

BUSINESS STANDARD MILEAGE RATE INCREASES FOR LAST HALF OF 2008; OTHER RATES ALSO RISE

The Internal Revenue Service is trying to cope with rising gas prices by increasing the optional standard mileage rates that taxpayers can use to calculate the deductible costs of operating an automobile. The IRS has announced that the optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) will increase 8¢ from 50.5¢ to 58.5¢ per mile for business travel from July 1, 2008 to Dec. 31, 2008 to better reflect the real cost of operating an auto in this period of rapidly rising gas prices. The rate for using a car to get medical care or in connection with a move that qualifies for the moving expense will also increase 8¢ for the last half of 2008 from 19¢ to 27¢ per mile. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

Background. The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer may, however, still claim separate deductions for parking fees and tolls connected to business driving. The IRS generally adjusts the standard mileage rate annually, based on a yearly study of the fixed and variable costs of operating an automobile.

Employers that require employees to supply their own autos may reimburse them at a rate that doesn't exceed the business mileage allowance for employment-connected business mileage, whether the autos are owned or leased. Additionally, an employee's personal use of lower-priced company autos may be valued at the optional mileage allowance if certain conditions are met. Taxpayers also have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

When the new rates are effective. The revised standard mileage rates apply to deductible transportation expenses paid or incurred for business, medical, or moving expense purposes on or after July 1, 2008, and to mileage allowances that are paid both (1) to an employee on or after July 1, 2008; and (2) with respect to transportation expenses paid or incurred by the employee on or after July 1, 2008. However, the old standard mileage rates continue to apply to deductible transportation expenses paid or incurred for business, medical, or moving expense purposes before July 1, 2008, and to mileage allowances paid: (1) to an employee before July 1, 2008, or (2) with respect to transportation expenses paid or incurred by the employee before July 1, 2008.