

Internal Revenue Service

Department of the Treasury

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Refer Reply To:
CC:IT&A:2 – COR-117945-00
Date: November 6, 2000

Dear [REDACTED]:

Commissioner Rossotti has asked me to respond to your letter dated July 17, 2000. You urge the Commissioner to increase the business standard mileage rate to reflect rising gasoline prices. You also ask that he call on the General Services Administration to increase the reimbursement rate for federal employees who use their personal automobiles for official duties. You note that the increased cost has particularly burdened federal employees, who are also subject to rising costs for health care, housing, and child care.

Gasoline Prices. We realize increased gasoline prices are an economic burden. However, the cost of gasoline is only one part of the business standard mileage rate, which includes fixed and operating automobile costs. These costs include depreciation (or lease payments), maintenance and repairs, insurance, and license and registration fees, in addition to gasoline and oil. Less than one-third of the 32.5 cents per mile rate comes from the cost of gasoline and oil. Thus, an immediate adjustment in the rate taking into account the recent increase in gasoline prices might not be significant.

Setting the Business Standard Mileage Rate. The rate is a national average amount determined by an annual study performed by an independent contractor who is an expert in the cost analysis of business use of automobiles. The contractor uses recent data from each state on the component costs of operating the most popular automobiles. The contractor then combines this data to achieve a national composite cents-per-mile rate.

Reimbursement Rate for Federal Employees. The General Services Administration uses the business standard mileage rate to pay reimbursements for automobile expenses to federal employees. If the mileage rate paid by the federal government is less than the employee's actual expenses of using an automobile on government business, the employee generally may claim the difference as a miscellaneous itemized deduction on the employee's federal income tax return. Of course, an employee who uses actual expenses must be able to prove those expenses to the IRS. Although rising gasoline prices can be a disadvantage for federal employees who are reimbursed at the standard mileage rate, falling prices can work to their advantage. For example,

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although gasoline prices fell in 1998, for all of 1998 and through March 31, 1999, reimbursement was at the rate that reflected the earlier higher prices.

We know that increased gasoline prices can be burdensome, but Commissioner Rossotti does not have the legal authority to compel GSA to increase the reimbursement rate for federal employees. Although it is not administratively feasible to revise the business standard mileage rate more frequently than annually, you may be sure that increased costs will be taken into account in the next adjustment.

I apologize for the delay in responding and hope this information is helpful to you. Please call Elliot Rogers, Identification Number 50-11827, at (202) 622-4920 if you have any questions.

Sincerely,

Associate Chief Counsel
(Income Tax & Accounting)

By: _____
Robert A. Berkovsky
Chief, Branch 2