

# keeping track of the business use of your car



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**m**y wife is a registered nurse. One of her favorite professional sayings is: "If it isn't written, it didn't happen." I take that to mean that if an activity has not been properly documented then it cannot be proven to have occurred. That is certainly the attitude of the IRS with respect to the business use of cars and trucks. According to the Service every business trip, however short, is expected to be substantiated with an adequate record that proves the "who, what, when, where and why" of it, as well as how many miles were driven. If the taxpayer is computing the deduction using the actual expense method, he or she must also keep records of how much was spent. My experience as a CPA is that clients take a much less rigorous approach than the IRS to the documentation of the business use of their vehicles, and this relaxed attitude can get them into trouble in the event of an audit. When I warn clients of the risks of inadequate recordkeeping they give me that look that says, "What planet do you live on? Get real!" So, in the interests of "getting real" here are a few pieces of practical advice for auto use recordkeeping.

Let's talk first about establishing the "who, what, when, where and why" of a business trip. The IRS wants to know who you met, what it was about, when and where the trip occurred and why it related to your business. Regulations state that an adequate record to prove these elements would be an account book, diary, trip log, expense report, etc. written at or near the time the trip occurred. They call this a "contemporaneous written record." Those regula-

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tions were written before the widespread use of personal computers and other electronics. These days most people keep track of their appointments electronically. I keep my appointments on a calendar on MS Outlook. The calendar shows the name of the person I'm meeting, the date and time and the place. I do not typically type in the specific purpose of the trip but I can get that from my timesheets on Quickbooks. So my computer calendar and timesheets together constitute contemporaneous written documents that I can print out at the end of the year to satisfy the IRS auto use rules. If you are not as obsessive-compulsive as a CPA (and who is?) then you do not keep timesheets. In that case, just type in a couple of words into each appointment on your calendar to explain the purpose of the meeting. In my case those words might be: "Tax planning" or "Prospective client" or "Seminar." The point is that these are records I maintain anyway for other purposes. There is no extra effort involved.

Moreover, it is not necessary to document trips for a whole year; all that is required is substantiation for representative periods during the year. What is a representative period? If you can show a regular routine in your driving, month-to-month, then two months, spaced half a year apart would be representative. One of my former clients drove back and forth between the same clinics and hospitals regularly, week after week. His business mileage varied little from month to month. He kept a trip log in his car and recorded his trips for each April and October. Those two months of recordkeeping satisfied the requirements for the whole year. Selecting representative months for more seasonal and/or less routine activi-

ties would be more difficult, but if the selection is reasonable it is defensible.

How do you document mileage? I know from my computer calendar the address of my destination. If I enter that address and my office address into MapQuest or a similar website I can get the distance between the two locations. Multiplying by two yields the round trip mileage. Print the page showing the miles and drop it into a file folder or save it to a computer file. If you are too busy perhaps an assistant can do it for you. If you drive back and forth to the same places on a regular basis you will have the distances in your files without having to look them up.

What about documenting expenses? The easy fix for people who hate to accumulate receipts is to elect the standard mileage method instead of the actual expense method. If you qualify to use the standard mileage method then all you need to prove is your business miles. You then multiply those miles by the standard mileage rate for the year. The rate is based on average auto expenses. Not surprisingly, given the spike in gas prices last year, the rate for 2008 has increased to 50.5 cents per mile for the first six months of 2008, and 58.5 cents per mile for the last six. In addition, interest expense on the financed portion of the vehicle may also be deducted in many cases. This method may or may not produce a larger deduction than the actual expense method. But not having to collect all the receipts, the cancelled checks and credit card statements is surely a big benefit.

I realize that reporting business auto expenses using the seat-of-the-pants method is easy, but it is the tax equivalent of driving without insurance. It could hurt you in the end.