



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

March 24, 2006

Number: **INFO 2006-0036**
Release Date: 9/29/2006
CONEX-110298-06

UIL: 9999.98-00

The Honorable Richard G. Lugar
United States Senate
Washington, DC 20510

Attention: _____ :

Dear Senator Lugar:

This letter responds to your letter dated February 2, 2006, on behalf of your constituent, _____ . He wrote about the federal standard mileage rate for the business use of an automobile.

To deduct the ordinary and necessary expenses of using an automobile for business purposes, a taxpayer must substantiate by adequate records the cost, date, place, and business purpose of each use of the automobile. To determine the cost of operating an automobile, the taxpayer has two options: substantiate all actual costs by keeping adequate records or use the optional business standard mileage rate. To claim a reimbursement, the taxpayer must give the employer all the actual cost records or the business mileage records. Businesses mostly choose to reimburse using the business standard mileage rate.

The business standard mileage rate is a national average amount that is based on 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. The rate represents the operating and fixed costs of using an automobile, including the cost of fuel, oil, maintenance and repairs, insurance, license and registration fees, and depreciation (or lease payments).

Generally, we establish the business standard mileage rate each year. In September 2005, in an unprecedented mid-year change, we increased the business standard mileage rate

to 48.5 cents per mile for transportation expenses paid between September 1 and December 31, 2005. This special mid-year rate change was in recognition of a sharp increase in fuel prices during the latter part of the year.

In December 2005, following the most recent annual study, we set the business standard mileage rate for transportation expenses paid on or after January 1, 2006, at 44.5 cents per mile. Although this was an increase from the rate of 40.5 cents per mile originally established for 2005, it is lower than the special rate set for September through December 2005. The decline in the rate from 48.5 cents per mile for the last four months of 2005, to 44.5 cents per mile for 2006, is primarily due to the lower average fuel price for the study period, which ended October 31, 2005.

Using the business standard mileage rate reduces the taxpayer's record keeping burden. If a taxpayer feels that the reimbursement of the business standard mileage rate does not reflect the costs of operating an automobile in his or her particular area or situation, the taxpayer can, with proper substantiation and record keeping, deduct the excess using actual costs.

I hope this information is helpful. As you requested I am replying in duplicate and returning your enclosure. If you have additional questions, please contact me or at

Sincerely,

George Baker
Branch Chief, Branch 7
(Income Tax and Accounting)

Enclosures (3)