

# Federal Tax Weekly

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## Business Standard Mileage Rate Rises To 48.5 Cents-Per-Mile For 2007

◆ IR-2006-168, Rev. Proc. 2006-49

Higher fuel and vehicle prices have pushed the standard mileage reimbursement rate to 48.5 cents for all business miles effective January 1, 2007. The new rate is four cents higher than the 2006 rate of 44.5 cents-per-mile. The standard mileage rate for moving and medical expenses also increases from 18 cents-per-mile to 20 cents-per-mile. The rate for the charitable deduction remains at 14 cents-per-mile.

■ **Comment.** The business, medical and moving standard mileage rates are based on an annual study of the fixed and variable costs of operating an automobile conducted by an independent contractor for the IRS. "The increase in the 2007 national per-mile rate primarily reflects higher gasoline prices over the past year," explained Ted Schuerman, director of research and client service within government services at Runzheimer International. "The other factor influencing the 2007 cents-per-mile rate is lower resale value of used vehicles. Remaining cost components, such as maintenance and insurance, remained relatively stable," Schuerman noted. Runzheimer International has worked with the IRS to establish the mileage rates since 1980.

■ **CCH Take Away.** This is the second time in less than two years that the business standard mileage rate is 48.5 cents. After Hurricane Katrina devastated the Gulf Coast and gasoline prices

soared, the IRS temporarily raised the rate from 40.5 cents-per-mile to 48.5 cents-per-mile through the end of 2005. The higher rate fell, however, when the IRS lowered it to 44.5 cents-per-mile effective January 1, 2006.

### Calculating the deduction

Generally, taxpayers can deduct the entire cost of operating a vehicle for business purposes. Deductible costs include gasoline, oil, tires, repairs, tools, parking, insurance, financing interest, taxes, licenses and depreciation.

Alternatively, taxpayers can use the business standard mileage rate. Their deduction is calculated by multiplying the standard mileage rate by the number of business miles traveled. This amount is deductible in lieu of operating and fixed costs, including depreciation, maintenance and repairs, tires, gasoline, oil, insurance and registration fees.

### Depreciation component

The depreciation component of the business standard mileage rate also rises for 2007. It was 17 cents-per-mile for 2005/2006 and increases to 19 cents-per-mile for 2007.

### Charitable rate unchanged

The mileage rate for the charitable deduction will not change in 2007. Unlike the other mileage rate, the rate for the charitable deduction is set by statute and not by the IRS. It is 14 cents-per-mile for 2006 and will remain at that amount for 2007.

*Continued on page 518*

Route to: \_\_\_\_\_

# IRS Reinforces Rules For Deducting Automobile And Truck Expenses

◆ FS-2006-26

The IRS is hoping that educating taxpayers about automobile and truck expense deductions will help curb abuses and eliminate revenue lost in inflated and inaccurate deductions. A new Fact Sheet highlights the fundamental requirements of car and truck expense deductions.

■ **Comment.** The IRS groups many vehicle expense deductions in the category of "overstated adjustments, deductions, exemptions and credits of all types that account for more than \$30 billion in unpaid taxes annually." Other than that statement, however, the latest Fact Sheet purportedly was issued "to educate" taxpayers, with no special threat of enforcement as an inducement to learning.

## Business transportation

Generally, expenses related to use of a car, van, pickup or panel truck for business can be de-

ducted as transportation expenses. A taxpayer must have ordinary and necessary costs related to one or more of the following to claim a deduction for business use of a car or truck.

- Traveling from one work location to another within the taxpayer's tax home area;
- Visiting customers;
- Attending a business meeting away from the regular workplace; and
- Traveling from home to a temporary workplace when the taxpayer has one or more regular places of work.

■ **Comment.** Deductions are not allowed for personal expenses. For example, a teacher's costs for traveling to PTA meetings have been held to be nondeductible commuting expenses but transportation of students to different activities in the community have been treated as deductible business expenses and not as personal expenses.

■ **Reminder.** The costs of traveling between a taxpayer's home and regular place of work are commuting expenses and are not deductible.

## Recordkeeping

The IRS is also reminding taxpayers about the importance of keeping complete and accurate records. The types of records required depend on whether the taxpayer claims the standard mileage rate or actual expenses.

Taxpayers claiming the standard mileage rate should identify the vehicle and prove ownership or a lease and a daily log showing miles traveled, destination and business purpose. For actual expenses, the IRS noted that a mileage log helps establish business use percentage. Taxpayers should retain receipts, invoices and other documentation to show cost and establish the identity of the vehicle for which the expense was incurred.

References: FED ¶46,671;  
TRC INDIV: 36,164.

## Mileage Rates

Continued from page 517

### Special Katrina rates

After Hurricane Katrina hit, Congress enacted special tax incentives in the *Katrina Emergency Tax Relief Act of 2005 (KETRA)* to encourage taxpayers to help victims. These rates are set by statute and not by the IRS.

*KETRA* includes a special standard mileage rate to compute the amount allowable as a charitable contribution deduction for the cost of operating an automobile for the provision of relief related to Hurricane Katrina. Additionally, taxpayers may exclude from income amounts received from a charity as reimbursement for the cost of operating an automobile for the provision

of relief related to Hurricane Katrina. The special *KETRA* rates are 32 cents-per-mile for a deduction and 44.5 cents-per-mile for reimbursements through December 31, 2006. Congress has not extended any special Katrina-related rates into 2007.

### Limitations

The business standard mileage rate may not be used to compute the deductible expenses of:

- Automobiles used for hire (or five or more automobiles owned or leased by a taxpayer and used simultaneously);
- An automobile leased by a taxpayer unless the taxpayer uses either the business standard mileage rate or a fixed and variable rate allowance (FAVR allowance) to compute the deductible business expenses of the automobile for the entire lease period (including renewals);

- An automobile for which the taxpayer has claimed depreciation using a method other than straight-line for its estimated useful life, claimed a Code Sec. 179 deduction, claimed the special depreciation allowance under Code Sec. 168(k), or used the Accelerated Cost Recovery System (ACRS) under former Code Sec. 168 or the Modified Accelerated Cost Recovery System (MACRS) under current Code Sec. 168.
- The amount of the deductible automobile expenses of an employee of the U.S. Postal Service incurred in collecting and delivering mail on a rural route if the employee receives qualified reimbursements.

■ **Comment.** Employers may use a FAVR method to reimburse employees who supply their own car, whether owned or leased. For 2007, the standard automobile cost used to compute a FAVR allowance may not exceed \$27,600 (up from \$27,400 for 2006).

References: FED ¶46,673, FED 46,674;  
TRC BUSEXP: 24,500.

### Reference Key

FED references are to *Standard Federal Tax Reporter*  
USTC references are to *U.S. Tax Cases*  
CCH Dec references are to *Tax Court Reports*  
TRC references are to *Tax Research Consultant*

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