2016 Standard Mileage Rates for Business, Medical and Moving Miles Driven

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The Internal Revenue Service today issued the 2016 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on **Jan. 1, 2016**, the standard mileage rates for the use of a car, van, pickup or panel truck will be:

- **54 cents per mile for business purposes** (down from 57.5 cents for 2015)
- **19 cents per mile for medical or moving purposes** (down from 23 cents for 2015)
- **14 cents per mile driven in service of charitable organizations** (unchanged, rate is based on statute)

Whether you own or lease the vehicle, regardless of the expense method used (standard or actual), **a written record of the time, place, business purpose and number of miles traveled must be maintained.**

Background*.* The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance, license and registration fees. The taxpayer may, however, still claim separate deductions for parking fees and tolls connected to business driving. Also deductible is the business use percentage of the vehicle loan interest expense.

IRS generally adjusts the standard mileage rate annually, based on a yearly study of the fixed and variable costs of operating an auto. However, mid-year adjustments have occurred in years with rapidly rising gas prices

RIA observation: The **advantages** to using the standard mileage rate include:

- Mileage rate users need not keep a record of actual expenses or retain receipts that would otherwise be required. A record of the time, place, business purpose and number of miles traveled suffices.
- If an auto's business expenses are deducted via the mileage rate, it is not subject to the Code Sec. 280F dollar caps or the special rules that apply if qualified business use does not exceed 50% of total use.
- The mileage rate method may yield bigger deductions than the actual expense method for a thrifty, high-mileage-per-gallon model.

RIA observation: Gas prices have been dropping recently, which could further weigh in favor of using the standard mileage rate as opposed to the actual expense method.

Taxpayers using the standard mileage rates must comply with Rev Proc 2010-51 . Accordingly, the standard mileage rate may **not** be used for a purchased auto if:

- it was previously depreciated using a method other than straight-line for its estimated useful life;

- a Code Sec. 179 expensing deduction was claimed for the auto;
- the taxpayer has claimed the additional first-year depreciation allowance for the auto;
- the taxpayer depreciated it using MACRS under Code Sec. 168 ; or
- the taxpayer is a rural mail carrier who receive qualified reimbursements. (Rev Proc 2010-51)

In addition, the business standard mileage rate is not allowed for more than four vehicles used simultaneously.

Depreciation. For 2016, the depreciation component of the standard mileage rate for autos used by the taxpayer for business purposes is **24¢ per mile**. (24¢ in 2015; 22¢ in 2014; 23¢ in 2013 & 2012.) The depreciation component reduces the basis of the auto for gain or loss purposes.

A taxpayer who uses the *mileage allowance method* for an auto he owns may switch in a later year to deducting the business-connected portion of *actual expenses*, so long as he depreciates it from that point on using straight-line depreciation over the auto's remaining life. The depreciation deductions would still be subject to the Code Sec. 280F dollar caps.

> RIA observation: One of the **disadvantages** to using the standard mileage rate is that it may produce a smaller deduction than would be obtained by claiming actual business-connected operating expenses plus depreciation (or lease payments). Also, use of the mileage rate method prevents the taxpayer from claiming regular MACRS deductions (subject to the luxury auto dollar caps) for the auto in later years.

FAVR plans. A taxpayer may use the mileage allowance method for a **leased** auto only if he uses that method (or a fixed and variable rate (FAVR) allowance method) for the entire lease period. Employers may use a FAVR allowance method to reimburse employees who supply their own cars for business (whether the cars are leased or owned). For 2016, the **standard auto cost** used to compute the FAVR allowance **cannot exceed $28,000** (down from $28,200 for 2015). For **trucks or vans**, the 2016 standard auto cost used to compute the FAVR allowance **cannot exceed $31,000** (up from $30,800 for 2015).

Employees. Employers that require employees to supply their own autos may reimburse them at a rate that does not exceed the business mileage allowance for employment-connected business mileage, whether the autos are owned or leased. The reimbursement is treated as a tax-free accountable-plan reimbursement if the employee substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos may be valued at the optional mileage allowance if specific conditions are met. Reg §1.61-21(e)(1)