



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

OFFICE OF THE CHIEF COUNSEL

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Dear \_\_\_\_\_ :

Senator Richard Shelby asked us to respond to your enquiry about the standard mileage rate. You wrote that your employer reimburses you for the business use of your automobile at the business standard mileage rate. You requested that we increase the rate to cover higher operating costs due to rising gasoline prices.

In general, the practice of reimbursing employees for automobile use is a contractual matter between an employer and employee, not a tax matter. If an employer chooses to reimburse its employees for business mileage, the employer may require the employee to document actual expenses or may permit the employee to calculate expenses using the optional standard mileage rate.

The standard mileage rate is a national average of the cost of operating an automobile for business purposes during the prior year. The standard mileage rate reflects several fixed and variable costs: depreciation (or lease payments), maintenance and repairs, insurance, license and registration fees, and gasoline and oil. Gasoline and oil account for less than one-third of the per-mile costs of owning and operating an automobile. As an average, the standard rate may result in reimbursements higher or lower than the actual costs incurred by an individual operating an automobile for business purposes. However, because the standard mileage rate is simpler and less time-consuming than tracing and documenting actual costs, taxpayers often choose the optional standard rate for its convenience even though the taxpayer's actual costs may be higher.

Because gasoline prices can fluctuate dramatically over the course of a year, a mid-year adjustment to the standard mileage rate based on changing gasoline prices may artificially distort reimbursement. In addition, using different rates during the year creates a recordkeeping burden for small businesses. A mid-year rate change would require taxpayers to use different rates for different portions of the same tax year.

We understand that higher gasoline costs increase business expenses. We monitor gasoline prices to assess whether more frequent adjustments of standard mileage rate are necessary.

I hope this information is helpful to you. If we can be of further assistance, please contact \_\_\_\_\_, Identification Number \_\_\_\_\_, at \_\_\_\_\_.

Sincerely,

George J. Blaine  
Associate Chief Counsel  
(Income Tax and Accounting)

cc: The Honorable Richard Shelby