Tips for Taxpayers

BOSMA GROUP
BUSINESS TAX ACCOUNTING

Audit Proof your Auto Deductions
By Following the Rules

Last year we represented several new clients who had either self prepared or had other accountants prepare their tax returns. One common thread in these cases was they were in business and IRS was contesting deductibility of their auto expenses based on a lack on contemporaneous documentation.

Both employees driving employer provided autos and proprietors must substantiate their business/personal use of autos by contemporaneous records that contain the date, mileage, business purpose, destination, and total mileage for the year. Without written records, the IRS may disallow the exclusion-from income status of the employer provided automobile (ouch). Lack of records may result in the complete loss of the auto deduction for the self employed person (double ouch). The key here is to get a statement from the employee about their personal use, and to keep adequate records for the proprietor.

You should note that an employer is required to include the value of the personal use of an employer-provided vehicle in the employee's W-2 income. The most common way to value personal use is the lease valuation rule which uses IRS tables. The taxable benefit is computed by multiplying the employee's personal-use portion by the appropriate table amount.

The IRS has prevailed in court that creating records afterwards must be based on proof that the vehicle was used for business. If you don't keep a mileage log, the trips around town that do not show up in your calendar or have a receipt will be disallowed.

Each year we send auto mileage logs to our clients. Witnessing the "enthusiasm" of the IRS when contemporaneous records are not kept reinforces this decision.

Of course the above are general rules (exceptions abound) and not intended to provide specific advice. Contact your tax advisor to get an answer for your specific situation.