

# ALERT: IRS Increases Mileage Rate to 62.5 Cents Per Mile

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**G**as prices have risen, on average, about \$2 per gallon since this time last year. In response, the Internal Revenue Service (IRS) has increased the standard mileage deduction for businesses 4 cents a mile starting July 1, 2022 – from 58.5 cents to 62.5 cents per mile.

Likewise, the new rate for deductible medical or moving expenses (available for active-duty members of the military) will be 22 cents for the remainder of 2022 – up 4 cents from the rate effective at the start of 2022. (The 14-cent per mile rate for charitable organizations remains unchanged because it's set by statute.)



An increase of only 4 cents a mile might seem like a pittance, but when you do the math, it adds up. For example, if you drive a vehicle that gets 20 miles a gallon, 4 cents a mile results in a deduction of 80 cents per gallon.

Of course, that still doesn't come close to covering the extra \$2 per gallon you're paying at the pump, not to mention all the other rising costs of owning and maintaining a vehicle for your business. You know, things like lease payments (or depreciation), license and registration, insurance, maintenance, and repairs.

Here's a thought. Have you considered halting your habit of taking the easy way out (using the standard mileage deduction) and instead start keeping detailed records of all the *actual* costs of owning and operating the vehicle?

## **Understanding Your Options: Actual Expenses vs. Standard Mileage**

That's right. The IRS gives you two ways to calculate your business vehicle deduction:

- Actual expenses
- Standard mileage

With the *actual expenses method*, you total your vehicle expenses for the year and multiply by the percentage you used the vehicle for business. But keep in mind that if you start with the *actual expenses method*, you must continue to use that method for as long as you own the vehicle.

- Expenses include the following:
  - Depreciation (if you bought or are buying the vehicle) or lease payments (if you're leasing the vehicle)
  - License and registration fees
  - Insurance
  - Fuel costs
  - Maintenance (such as oil changes and new tires) and repair costs
  - Parking fees or garage space rental
  - Tolls
  - Car washes

Of course, the *actual expenses method* requires much more record-keeping. You need to keep track of all your vehicle expenses in addition to recording your odometer reading at the beginning and end of the tax year. And you have to record and the actual mileage you drove for business purposes versus personal use.

With the *standard mileage method*, you only need to record your odometer reading at the beginning and end of the tax year and track the number of miles you drove the vehicle for business purposes.

**Tip:** Take a photo of your odometer reading on New Year's Day or write the odometer reading and the date on the folder you use to keep all your receipts for fuel, maintenance, and repair costs for the vehicle. Or use an app on your smartphone to track your vehicle expenses and business mileage.

To use the standard mileage rate method, you must do so the first year you use your vehicle for business. In later years you can use whichever method gives you the biggest deduction. And remember that if you start with the *actual expenses method*, you must continue to use that method for as long as you own the vehicle – you cannot go back to the standard mileage rate!

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## Choosing the Option That Gives You the Biggest Deduction

Generally, the best approach is to use the standard mileage deduction the first year you own the vehicle and then, in subsequent years, calculate your deduction using both methods and submit paperwork for the method that gives you the biggest deduction.

For example, suppose you drive 20,000 miles in 2022 with 10,000 of those miles being for business divided equally between the first and second half of the year. Using the standard mileage method, your deduction for the business use of your vehicle would be \$6,050:  $(5,000 \times 0.585) + (5,000 \times 0.625)$ .

But suppose your actual expenses were as follows:

- \$4,000 gas
- \$3,500 depreciation
- \$1,500 insurance
- \$450 license and registration
- \$6,250 maintenance and repairs
- \$2,400 tolls
- \$1,500 parking
- \$480 car washes

That's a total of \$20,080. Multiply that by 50 percent, and your deduction is \$10,040.

## Keeping Detailed Records

Regardless of which method you use to claim your vehicle expenses deduction, keep a mileage log that includes the following details for each business trip:

- Date
- Destination
- Business purpose
- Miles traveled (you may want to write down the starting and ending odometer readings)

If you're thinking that you might calculate your deduction based on actual expenses, you'll also need to keep a record of every expense – generally a receipt, cancelled check, or bill.

Keeping detailed records of mileage and vehicle expenses can be a hassle. Here are a few tips for simplifying the task:

- Install a mileage tracker and vehicle expenses app on your smartphone and use it to track your business mileage and vehicle expenses.
- Use a dedicated charge card for all your business expenses or specifically for all expenses related to the vehicle you use for business.
- If you have regular business routes (for example, weekly visits to the same

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customers), you can use a sampling method to extrapolate the mileage over a year's time.

- If you have a more convenient means of tracking mileage, use it. For example, Uber provides its drivers with a tax summary that includes the miles driven while waiting for a rider, en route to a rider, and to the rider's destination. However, you'll need to supplement this with your own record of the business miles you drove without passengers or to a central location after dropping them off. If you use GPS tracking in your business, you can use those records.

If you're using the standard mileage deduction, keep in mind that the rate differs during the first and second halves of the year. From Jan. 1 to June 30, the rate is 58.5 cents per mile. From July 1 to Dec. 31, the rate is 62.5 cents per mile.

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