

Best Practices for Recording Vehicle Expenses

If you use automobiles, trucks, airplanes, and computers (except those used exclusively in a regular business establishment) – classified as **Listed Property** – for business purposes, you should be aware of rules and procedures to comply with to obtain tax deductions appropriately. The most common reason taxpayers can lose deductions is inadequate documentation.

The general rule is that you must prove the business purpose and payment, usually by an invoice and a check. You may also be able to support the deduction by other means when a receipt is difficult to get. If you don't have adequate documentation, however, the courts can use the **Cohan Rule** to estimate expenses for most other types of expenditures, such as office supplies and utilities. Even if the court does apply the Cohan Rule, it must have some basis for estimating the expenses.

Requirements for meals, entertainment and listed property usage are more specific, and the Cohan Rule is not available. For vehicles, you must document the following. Please note that each of these applies to each trip and you will need the date you started using the vehicle for business and the total miles during the year.

- Cost and date of each expense;
- Mileage for each business use;
- Date of vehicle use;
- Business destination; and
- Business purpose of the trip

Tips for vehicle expense recording:

1. Use your smart phone, tablet, or other device, to keep a diary noting the date, destination, business purpose, odometer readings, and expenses.
2. Make the record as close as possible to the time of the trip (e.g., the same day or within the week) as the longer you delay, the less credible the record becomes.
3. If traveling the same route every day or on specific days during the week, establish the date of each trip with a receipt, record of delivery, or other documentary evidence.
4. Account for several uses of the car that can be considered a single use (e.g., round trip or uninterrupted business use) with a single record.
5. For leased vehicles, take the standard mileage to avoid computing depreciation (e.g., tracking gas, maintenance, and insurance costs) [Note: The other recordkeeping rules (e.g., mileage, date) still apply].
6. When your employees use a company car, include undocumented mileage as income on the employee's W-2.

As you prepare your tax returns, we recommend consulting your tax adviser for ways to minimize errors and paperwork and maximize tax deductions.



If you have any questions or would like additional advice on vehicle expenses and other matters related to tax deductions, please contact: **Mark Brittain**, Partner, at mbrittain@lvhj.com or 415-905-5417.

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