehicle on their W-2 as compensation.

Standard Mileage Rate: See information above.

Feel free to contact us at 206.622.1326 to find out exactly how the rate change will affect you.

Any tax advice in this communication is not intended to be a "covered opinion" as described under IRS Circular 230. It is therefore not intended to be used, and cannot be used, by a client or any other person or entity for the purpose of avoiding penalties that may be imposed on any taxpayer.

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