INTERNAL REVENUE SERVICE

March 28, 2000

Number: **INFO 2000-0019**
Release Date: 6/30/2000
UIL: 274.08-00

[redacted]

Dear [redacted]:

This letter is in response to your inquiry dated [redacted] on behalf of your constituent [redacted]. In his email correspondence to you dated [redacted] [redacted] expressed his concern that the business standard mileage rates published by the Internal Revenue Service (IRS) for 1999 and 2000 do not sufficiently reflect changes in automobile costs.

The business standard mileage rate is based on an annual study of operating and fixed costs of using an automobile. The study is performed by an independent contractor that is an expert in the field of automobile cost analysis. The types of automobiles used in the study represent a cross-section of the most popular models operated in the United States. The contractor has conducted this study for two decades and has consistently taken into account the most reliable and up-to-date data available to reflect a driver’s average costs over a year. The study combines this data to achieve national composite rates for operating costs and fixed costs. The IRS announces the mileage rate in advance of the applicable year so that, throughout the year, taxpayers will know the extent to which automobile expenses may be treated as substantiated.

For the 1999 rate, the study indicated that, on average, automobile costs had decreased across the board compared to the costs analyzed in the previous year’s study. The most dramatic decreases were caused by reduced gasoline prices and reduced loss of automobile value on resale (which resulted in a lower vehicle cost component). Consequently, the business standard mileage rate dropped from 32.5 cents per mile (the 1998 rate) to 31 cents per mile for 1999. However, the 31-cent rate did not take effect until April 1, 1999; we delayed implementing the lower rate because many employers needed additional time to adjust their mileage allowance procedures. The rate for 2000, determined in the same manner as previous rates, is 32.5 cents per mile.

We have seen gasoline and oil prices fluctuate dramatically over the last several years, but it is not administratively feasible for the IRS to account for these fluctuations more frequently than annually. However, the standard mileage rate is an optional, simplified method for substantiating reimbursed automobile expenses. Employers generally may instead accept substantiation of employees' actual automobile expenses. In addition, employers may pay a mileage allowance that exceeds the amount substantiated (using either the published mileage rate or actual expenses), but any payment in excess of the substantiated amount must be treated as wages and included in the employee's income.

I hope this information is helpful. Please contact Edwin B. Cleverdon, Identification Number 50-01366, at (202) 622-4920, if we may be of further assistance.

Sincerely,

Deputy Assistant Chief Counsel
(Income Tax & Accounting)

By ________________________________
Robert A. Berkovsky
Chief, Branch 2