

## **IS IT TIME TO REVIEW YOUR VEHICLE EXPENSE?**

*by Gary Haworth, CPA*

If your business has been paying employees through standard mileage deductions, are you aware you have other options?

To decide whether the standard mileage deduction is the best option for your business, determine how many employees you have and what percentage of their time is traveling in their vehicle. If you have a sales team that drives, it's easy to rack up a lot of cost in mileage reimbursement. As of January 1, 2009, the IRS mileage rate is 55 cents for business miles. As an example, one sales person who drives an average of 50 miles a day will cost your company over \$7,000 a year.

Rather than standard mileage deduction, here are a few options to consider:

### **Mileage Allowance**

As part of your employees salary package, you can offer a fixed vehicle allowance. For instance, a set amount is negotiated for all vehicle usage, such as a \$500 monthly stipend. With this fixed amount, there are months when you come out ahead and months when your employee comes out ahead. However, the benefit to your business is being able to have your employee vehicle expense a fixed cost, rather than an unforeseen expense that can spiral out of control. The allowance is included in the compensation to the employee and subject to payroll taxes.

### **Mileage Reimbursement**

Even though the standard mileage deduction rate published by the IRS is 55 cents per mile, you are not required to reimburse this amount. It is the employers choice what rate an employee will receive for business mileage reimbursement, if any. If you use a rate less than 55 cents, the employee is allowed to claim a deduction for the difference on their personal tax return as an itemized deduction. You could also cap the reimbursement amount at a specific maximum amount.

### **Company Car**

Providing your employee with a company car could save your business money in the long run. For example, leasing a smaller vehicle will cost approximately \$300 a month for 36 months. You also need to consider other vehicle expenses such as gas, insurance, maintenance and repairs. Based on the employee driving 50 miles a day, plus our estimates for other vehicle expenses, your annual cost for leasing the vehicle should be approximately \$5,800, a nice savings versus the standard reimbursement method. There is also nothing wrong with buying a used car for the employee, which could save you even more.

When making the decision to provide a company car, you also need to consider your liability if an employee gets into an accident. You need to be sure your employee keeps accurate driving records which indicate personal versus business usage.

### **Lease or Buy?**

When leasing a car, the vehicle does not reflect on your balance sheet, which is one less liability to show (at least on paper). You are able to deduct the vehicle expenses, but you can not depreciate the car since you technically don't own it. The lease payment is considered a vehicle expense.

Buying a car allows you to claim a depreciation deduction, which can have substantial tax savings for your company in the first year. If you need to find additional deductions, this may be a great option. However, the tax savings may be minimal in subsequent years.

### **Fleet Vehicles**

If you have a team of sales people and you decide that a company car is best for your organization, look at fleet services. All major car companies sell or lease fleet vehicles at a substantial discount.

### **Go Green**

Naturally, not driving is the most cost-effective for your business. Encouraging your employees to take mass transit, walk or bike is ideal, but for many suburban or outlying businesses that may not be realistic. Instead, encourage your employees to schedule their appointments in a designated part of town on each given day. It's a simple strategy, but it could save hundreds of miles by the end of the year, and keep more money in your pocket.

*Gary Haworth, CPA, is the owner of Haworth & Company, Ltd., and a member of the Small Business Resource Group, which helps small business owners with their accounting, marketing and payroll needs. He started his practice 20 years ago, growing from one person to now more than 30 employees and three locations. He can be reached at [ghaworth@haworthco.com](mailto:ghaworth@haworthco.com).*