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2022 Standard Mileage Rates Announced

Article Highlights:

- Standard Mileage Rates for 2022
- Business, Charitable, Medical and Moving Rates
- Important Considerations for 2022
- Switching Between the Actual Expense and Standard Mileage Rate Methods
- Employer Reimbursements
- Employee Deductions Suspended
- Special Allowances for SUVs
- Bonus Depreciation

As it does every year, the Internal Revenue Service recently announced the inflation-adjusted 2022 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2022, the standard mileage rates for the use of a car (or a van, pickup or panel truck) are:

- 58.5 cents per mile for business miles driven (including a 26-cent-per-mile allocation for depreciation). This is up from 56.0 cents in 2021;

- 18 cents per mile driven for medical care or by an active member of the armed forces for moving purposes. This is up from 16 cents in 2021; and

- 14 cents per mile driven in service of charitable organizations.

The business standard mileage rate is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. The rate for using an automobile while performing services for a charitable organization is statutorily set (it can only be changed by Congressional action) and has been 14 cents per mile for over 15 years.

Important Consideration – The 2022 rates are based on 2021 fuel costs. Given the potential for the continuation of substantially higher gas prices, it may be appropriate to consider switching to the actual expense method for 2022, or at least keeping track of the actual expenses, including fuel costs, repairs, maintenance, etc., so that the option is available for 2022.

Taxpayers always have the option of calculating the actual costs of using their vehicle for business rather than using the standard mileage rates. In addition to the possibility of higher fuel prices, the bonus depreciation and increased depreciation limitations for passenger autos that were part of the 2017 Tax Cuts and Jobs Act may make using the actual expense method worthwhile during the first year a vehicle is placed in business service.

However, the standard mileage rates cannot be used if you have used the actual method (using Sec. 179, bonus depreciation and/or MACRS depreciation) in previous years. This rule is applied on a vehicle-by-vehicle basis. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles simultaneously.

Employer Reimbursement – When employers reimburse employees for business-related car expenses using the standard mileage allowance method for each substantiated employment-connected business mile, the reimbursement is tax-free if the employee substantiates to the employer the time, place, mileage and purpose of employment-connected business travel.

The Tax Cuts and Jobs Act eliminated employee business expenses as an itemized deduction, effective for 2018 through 2025. Therefore, employees may not take a deduction on their federal returns for those years for unreimbursed employment-related use of their autos, light trucks or vans. However, those who are self-employed are eligible to claim expenses for their personal vehicles used in their businesses.

Faster Write-Offs for Heavy Sport Utility Vehicles (SUVs) – Many of today's SUVs weigh more than 6,000 pounds and are therefore not subject to the limit rules on luxury auto depreciation; taxpayers with these vehicles can utilize both the Section 179 expense deduction (up to a maximum of $27,000) and the bonus depreciation (the Section 179 deduction must be applied before the bonus depreciation) to produce a sizable first-year tax deduction. However, the vehicle cannot exceed a gross unloaded vehicle weight of 14,000 pounds. Caution: Business autos are 5-year class life property. If the taxpayer subsequently disposes of the vehicle before the end of the 5-year period, as many do, a portion of the Section 179 expense deduction will be recaptured and must be added back to income (SE income for self-employed individuals). The future ramifications of deducting all or a significant portion of the vehicle's cost using Section 179 should be considered.

Consider Bonus Depreciation - Consider using bonus depreciation as an alternative to the Section 179 deduction. Under this provision a taxpayer can elect to claim a deduction of 100% of the cost of a new or used vehicle used for business in the first year it is placed into business service. However, the luxury auto rules impose a maximum annual deduction for depreciation, including the bonus depreciation. For example, in 2021, the maximum depreciation deduction for an auto for which bonus depreciation was claimed was $18,200. This compares to a maximum of $10,200 if bonus depreciation isn't elected. Of course, if the vehicle is used only partly for business, then only the business-use percentage of the cost is eligible to be deducted.

After 2022, the deductible bonus depreciation percentage drops by 20 percentage points a year, until 2027 when, barring an extension by Congress, no bonus depreciation will be allowed.

Whether to claim bonus depreciation, Section 179, regular depreciation or a combination of these methods for a business vehicle, or to use the standard mileage rate instead, can be a complicated decision to make.

If you have questions related to the best methods of deducting the business use of your vehicle or the documentation required, please give this office a call.