



Maximizing Your Business Auto Deductions: What You Need to Know



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Steas, Walker & Company, LLP (SWC)
16875 W. Bernardo Drive, Suite. 290 | San Diego, CA 92127
p: (858) 487-4580 | **f:** (858) 487-8033 | **e:** admin@SWC.cpa | **w:** www.SWC.cpa

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INTRODUCTION

Maximizing Your Business Auto Deductions: What You Need to Know



At SWC, we know that every tax deduction counts – and that’s especially true if you believe in *tax planning* and not *tax reacting*.

If you use a vehicle for business, understanding the rules around business-related auto deductions can help you make the most of your tax savings. Whether you’re a self-employed entrepreneur, a business owner, or managing a corporate fleet, choosing the right deduction method and tracking expenses properly is bound to lead to a successful outcome.

Here’s what you need to know about business auto deductions, eligible expenses, and how to make sure you’re compliant while maximizing your savings. If at any time you have questions or are unsure about something, let us know. We can be reached by email at admin@swc.cpa, and during West Coast office hours by phone at (858) 487-4580.

Up first, how to properly deduct auto expenses for your business.

How to Deduct Business Auto Expenses

The United States Internal Revenue Service (IRS) allows business owners and self-employed individuals to deduct vehicle expenses using one of two methods:

1. The Standard Mileage Rate
2. The Actual Expense Method

Each has its own advantages, and the right choice depends on how much you drive for business and how you track expenses. Here’s what you need to know:

The Standard Mileage Rate: Simple & Straightforward

The standard mileage rate is the easiest way to deduct business vehicle expenses. Instead of tracking every individual expense, you multiply your business miles by the IRS mileage rate:

- In 2024, the mileage rate was 67 cents per mile
- In 2025, the mileage rate is 70 cents per mile

The mileage rate covers most of the costs of owning and using your car for business, including the fact that your car loses value over time (depreciation), plus gas, upkeep, insurance, and registration. But if you have to pay for parking or tolls while driving for work, you can still deduct those separately because they aren't included in the mileage rate.

However, there are limitations:

You can't use the standard mileage rate method if you've previously claimed depreciation using MACRS (Modified Accelerated Cost Recovery System) or Section 179 of the federal tax code.

You must use the standard mileage rate in the first year you use the vehicle for business if you want to use it in later years.

As you can see, the standard mileage rate method is ideal for business owners who drive a lot for work but don't want to track every individual vehicle expense.

Pro Tip: Regardless of which method you use, keep a record of your odometer readings. When preparing your tax return, you'll need to know the odometer reading of when you started using the vehicle for business and the odometer reading at the beginning of the tax year and the end of the tax year.



The Actual Expense Method: Maximizing Your Deductions

If you prefer a more detailed approach or have high vehicle costs, you may benefit from deducting actual vehicle expenses. These include:

- Fuel and oil
- Repairs and maintenance
- Insurance
- Depreciation (for owned vehicles)
- Lease payments (for leased vehicles)
- Registration and licensing fees
- Garage rent and parking fees
- Tolls

Warning: If your vehicle is used for both business and personal purposes, only the business-use percentage is deductible. For example, if 60 percent of your miles are for business, you can deduct 60 percent of your total vehicle expenses.

In our experience here at SWC, clients tell us that the actual expense method can be more complex but is often more beneficial for vehicles with high operating costs.

Commuting Versus Business Mileage: What's Deductible?

Not all miles driven for work qualify as deductible business expenses. The IRS does not allow deductions for commuting, meaning the miles you log for traveling from home to your primary workplace and back do not qualify.

That said, it's not all bad news on the commuting front, because the following are deductible:

- Travel between multiple work locations if you have more than one job.
- Travel to a temporary work site outside your usual metropolitan area.

If your vehicle's use falls into one of these categories, you may be eligible for additional deductions. Here, a tax planning firm like ours can be extremely helpful in identifying the additional deductions for which you may qualify.

Warning: Some people still mistakenly believe that purchasing a vehicle through their business automatically qualifies it for substantial tax deductions, but that's not how the rules work. A common misconception is that commuting to and from the office counts as business use, but it doesn't. To qualify for deductions like bonus depreciation, the vehicle must be used 100 percent for legitimate business purposes, and commuting doesn't qualify. So before you go out and buy a \$65k Jeep Wagoneer for "business," keep in mind that it doesn't qualify for a deduction if the vehicle's actual business use is closer to 10 percent. In other words, misclassifying personal use as business use can lead to audits, disallowed deductions, and a lot of unnecessary headaches.



Special Rules for Business-Owned Vehicles

If your corporation or business partnership owns a vehicle, the deduction must be based on actual expenses (*i.e., the actual expense method*). That's because the business-use percentage must be calculated to determine how much of the expenses are deductible.

If you're wondering about the personal use of a business vehicle and what impact that has on maximizing business auto deductions, here's what you need to know:

- If an employee (or S-corporation shareholder) uses a business vehicle for personal reasons, the value of personal use must be reported as taxable income on their W-2.

- If the company reports 100 percent of vehicle costs as a business expense, personal use must be treated as additional compensation for the employee.

For partnerships, partners who are not reimbursed for vehicle expenses may deduct them on Schedule E (Form 1040 – Supplemental Income and Loss), but only if their partnership agreement explicitly states that reimbursements are limited or unavailable.

Depreciation & Luxury Vehicle Limits

If you own a high-value vehicle, there are IRS limits on how much depreciation you can claim. For 2025, the maximum depreciation deductions for a passenger vehicle are:

Year	Auto / Light Truck – Without Bonus Depreciation	Auto / Light Truck – With Bonus Depreciation
1st Year	\$12,200	\$20,200
2nd Year	\$19,600	\$19,600
3rd Year	\$11,800	\$11,800
4th Year	\$7,060	\$7,060

Bonus Depreciation & Heavy SUVs

Heavy SUVs (over 6,000 lbs. but under 14,000 lbs.) are not subject to standard depreciation limits. In 2024, up to \$30,500 can be deducted immediately under Section 179 of the federal tax code.

This makes heavy SUVs a popular choice for business owners looking to maximize tax savings.

Leased Vehicles & Tax Deductions

If you lease a business vehicle, you can deduct the business-use portion of the lease payments. However, to prevent business owners from bypassing depreciation limits, the IRS requires an income inclusion if the leased vehicle's fair market value exceeds \$61,200 (that's the 2025 limit).

This reduces the deductible portion of lease payments but allows businesses to still claim substantial deductions for leased vehicles.

Choosing the Right Method for You and Your Business

If you've made it this far and are still wondering whether the standard mileage rate or the actual expenses method is right for you, consider the following.

- **Standard Mileage Rate:** Best for low-mileage business use and simpler recordkeeping.
- **Actual Expenses:** Best for vehicles with high costs, business-owned vehicles, or when maximizing deductions is the goal.

Pro Tip: If you're still unsure which method is best, track both mileage and actual expenses for the first year and compare potential deductions. If you need help, let us know.

Business auto deductions can be a powerful tax-saving tool, but they require careful tracking and compliance with IRS rules. Whether you're self-employed, own a fleet of company cars, or just want to make sure you're maximizing your deductions, our team of tax planning experts is here to help.

Have questions? Need guidance? Contact us today using the [contact form](#) on our website or call us during business hours at (858) 487-4580. We'll make sure you're on the right path for a smarter, more strategic approach to tax planning and wealth building.

Disclaimer: *The information in this SWC business brief about business-related auto deductions is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this business brief should be construed as financial advice from the staff at SWC (Stees, Walker & Company, LLP), nor is this the information contained in this business brief intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this business brief should act or refrain from acting on the basis of any information included in, or accessible through, this business brief without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



Keep in touch.

16875 W. Bernardo Drive, Suite. 290
San Diego, CA 92127

p: (858) 487-4580 | f: (858) 487-8033
w: www.SWC.cpa

Laura A. Stees, CPA

Co-founder | Partner | Business Strategist
Laura@SWC.cpa

Marni L. Walker, CPA

Co-founder | Managing Partner | Estate Strategist
Marni@SWC.cpa