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## New IRS Mileage Rates Go Into Effect This Week

### IRS Responds to Higher Gas Prices with Mileage Rate Increase

#### Business standard mileage rate increases for last half of 2011; other rates also rise.

The IRS has responded to rapidly rising gas prices by announcing an increase in the optional mileage allowance for the second half of the year. From July 1, 2011 to December 31, 2011, **the optional mileage allowance for owned or leased autos (including vans, pickups, or panel trucks) will increase 4.5¢ from 51¢ to 55.5¢ per mile for business travel.** Employers can also use this rate to reimburse, tax-free, employees who supply their own autos for business use under an accountable plan, and to value personal use of certain low-cost, employer-provided vehicles. The rate for using a car to get medical care or in connection with a move that qualifies for the moving expense will also increase 4.5¢ for the last half of 2011, from 19¢ to 23.5¢ per mile.

The increase reflects an apparent reversal of thinking at the IRS. As recently as last month, an IRS spokesperson told the payroll industry that the IRS had no current plans to boost the mileage rate.

#### Background

The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance, and license and registration fees. The taxpayer may, however, still claim separate deductions for parking fees and tolls connected to business driving. The IRS generally adjusts the standard mileage rate annually, based on a yearly study of the fixed and variable costs of operating an automobile.

Employers that require employees to supply their own autos may reimburse them at a rate that doesn't exceed the business mileage allowance for employment-connected business mileage, whether the autos are owned or leased. The reimbursement is treated as a tax-free accountable-plan reimbursement if the

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employee substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos (value of \$15,300 or less) may be valued at the optional mileage allowance.

**The mileage rate for driving an auto for charitable use, 14¢ per mile, is a statutory rate that is not adjusted for inflation.**

### **When the New Rates Take Effect**

The revised standard mileage rates in Ann. 2011-40 (55.5¢ for business, 23.5¢ for medical or moving expenses) apply to deductible transportation expenses paid or incurred for business, medical, or moving expense purposes on or after July 1, 2011. They also apply to mileage allowances that are paid both:

1. To an employee on or after July 1, 2011, and
2. For transportation expenses paid or incurred by the employee on or after July 1, 2011.

However, the previous standard mileage rates (51¢ for business, 19¢ for medical or moving expenses) continue to apply to deductible transportation expenses paid or incurred for business, medical, or moving expense purposes before July 1, 2011, and to mileage allowances paid:

1. To an employee before July 1, 2011, or
2. With respect to transportation expenses paid or incurred by the employee before July 1, 2011.

Please contact our tax team if you have any questions or need assistance on this or any other tax issues.

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