Internal Revenue Service

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[redacted]

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Department of the Treasury

Washington, DC 20224

Person to Contact:
[redacted]
Telephone Number:
(202) 622-4920 (not a toll-free call)
Refer Reply To:
CC:DOM:IT&A:2 – COR-106485-00
Date:
March 28, 2000

Dear [redacted]

This letter is in response to your inquiry addressed to Commissioner Rossotti dated March 7, 2000, concerning the business standard mileage rate. You indicated the church does not reimburse you for automobile expenses incurred while on church business. You feel that the business standard mileage rate, which is 32.5 cents per mile this year, is not a realistic car expense allowance.

Under § 162(a) of the Internal Revenue Code a taxpayer may deduct ordinary and necessary business expenses, including automobile expenses. Section 274(d) requires the taxpayer to maintain adequate records or other sufficient evidence to substantiate the amount, time, use, and business purpose of automobile expenses. To do this, the taxpayer must keep necessary records to substantiate the total automobile expenses and the business use percentage of those expenses. This is done by totaling the business miles recorded and dividing them by the total miles driven during the year. The resulting percentage of total automobile expenses is allowable as a business expense deduction.

The standard mileage rate is an optional method of computing the cost of using a vehicle. The amount calculated using the business standard mileage rate will be accepted in place of substantiating the actual cost of operating an automobile for business purposes. This relieves taxpayers of the recordkeeping required by § 274(d) for such items as gasoline, oil, maintenance, insurance, and depreciation. However, this formula is based on a national average cost study, and may not necessarily match a particular taxpayer’s actual costs.

The Internal Revenue Service (IRS) annually publishes a revenue procedure that provides several optional standard mileage rates, including the business rate. The IRS published the current rates in Rev. Proc. 99-38, 1999-43 I.R.B. 525, setting the business standard mileage rate at 32.5 cents per mile.

In setting the business standard mileage rate, the IRS works with an independent contractor that is an expert in the field of automobile cost analysis. The contractor studies the fixed and variable costs of operating an automobile. The types of vehicles used in the study represent a cross-section of the most popular models owned and operated in the United States. The contractor then synthesizes this data to get a composite cent-per-mile rate.

To determine the rate for 2000, the contractor studied actual costs during 1999. The data indicated that automobile costs across the board increased relative to the costs analyzed in the previous year's study, which used the same methodology. Thus, the rate went up from 31 to 32.5 cents per mile.

Gasoline and oil prices have fluctuated significantly over the last several years. However, it is not administratively feasible for the IRS to account for these fluctuations more frequently than annually. Setting the rate annually can also work to the benefit of taxpayers. For example, in the second half of 1998, gasoline prices dropped sharply. Nevertheless, taxpayers could continue to use the standard 1998 rate of 32.5 cents per mile, which was based on the contractor's 1997 study, when gasoline prices were considerably higher.

As noted above, you do not have to use the business standard mileage rate to determine the amount deductible. You may deduct your actual automobile business expenses, based on actual cost and mileage records. We enclose a copy of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, to assist you in doing this.

Sincerely,

Deputy Assistant Chief Counsel
(Income Tax & Accounting)

By ______________________________
Robert A. Berkovsky
Chief, Branch 2

Enclosure