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## Meet the Trainer



Keep More Commissions with Tax Breaks

# Lesson 5.4: Business Mileage vs. Personal Mileage

## Strategy 10: Keep A Daily Log of Car Use For 90 Days

**The perjury set up:** When you file your tax return, you or your corporation will have to answer specific questions regarding business automobiles. The questions are part of your tax return & you answer the questions under penalty of perjury.

**The dreaded questions:** The first question you will have to answer is: Do you have evidence to support business use? The next question: Is the evidence written? To sustain your business automobile deduction, you must be in a position to answer “yes” to both questions.

**Questions:** IRS Forms 4562 and 2106 also ask other questions regarding the miles driven during the year. In your tax return, you must report miles driven during the year broken down by:

- **Total miles**
- **Total commuting miles**
- **Total business miles**
- **Other personal miles (non-commuting)**

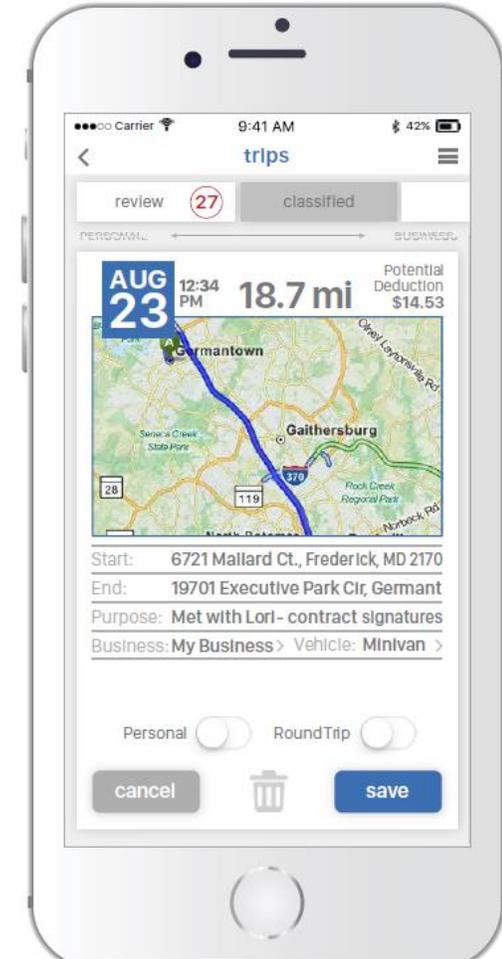




**Records must be adequate:** An adequate record is one made at or near the time of business use. Other sufficient evidence is acceptable only if you have direct corroborative evidence (such as statements from witnesses) or other documentary evidence. With automobiles, you do not need receipts for gas, parking, or tolls that are each under \$75.

**Adequate records are required even with IRS mileage rates:** The mileage rate eliminates the need to keep gas and oil receipts, but it does not eliminate the need for mileage records to be broken down into business, personal, and commuting categories.

**Clarification:** Mileage from one business stop to another business stop is business mileage. If you go to a temporary business stop for your business, but then go to an unrelated business stop, such as your regular job, you may only deduct your mileage to the temporary business stop, and not to the unrelated business stops.



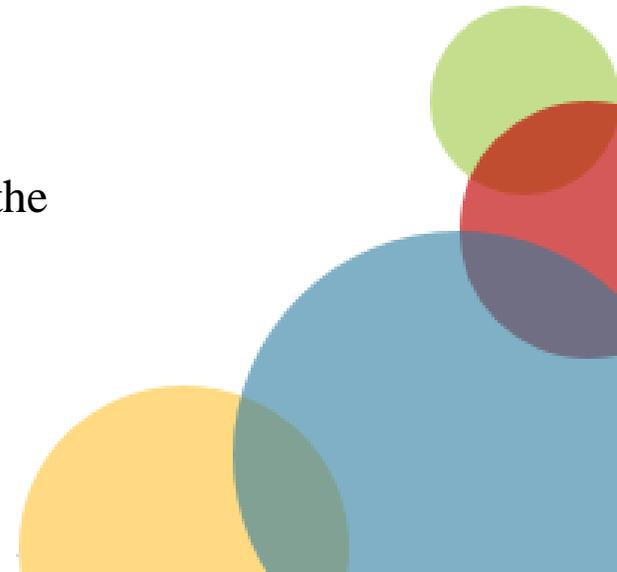


**Penalties:** Failure to keep good records exposes you to huge penalties. Moreover, Congress wants IRS to start asking for fraud penalties when taxpayers don't have good records of automobile business use.

**Perfect one day log:** You list all appointments both business & personal in your diary. When you use the car to get to an appointment you list the mileage next to the appointment. At the end of the day, you record your final odometer reading. Finally, you tally your business, personal, and commuting mileage & reconcile those numbers with your beginning & ending odometer. (TaxBot does it all for you.)

### **Simplifying methods:**

**The 90 day log rule:** IRS regulations allow a mileage record for a representative portion of the year to substitute business use for the entire year. In the first example IRS says you can keep detailed mileage records for the first 3 months of the year to substantiate the entire year if your business use of the vehicle follows the same pattern for the remaining 9 months.



**First week rule:** The 2<sup>nd</sup> IRS example assumes that you keep an automobile log for the first week of each month & then can prove by adequate records that your business use for the remainder of each month was consistent with that of the first week.

**Appointments are key:** Key element to a sample record is to enter all appointments in your appointment book. This proves consistent business use.

**No hassle method:** If you list your daily appointments in your diary, your 90 day test can be made by:

1. Documenting beginning & ending 90 day & annual mileage
2. Recording personal miles each day during the 90 day test
3. Recording commuting miles each day during 90 day test
4. Applying percentages from the test to annual mileage

**Remember,** this method works only if appointments are recorded & substantiate the business mileage. In addition, you must keep track of your appointments to show that the time period chosen truly represents the business activities for the entire year.

**Caution:** Despite allowing this statistical approach in IRS regulations, some examiners have disallowed it under the presumption that it does not substantiate the rest of the year.

**Note:** You cannot use the “simplifying method” if you use a 2<sup>nd</sup> car during the year.

