

INTERNAL REVENUE SERVICE

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May 13, 2003

Dear [REDACTED]:

This letter responds to your inquiry dated March 18, 2003, on behalf of your constituent, [REDACTED]. She wrote about the decline in the standard mileage rate published annually by the IRS that her employer uses to reimburse employees for business use of their personal vehicles [See Rev. Proc. 2002-61, 2002-39 I.R.B. 616].

Taxpayer's Options. To deduct the ordinary and necessary expenses of using an automobile for business purposes, a taxpayer must substantiate the cost, date, place, and business purpose of each use of the automobile by adequate records. For the cost, the taxpayer has two options:

- Substantiate actual cost by keeping records (or by other sufficient evidence). Taxpayers can deduct the actual business expense of using a personal automobile, and this may be advantageous when automobile costs are rising.
- Use the business standard mileage rate. Using the rate gives approximate, not actual, costs. I have enclosed the relevant pages from Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, explaining the differences between the two methods.

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.

Gasoline Prices. We realize increased gasoline prices are an economic burden. 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 36.0 cents per mile rate comes from the cost of gasoline and oil. However, the decline in the standard mileage rate from 36.5 cents per mile for 2002, to 36.0 cents per mile for 2003, is primarily due to a decline in fuel prices during the study period, which ended June 30, 2002.

Advantages of Using the Business Standard Mileage Rate. Reducing a taxpayer's record-keeping burden is the principal advantage of using the rate. Gasoline prices rise and fall during the year, but taxpayers may continue to use the same rate without having to keep records of actual expenses. Although rising gasoline prices can be a disadvantage for taxpayers who use the rate, falling prices can work to their advantage. For example, although gasoline prices were lower in 2002 than in the comparable month in 2001, for all of 2002 taxpayers were able to use the higher rate that reflected the earlier higher prices.

I hope this information is helpful. Please call [REDACTED] if you have any questions.

Sincerely,

LEWIS J. FERNANDEZ
Acting Associate Chief Counsel
(Income Tax & Accounting)

Enclosure