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## Meet the Trainer



Keep More Commissions with Tax Breaks

# Lesson 5.1: Business Auto Expenses



## Strategies to Increase Your Daily Deductions

### Strategy 1: Use Two Cars for Business To Get Maximum Deductions

**Rationale:** If you drive only 1 car for business, your max deduction is 100%. If you drive 2 cars for your business, your maximum deduction is 200%. Your business use is based on business miles driven.

**Calculation:** You figure business use by dividing business miles by total miles driven (do this for each car).

**Note:** If you have missed out on what you are about to learn for auto deductions, then tell your accountant to file a mended State & Federal tax return claiming the business use of sales tax, interest & property tax to the extent you were in business. There should be no charge from your accountant to do this. – Sandy Botkin





## How the Two Car Strategy Produces Extra Deductions

	<i>One Car</i>	<i>Two Cars</i>	
		Car 1	Car 2
<b>Business/Personal Use</b>			
Total Mileage for Business	22,000	18,000	4,000
Total Mileage for Year	24,000	20,000	7,800
<b>Business Use Percentage</b>	<b>92%</b>	<b>90%</b>	<b>51%</b>
<b>Deduction Calculations</b>			
Gas & Oil	\$4,992	\$4,160	\$1,622
Insurance	\$1,200	\$1,200	\$1,000
Repairs & Maintenance	\$1,200	\$1,200	\$1,200
Tags & License	\$150	\$150	\$150
Wash & Wax	\$230	\$230	\$230
Other	\$50	\$50	\$50
Total Operating Expense	\$7,822	\$6,990	\$4,252
Business Use Percentage	<u>x92%</u>	<u>x90%</u>	<u>x51%</u>
Business Total	\$7,196	\$6,291	\$2,169
Depreciation	<u>\$5,152</u>	<u>\$5,040</u>	<u>\$2,800</u>
<b>Total Deductions</b>	<b>\$12,348</b>	<b>\$11,331</b>	<b>\$4,969</b>
<b>Extra Deductions</b>		<b>\$3,952</b>	



**Note:** The cars in this example cost \$28,000 each & are new. Interest, state & local taxes are also deductible under both the IRS & actual methods to the extent the automobile is used for business. Rev. Proc. 2010-51



## **Strategy 2: Convert Personal Cars to Business Use to Increase Your Spendable Cash**

**Don't buy a second car:** The two car strategy puts extra money in your pocket only when you are converting an otherwise personal asset to business use (a.k.a. family already owns two or more cars).

**Caution:** One disadvantage of using 2 cars in a business, or bringing another car into your business during the year is that you must keep track of your mileage on a daily basis (not a problem if you are using a tracker app like TaxBot).

**What to depreciate:** You are allowed to depreciate the basis of your car. Because your car was used for personal purposes, you determine the basis on the day you convert the car to business by comparing cost and market value of the car and using the lower of the two.

**What cost is:** As used here, cost is what you paid for the car originally plus capital improvements such as amounts spent on rebuild or replace an engine.





**What market value is:** Market value is the fair market value of the automobile on the day you convert it to business use (refer to Kelly Blue Book). Blue Book lists 2 values: retail and wholesale. Use the retail price because it is the highest value and gives you the most depreciation.

**Example:** Assume you purchased your personal car several years ago for \$8,000. Today, that car has a retail book value of \$5,000. Your basis for purposes of computing depreciation is \$5,000 (the lower of cost or fair market value).

## **Lesson 5.2: Actual Method Vs. IRS Method**

### **Strategy 3: Deduct the Larger of The Actual Expense Deduction or The IRS Optional Mileage Rate Deduction.**

**Who can use IRS rates:** Unlike corporations, individuals such as self-employed have a choice: Use either IRS optional mileage rates or the Actual expenses to deduct business automobile expenses.

**Note:** Cars that cost  $< \$19,000$  are ok using IRS method. Cars that cost  $> \$19,000$  should use the actual method. More expenses cars lose over .07 cents per mile by using IRS Method. – Sandy Botkin





**2017 rates:** 2017 IRS optional mileage rates are:

- 53.5 cents for business miles
- 14 cents for charitable activities (church choir, Girl Scouts, American Legion, etc.)
- 17 cents for medical & moving (dentist, doctor, chiropractor, etc.)

Many people do not think to count their mileage when they are going to the doctor. Your TaxBot has those categories built in, make sure you are using them.

**New rules are straightforward:** 2017 rate applies to all business mileage, there is no 15,000 annual limit and no maximum.

**Example:** 2017, you drive 20,000 miles @ 53.5 cents = Total deduction \$10,700.

**Depreciation built into the rates:** 2017 IRS standard mileage rate has depreciation built into rates (24 cents for depreciation, 29.5 cents for operating expenses).







**Depreciation:** Each 53.5 cents per mile deduction reduces the basis of your business Car by 24 cents. Thus, if you drove 20,000 miles, your depreciation for the year would be \$4,800 and that reduces your basis by that amount, but not below zero.

**Switch to actual allowed:** If you currently use IRS rates, you may switch to actual method.

**Switch to IRS mileage rate:** Generally, you may not switch from the actual method to the IRS allowance unless straight line depreciation was used.

The chart on the next slide will help you determine which method is best for you.





# How to Find the Largest Deduction for Your Automobile



	One Car	Two Cars		Two Cars
		Car 1	Car 2	
<b>Actual Cents per Mile*</b>				
Total Deductions	\$12,348	\$11,331	\$4,969	\$16,300
Business Miles	<u>+ 22,000</u>	<u>+ 18,000</u>	<u>+ 4,000</u>	<u>+ 22,000</u>
<b>Cents per Mile</b>	<b>.56</b>	<b>.63</b>	<b>1.24</b>	<b>.74</b>

	One Car	Two Cars		Two Cars
		Car 1	Car 2	
<b>Deductions with IRS Rates</b>				
Business Miles	22,000	18,000	4,000	22,000
Cents per Mile	<u>x .535</u>	<u>x .535</u>	<u>x .535</u>	<u>x .535</u>
<b>Total Deductions</b>	<b>\$11,770</b>	<b>\$9,630</b>	<b>\$2,140</b>	<b>\$11,770</b>

	One Car	Two Cars		Two Cars
		Car 1	Car 2	
<b>Savings Calculation</b>				
IRS Rate Deductions	\$11,770	\$9,630	\$2,140	\$11,770
Actual Expense Deductions	<u>- 12,348</u>	<u>- 11,331</u>	<u>- 4,969</u>	<u>- 16,330</u>
<b>Benefit (Detriment)</b>	<b>(\$578)</b>	<b>(\$1,701)</b>	<b>(\$2,829)</b>	<b>(\$4,560)</b>

