Season 1 – Episode 20 - Auto Expense Deductions Unveiled: Maximizing Tax Savings for Business Owners

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Welcome to Tax Blueprints, a Rohr CPAs podcast. I'm Daniel Rohr, the managing shareholder of Rohr and Associates, a premier CPA firm based in California. I'm a CPA, Personal Financial Specialist and Enrolled Agent. I have extensive experience advising individuals and business owners with tax minimization and personal financial planning strategies. On each episode of Tax Blueprints, I delve into the intricacies of tax laws, explain the subtleties of business tax planning, and guide individuals towards a path of financial stability. Whether you're a business owner navigating the murky waters of taxation or an individual planning for a worry-free retirement, Tax Blueprints will provide you with the tools and knowledge you need. I hope you enjoy this episode.

Today's episode dives into a topic that I receive many questions about auto expenses and how they relate to your business deductions. So if you're a business owner and you use a car for business related activities, you may be wondering, how can I deduct my auto expenses on my taxes? Well, you have two primary methods the actual expense method and the standard mileage rate. So let's dig into each. Starting off the actual expense method involves calculating the total costs incurred for using the vehicle for business purposes. So we're talking about things like gas, maintenance, repairs, tires, insurance, and even depreciation. So, for example, imagine you spent 3000 on gas, 1000 on maintenance, and 2000 on insurance totaling $6,000. If you use the vehicle for business 80% of the time, which is determined by miles driven during the year, you'd multiply the total cost by zero eight, giving you a deductible expense of $4,800 for the year.

On the other side, we have the standard mileage rate. The IRS sets a per mile rate each year that you can use to calculate your deduction, and for 2023, it's 65.5 cents per mile. So let's say you drove 10,000 miles for business purposes, you'd multiply those miles by 65.5 cents, which gives you a $6,550 deduction for the year. But you need to track those miles. Whether you're using the actual expense method or the standard mileage rate, you must keep a mileage log. This log should include the date, purpose of the trip, starting point, destination, and miles driven. There are apps that can help you with this. The IRS is strict about mileage logs, so it's essential to maintain accurate records. And it's much easier to sustain a log rather than trying to reconstruct it when tax time comes around. So which method should you choose?

Generally, if your car is fuel efficient and you drive a lot of miles, the standard mileage rate often results in a larger deduction. And if your car guzzles gas and requires frequent repairs, the actual expense method could be more beneficial. The decision also depends on the type of vehicle you have. If you buy a larger SUV or truck and use it, a majority for business depreciation on the vehicle in the first year can be substantial, causing you to choose the actual expense method. A critical note once you choose a method, you're generally stuck with it for the entire life of the vehicle. If you start with the standard mileage rate, for example, you usually can't switch the actual expense method later on. Now, there are exceptions for leased cars, if you choose a standard mileage rate in the first year the car is leased and available for use on your business, you can then choose either the standard mileage rate or the actual expense method in later years.

However, if you initially choose the actual expense method for a leased vehicle, you have to stick with it for the entire lease period. So the flexibility really lies in starting off with the standard mileage rate. And speaking of leases, another common question I receive is should I buy or lease my business car? Both have pros and cons, and leasing usually results in lower monthly payments. But it might limit your mileage allowed to be driven by the car company, resulting in penalties per mile. If you go over the allotted mileage, buying the car gives you an asset that you can depreciate over time. So if you were to buy a $30,000 car, you could potentially write off the vehicle through depreciation deductions either initially, depending on the type of auto, or over a number of years. But remember, if you lease, you can usually deduct the lease payments as a business expense, which could be advantageous for more expensive, smaller cars.

So to sum up, understanding your options for auto expense deductions is crucial for maximizing your tax savings. Whether you choose the actual expense method, the standard mileage rate you buy, or you lease, each choice comes with its own set of benefits and limitations. Please consult with a tax professional to determine the best strategy for you.

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