

IRS Adjusts Mileage Deductions As Fuel Prices Spike We are from the IRS and we're here to help you. Most people would smirk at such a statement, but the agency is actually very proactive when taxpayers face a universal issue like the current spikes in gas

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One of the great deductions available in the tax code is the business mileage deduction. If you drive on business matters, you can deduct the mileage at the end of the year by multiplying your total miles by a figure set by the IRS.

How does the IRS determine the business mileage deduction rate? It is a hodge podge of factors including car insurance, vehicle depreciation and fuel costs. When one of these goes up, the IRS reacts to its credit.

The IRS uses projections to come up with a figure before each year begins to let taxpayers know what to expect. This year, the deduction rate was set at 50.5 cents for every business mile incurred.

Although the mileage deduction rate is usually not changed, there is precedent for doing so. When prices are seriously affected, the IRS can act on its own as it did during Katrina when gas prices shot up due to gas shortages in the South.

Whether it is profiteering, a weak dollar, peak oil or some other reason, oil prices have shot up in 2008. In San Diego, we are closing in on \$5 a gallon. This is in comparison to 2002 when we were paying only \$1.75 for the same gas.

While the rest of the government twiddles its collective thumbs, the IRS is doing something to help people. Who would've guessed it? The agency has cranked the business deduction rate up to 58.5 cents for the remainder of 2008.

How do I come up with a total deduction if there are two rate amounts? Split your mileage for the year into before and after June 30th figures. Multiply by the corresponding rate. Add the totals together and you have the deduction.

Business miles are not the only transportation deduction getting a bump. You can deduct mileage incurred for moving for a job. The rate for the first six months of 2008 is 19 cents, but the final six months now have a rate of 27 cents.

The tax code also contains a provision for a deduction for mileage incurred while helping a charity. The IRS does not control this deduction. Only Congress can modify it. As such, there is no change for fuel prices.

Fuel prices are projected to only go higher for the foreseeable future. While the bump in the mileage deduction helps, it may not be the last one in 2008. Keep an eye out for more changes.

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