Federal Taxes Weekly Alert,

Standard mileage rates for business, medical & moving decrease 0.5¢ per mile for 2014

Notice 2013-80, 2013-52 IRB ; IR 2013-95

IRS has announced that the optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) will decrease by 0.5¢ to 56¢ per mile for business travel after 2013. This rate can also be used by employers to reimburse tax-free under an accountable plan employees who supply their own autos for business use, and to value personal use of certain low-cost employer-provided vehicles. The rate for using a car to get medical care or in connection with a move that qualifies for the moving expense will also decrease by 0.5¢ to 23.5¢ per 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. (**Rev Proc 2010-51, 2010-51 IRB 883** , see **Weekly Alert ¶ 4 12/09/2010**)

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. (**Rev Proc 2010-51, Sec. 9.01**) 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 the conditions specified in **Reg. § 1.61-21(e)(1)** are met.

A separate rate applies for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction. (**Rev Proc 2010-51**) The mileage rate for driving an auto for charitable use (14¢ per mile) is a statutory rate that's not adjusted for inflation. (**Code Sec. 170(i)**)

IRS generally adjusts the standard mileage rate annually, based on a yearly study of the fixed and variable costs of operating an auto. However, IRS has made mid-year adjustments in certain years when necessary to better reflect the real cost of operating an auto in light of 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 where 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 model.

RIA observation: One of the disadvantages to using the standard mileage rate is that the mileage rate method 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.

Standard mileage rates for 2014. **Notice 2013-80** provides that the standard mileage rate for transportation or travel expenses is 56¢ per mile for all miles of business use (business standard mileage rate). The standard mileage rate is 23.5¢ per mile for use of an auto (1) for medical care described in **Code Sec. 213** ; or (2) as part of a move for which the expenses are deductible under **Code Sec. 217** . The standard mileage rate is 14¢ per mile for use of an auto in rendering gratuitous services to a charitable organization under **Code Sec. 170** . (**Notice 2013-80, Sec. 2**)

As **Notice 2013-80** notes, 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;
... the taxpayer depreciated it using MACRS under **Code Sec. 168** ; or
... the taxpayer is a rural mail carriers who receive qualified reimbursements. (**Rev Proc 2010-51**)

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. (**Rev Proc 2010-51, Sec. 4.05(3)**)

Depreciation. For 2014, **Notice 2013-80, Sec. 3** provides that the depreciation component of the mileage rate for autos used by the taxpayer for business purposes is 22¢ per mile. (It was 23¢ per mile for 2013; 23¢ for 2012; 22¢ for 2011; and 23¢ for 2010.) The depreciation component reduces the basis of the auto for gain or loss purposes. (**Rev Proc 2010-51, Sec. 4.04**)

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. (**Rev Proc 2010-51, Sec. 4.05(2)**) 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 2014, the standard auto cost used to compute the FAVR allowance cannot exceed $28,200 (up from $28,100 for 2013). For trucks or vans, the 2014 standard auto cost used to compute the FAVR allowance cannot exceed $30,400 (up from $29,900 for 2013). (**Notice 2013-80, Sec. 4**)

When the new rates are effective. The revised standard mileage rates in **Notice 2013-80** (56¢ for business; 23.5¢ for medical or moving) apply to deductible transportation expenses paid or incurred for business, medical, or moving expense purposes on or after Jan. 1, 2014, and to mileage allowances or reimbursements that are paid to an employee or charitable volunteer (1) on or after Jan. 1, 2014, and (2) for transportation expenses paid or incurred by the employee or charitable volunteer on or after Jan. 1, 2014.

References: For the optional mileage allowance, see **FTC 2d/FIN ¶ L-1903** ; **United States Tax Reporter ¶ 1624.157** ; **TaxDesk ¶ 293,005** ; **TG ¶ 17680** .