

The IRS has just announced it increased the standard mileage rate for qualified business drivers for the second half of 2011. The adjustment reflects rising costs at the gas pumps this year. It is accompanied by a hike in the standard mileage rate for medical and job-related moving expenses. (*IRS Announcement 2011-40*)

**Background:** If you use a vehicle for business driving, you can generally deduct the actual expenses attributable to your business use. This includes expenses such as gas, oil, tires, insurance, repairs, licenses and vehicle registration fees. In addition, you may claim a depreciation allowance for the vehicle, based on the percentage of business use. However, annual write-offs are subject to so-called "luxury car" limits, indexed annually.

For instance, the maximum first-year deduction allowed for a passenger car placed in service in 2011 is \$11,060. (The usual \$3,060 deduction is increased by \$8,000 due to the "bonus depreciation" tax break under the *2010 Tax Relief Act*.) Therefore, if a taxpayer uses his or her car 90 percent for business in 2011, the deduction is limited to \$9,954 (90 percent of \$11,060).

But keeping track of every last vehicle-rated expense can be hard work. *Another option:* Instead of deducting your actual expenses, you may be able to use an IRS-approved short-cut (see right-hand box for qualification rules). With the standard mileage deduction, you don't have to account for all your actual expenses, although you still must record the mileage for each business trip, the date, the destinations, the names and relationships of the business parties and the business purpose of the travel. The rate is adjusted annually by the IRS.

Initially, the IRS established a rate of 51 cents a business mile for 2011 (up just 1 cent from 50 cents a mile in 2010). But higher gas prices spurred calls for a mid-year adjustment. There was some precedent for this action: The standard mileage rate was increased for the last six months of 2008 after gas prices soared. Now, the IRS has announced that the standard rate will increase to 55.5 cents a mile -- a jump of 4.5 cents a mile -- effective July 1, 2011.

Let's take a quick look at how the "blended rate" for 2011 might work.

**Example:** For simplicity, assume that you drive 10,000 miles every six months on business. You also incur \$1,000 in related tolls and parking fees during the year. Based on the initial IRS rate, your deduction for business driving for the first six months of 2011 is \$5,100 (10,000 miles times 51 cents). However, you can now deduct \$5,550 (10,000 miles times \$55.5 cents) for business auto trips during the last six months of 2011. *Result:* Your total deduction is \$11,650 (\$5,100 plus \$5,500 plus \$1,000 tolls and parking fees).

Besides the IRS-approved rate for business driving, you may use a standard mileage rate if you use your vehicle for medical reasons, a job-related move or charitable purposes. The IRS is also increasing the standard rate for the last six months of 2011 from 19 cents per mile to 23.5 cents a mile (a significant jump of 4.5 cents a mile). However, the rate for charitable driving, which can be amended only by Congress, remains at 14 cents per mile for the entire year.

**Bottom line:** Be aware that you still may fare better from a tax standpoint with the actual expense method than you do with the standard mileage rate, even after the latest increase. Consult with your tax adviser regarding your particular circumstances.

**Do You Qualify for the Standard Mileage Rate?**

The standard mileage rate deduction is available to most taxpayers. However, it can't be used if you:

- Operate cars for hire (such as taxis and limos);
- Use five or more cars at a time (such as fleet operations);
- Have claimed an accelerated depreciation deduction for the vehicle in the past;
- Have taken a Section 179 deduction for the vehicle in the past;
- Have claimed actual expenses after 1997 for a vehicle that is leased; or
- Are a rural mail carrier who has received a qualified reimbursement.