

**INTERNAL REVENUE SERVICE**

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The Honorable Tim Holden  
Member, U. S. House of  
Representatives  
The Corbit Building  
147 North 5th Street  
Reading, PA 19601

Dear Congressman Holden:

This letter is in response to your inquiry dated April 19, 2001, on behalf of your constituent, [REDACTED], who believes the business standard mileage rate was increased only by a half-cent for 2000 and should have been increased more. As explained below, recent increases have been greater than a half-cent.

**Taxpayer's Options.** To deduct the ordinary and necessary expenses of using an automobile for business purposes, a taxpayer must substantiate the cost, date, place, and business purpose of each use of the automobile by adequate records. To determine the cost, the taxpayer has two options:

- Substantiate actual cost by keeping records (or by other sufficient evidence). Taxpayers can deduct the actual business expenses of using a personally-owned automobile, and this may be advantageous when automobile costs are rising. I have enclosed the relevant pages from Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, explaining the differences between the two methods.
- Use the optional business standard mileage rate. The rate was 31.5 cents per mile for 1999. It was increased by one cent to 32.5 cents for 2000 and by two cents to 34.5 cents in 2001. Using the standard mileage rate gives approximate, not actual, costs.

**Gasoline Prices.** We realize increased gasoline prices are an economic burden. However, the cost of gasoline is only one part of the business standard mileage rate,

which includes fixed and operating automobile costs. These costs include depreciation (or lease payments), maintenance and repairs, insurance, and license and registration fees, in addition to gasoline and oil. Less than one-third of the 34.5 cents per mile rate comes from the cost of gasoline and oil. Thus, when we adjust the mileage rate to cover increased gasoline prices it does not greatly increase the rate.

**Setting the Business Standard Mileage Rate.** The rate is a national average amount determined by an annual study performed by an independent contractor who is an expert in the cost analysis of business use of automobiles. The contractor uses recent data from each state on the component costs of owning and operating the most popular automobiles. The contractor then combines this data to achieve a national composite cents-per-mile rate.

**Advantages of Using the Business Standard Mileage Rate.** Reducing a taxpayer's record-keeping burden is the principal advantage of using the rate. Gasoline prices rise and fall during the year, but taxpayers may continue to use the same rate without having to keep records of actual expenses.

Rising gasoline prices can be a disadvantage for taxpayers who use the rate, but falling prices can work to their advantage. For example, although gasoline prices fell in 1998, for all of 1998 and through March 31, 1999, taxpayers were able to use the rate that reflected the earlier higher prices.

I hope this information is helpful. Please call John T. Sapienza, Jr., Identification Number 50-06383, at (202) 622-4920, if you have any questions.

Sincerely,

Associate Chief Counsel  
(Income Tax & Accounting)

By: \_\_\_\_\_  
Robert A. Berkovsky  
Chief, Branch 2

Enclosure