PacificCPE

COURSE

32502B

Deductions: Car Expense and Vehicle Disposition

Car expense deductions are among the most frequently claimed — and most frequently mishandled — in tax practice. This course walks through the transportation deduction rules, including the standard mileage rate and actual expense methods, and helps you determine which approach works best for your clients' situations. It also addresses the tax consequences that arise when a business vehicle is sold or disposed of, an area that catches many taxpayers off guard. A focused, practical resource for professionals working with self-employed clients or small business owners with vehicle-related deductions.

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Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall deductible transportation expenses.
- Identify the Section 179 deduction requirements.
- Recognize the rules regarding the depreciation of vehicles.

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Chapter 1: TRANSPORTATION

Chapter Objective

After completing this chapter, you should be able to:

- Recall deductible transportation expenses.
- Identify the Section 179 deduction requirements.
- Recognize the rules regarding the depreciation of vehicles.

This chapter discusses expenses you can deduct for business transportation when you are not traveling away from home as defined in Chapter 1 of course 32501I. These expenses include the cost of transportation by air, rail, bus, taxi, etc., and the cost of driving and maintaining your car.

Transportation expenses include the ordinary and necessary costs of all of the following.

- Getting from one workplace to another in the course of your business or profession when you are traveling within the city or general area that is your tax home. Tax home is defined in Chapter 1 of course 32501I.
- Visiting clients or customers.
- Going to a business meeting away from your regular workplace.
- Getting from your home to a temporary workplace when you have one or more regular places of work. These temporary workplaces can be either within the area of your tax home or outside that area.

Transportation expenses do not include expenses you have while traveling away from home overnight. Those expenses are travel expenses which are discussed in Chapter 1 of course 32501I. However, if you use your car while traveling away from home overnight, use the rules in this chapter to figure your car expense deduction. See *Car Expenses*, later.

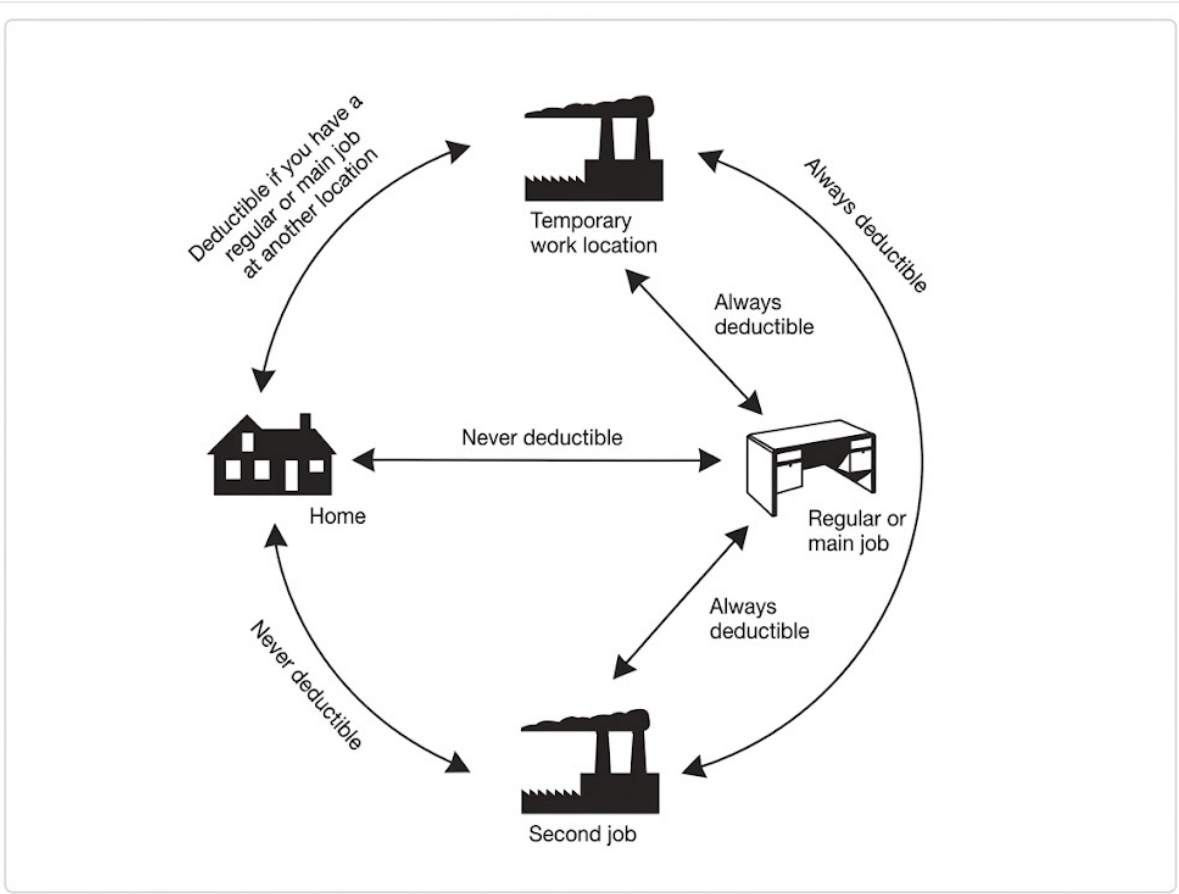
Daily transportation expenses you incur while traveling from home to one or more regular places of business are generally nondeductible commuting expenses. However, there may be exceptions to this general rule. You can deduct daily transportation expenses incurred going between your residence and a temporary work station outside the metropolitan area where you live. Also, daily transportation expenses can be deducted if: (1) If you have one or more regular work locations away from your residence, or (2) your residence is your principal place of business and you incur expenses going between the residence and another work location in the same trade or business, regardless of whether the work is temporary or permanent and regardless of the distance.

Caution!

If you are entitled to a reimbursement from your employer but you do not claim it, you cannot claim a deduction for the expenses to which that unclaimed reimbursement applies. This type of deduction is considered a miscellaneous deduction which is no longer allowable due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a).

Illustration of transportation expenses. Figure 4-1 illustrates the rules for when you can deduct transportation expenses when you have a regular or main job away from your home. You may want to refer to it when deciding whether you can deduct your transportation expenses.

FIGURE 4-1. WHEN ARE TRANSPORTATION EXPENSES DEDUCTIBLE?



Most employees and self-employed persons can use this chart. (Do not use this chart if your home is your principal place of business. See *Office in the home*, later.)

Home: The place where you reside. Transportation expenses between your home and your main or regular place of work are personal commuting expenses.

Regular or main job: Your principal place of business. If you have more than one job, you must determine which one is your regular or main job. Consider the time you spend at each, the activity you have at each, and the income you earn at each.

Temporary work location: A place where your work assignment is realistically expected to last (and does in fact last) one year or less. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary work location outside your metropolitan area.

Second job: If you regularly work at two or more places in one day, whether or not for the same employer, you can deduct your transportation expenses of getting from one workplace to another. If you do not go directly from your first job to your second job, you can only deduct the expenses of going directly from your first job to your second job. You cannot deduct your transportation costs between your home and a second job on a day off from your main job.

Temporary work location. If you have one or more regular work locations away from your home and you commute to a temporary work location in the same trade or business, you can deduct the expenses of the daily round-trip transportation between your home and the temporary location, regardless of distance.

If your employment at a work location is realistically expected to last (and does in fact last) for 1 year or less, the employment is temporary unless there are facts and circumstances that would indicate otherwise.

If your employment at a work location is realistically expected to last for more than 1 year or if there is no realistic expectation that the employment will last for 1 year or less, the employment is not temporary, regardless of whether it actually lasts for more than 1 year.

If employment at a work location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to last more than 1 year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until your expectation changes. It will not be treated as temporary after the date you determine it will last more than 1 year.

If the temporary work location is beyond the general area of your regular place of work and you stay overnight, you are traveling away from home. You may have deductible travel expenses as discussed in Chapter 1 of course 32501I.

No regular place of work. If you have no regular place of work but ordinarily work in the metropolitan area where you live, you can deduct daily transportation costs between home and a temporary work site outside that metropolitan area.

Generally, a metropolitan area includes the area within the city limits and the suburbs that are considered part of that metropolitan area.

You cannot deduct daily transportation costs between your home and temporary work sites within your metropolitan area. These are nondeductible commuting expenses.

Two places of work. If you work at two places in one day, whether or not for the same employer, you can deduct the expense of getting from one workplace to the other. However, if for some personal reason you do not go directly from one location to the other, you cannot deduct more than the amount it would have cost you to go directly from the first location to the second.

Transportation expenses you have in going between home and a part-time job on a day off from your main job are commuting expenses. You cannot deduct them.

Armed Forces reservists. A meeting of an Armed Forces reserve unit is a second place of business if the meeting is held on a day on which you work at your regular job. You can deduct the expense of getting from one workplace to the other as just discussed under *Two places of work*.

You usually cannot deduct the expense if the reserve meeting is held on a day on which you do not work at your regular job. In this case, your transportation generally is a nondeductible commuting expense. However, you can deduct your transportation expenses if the location of the meeting is temporary and you have one or more regular places of work.

If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your transportation expenses.

If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. These expenses are discussed in Chapter 1 of course 32501I.

If you travel more than 100 miles away from home in connection with your performance of services as a member of the reserves, you may be able to deduct some of your reserve-related travel costs as an adjustment to gross income rather than as an itemized deduction. For more information, see *Armed Forces Reservists Traveling More Than 100 Miles From Home* under *Special Rules*, in Chapter 2 of course 32503I.

Commuting expenses. You cannot deduct the costs of taking a bus, trolley, subway, or taxi, or of driving a car between your home and your main or regular place of work. These costs are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is

from your regular place of work. You cannot deduct commuting expenses even if you work during the commuting trip.

Example

You sometimes use your cell phone to make business calls while commuting to and from work. Sometimes business associates ride with you to and from work, and you have a business discussion in the car. These activities do not change the trip from personal to business. You cannot deduct your commuting expenses.

Parking fees. Fees you pay to park your car at your place of business are nondeductible commuting expenses. You can, however, deduct business-related parking fees when visiting a customer or client.

Advertising display on car. Putting display material that advertises your business on your car does not change the use of your car from personal use to business use. If you use this car for commuting or other personal uses, you still cannot deduct your expenses for those uses.

Car pools. You cannot deduct the cost of using your car in a nonprofit car pool. Do not include payments you receive from the passengers in your income. These payments are considered reimbursements of your expenses. However, if you operate a car pool for a profit, you must include payments from passengers in your income. You can then deduct your car expenses (using the rules in this course).

Hauling tools or instruments. Hauling tools or instruments in your car while commuting to and from work does not make your car expenses deductible. However, you can deduct any additional costs you have for hauling tools or instruments (such as for renting a trailer you tow with your car).

Union members' trips from a union hall. If you get your work assignments at a union hall and then go to your place of work, the costs of getting from the union hall to your place of work are nondeductible commuting expenses. Although you need the union to get your work assignments, you are employed where you work, not where the union hall is located.

Office in the home. If you have an office in your home that qualifies as a principal place of business, you can deduct your daily transportation costs between your home and another work location in the same trade or business.

Examples of deductible transportation. The following examples show when you can deduct transportation expenses based on the location of your work and your home.

Example 1

You regularly work in an office in the city where you live. Your employer sends you to a one-week training session at a different office in the same city. You travel directly from your home to the training location and return each day. You can deduct the cost of your daily round-trip transportation between your home and the training location.

Example 2

Your principal place of business is in your home. You can deduct the cost of round-trip transportation between your qualifying home office and your client's or customer's place of business.

Example 3

You have no regular office, and you do not have an office in your home. In this case, the location of your first business contact is considered your office. Transportation expenses between your home and this first contact are nondeductible commuting expenses. Transportation expenses between your last business contact and your home are also nondeductible commuting expenses. While you cannot deduct the costs of these trips, you can deduct the costs of going from one client or customer to another.

I. CAR EXPENSES

If you use your car for business purposes, you may be able to deduct car expenses. You generally can use one of the two following methods to figure your deductible expenses.

- *Standard mileage rate.*
- Actual car expenses.

Tip

If you qualify to use both methods, you may want to figure your deduction both ways to see which gives you a larger deduction.

The cost of using your car as an employee, whether measured using actual expenses or the standard mileage rate, will no longer be allowed to be claimed as an unreimbursed employee travel expense as a miscellaneous itemized deduction due to the suspension of miscellaneous itemized deductions

that are subject to the 2% floor under section 67(a). The suspension applies to tax years beginning after December 2017. Deductions for expenses that are deductible in determining adjusted gross income are not suspended. For example, Armed Forces reservists, qualified performing artists, and fee-basis state or local government officials are allowed to deduct unreimbursed employee travel expenses as an adjustment to total income on Schedule 1 (Form 1040), line 12.

If you use actual expenses to figure your deduction for a car you lease, there are rules that affect the amount of your lease payments that you can deduct. See *Leasing a Car*, later.

In this course, "car" includes a van, pickup, or panel truck. For the definition of "car" for depreciation purposes, see *Car defined* under *Actual Car Expenses*, later.

STANDARD MILEAGE RATE

For 2026, the standard mileage rate for the cost of operating your car for business use is 72.5 cents per mile for January 1, 2026 through June 30, 2026, and 76 per mile for July 1, 2026, thereafter.

Caution!

If you use the standard mileage rate for a year, you cannot deduct your actual car expenses for that year. You cannot deduct depreciation, lease payments, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, or vehicle registration fees. See *Choosing the Standard Mileage Rate* and *Standard Mileage Rate Not Allowed*, later.

You generally can use the standard mileage rate whether or not you are reimbursed and whether or not any reimbursement is more or less than the amount figured using the standard mileage rate. See Chapter 2 of course 32503I for more information on reimbursements.

Choosing the standard mileage rate. If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. Then in later years, you can choose to use either the standard mileage rate or actual expenses.

If you want to use the standard mileage rate for a car you lease, you must use it for the entire lease period. For leases that began on or before December 31, 1997, the standard mileage rate must be used for the entire portion of the lease period (including renewals) that is after 1997.

You must make the choice to use the standard mileage rate by the due date (including extensions) of your return. You cannot revoke the choice. However, in later years, you can switch from the standard mileage rate to the actual expenses method. If you change to the actual expenses method in a later year, but before your car is fully depreciated, you have to estimate the remaining useful life of the car and use straight line depreciation. For more information about depreciation included in the standard mileage rate, see *Exception* under *Methods of depreciation*, later.