



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

OFFICE OF
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CONEX-125392-06

The Honorable Johnny Isakson
United States Senate
Washington, DC 20510

Attention:

Dear Senator Isakson:

I apologize for the delay in responding to your letter dated May 1, 2006, to _____, Director of Legislative Affairs, on behalf of your constituent, _____, who wrote to you about the disparity between the optional standard mileage rates for business purposes and the rates for charitable, medical, and moving purposes.

The business, medical, moving, and charitable standard mileage rates are different because the deductions allowed by law are different.

Business Expenses.

Taxpayers can deduct ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business (sections 162(a) and 167 of the Internal Revenue Code (the Code)). The business standard mileage rate represents all of the expenses of owning and operating an automobile for business purposes, and takes into account both fixed costs, including depreciation (or lease payments), and operating costs, such as gasoline, oil, maintenance and repairs, and tires (section 5.03 of Revenue Procedure 2005-78, 2005-2 C.B. 1177).

Medical Expenses.

Taxpayers can deduct medical expenses paid during the taxable year for which they are not compensated by insurance or otherwise, including the cost of transportation primarily for and essential to medical care (section 213 of the Code). The courts have held that only the out-of-pocket expenses of operating an automobile are deductible as

medical expenses. See *Weary v. United States*, 510 F.2d 435 (10th Cir. 1975) and *Calafut v. Commissioner*, T.C.M. 1964-239. Therefore, the medical standard mileage rate represents only out-of-pocket costs of operating an automobile (section 7.03 of Rev. Proc. 2005-78). That is why the medical standard mileage rate is lower than the business standard mileage rate.

Moving Expenses.

Taxpayers can deduct moving expenses paid or incurred during the taxable year in which the taxpayer begins working at a new principal place of work (section 217 of the Code). This includes expenses for traveling from their former residence to their new residence. As with medical transportation, the allowable deduction for travel expenses incurred when moving includes only out-of-pocket operating costs. Thus, the moving standard mileage rate is also lower than the business standard mileage rate.

Charitable Expenses.

Taxpayers can deduct charitable contributions they make during the taxable year (section 170(a)(1) of the Code). A charitable contribution deduction is allowed for the out-of-pocket expenses, such as gas and oil, incurred in using an automobile to perform donated services (section 170(a)(1) of the Code). The Congress set the current rate at 14 cents per mile as part of the Taxpayer Relief Act of 1997, and the rate is effective for taxable years after December 31, 1997. That is why the charitable standard mileage rate is lower than the business standard mileage rate.

Since _____ wrote his letter, we changed the standard mileage rates. We published a special adjustment in Announcement 2005-71, 2005-2 C.B. 714, that temporarily raised the business rate to 48.5 cents per mile and the medical and moving rates to 22 cents per mile for expenses paid or incurred between September 1 and December 31, 2005. For 2006, we set the business rate at 44.5 cents per mile and the medical and moving rates at 18 cents per mile (section 2.01 of Rev. Proc. 2005-78). The general charitable rate remains at 14 cents per mile.

I hope this information is helpful in responding to _____ questions, please call me at _____, or _____ If you have any _____ at _____.

Sincerely,

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