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Maximizing Deductions for Business-Use Vehicles

Many of our clients use vehicles for business. However, are they maximizing the deductions available for business use of those vehicles? Each year, the IRS issues optional standard mileage rates for business vehicles. These rates can squeeze more time out of your busy week, cut down on record-keeping duties, and reduce piles of paperwork and old receipts.

Standard Mileage Rates

- Businesses that operate up to **four** vehicles at the same time can deduct this standard mileage rate rather than keeping track of depreciation, gas, and repairs etc. In general, the IRS prohibits taxpayers from using the business standard mileage rate to compute the deductible expenses of five or more vehicles the taxpayer owns or leases and uses simultaneously, such as in a fleet operation.
- The standard business mileage rate for 2026 is 72.5 cents-per-mile. The business rate reflects, among other things, gasoline, depreciation and maintenance costs each year. The standard business mileage rate for 2025 was 70 cents-per-mile.
- Depreciation. The depreciation component of the business standard mileage rate is 35 cents-per-mile for 2026.
- Businesses that use the standard mileage rate are not allowed to take actual depreciation deduction amounts, even if they are higher than the depreciation component.
- Before deciding to use the standard mileage rate, a look at whether you will do better under the actual expense method, which includes actual depreciation, should be considered. Especially for circumstances in which IRS Code Section 179 expensing and/or bonus depreciation are available
- Taking actual expenses, including actual depreciation, may be worth the effort.

Actual Expenses and Depreciation Considerations

Before you get too excited about taking large depreciation deductions as part of your actual vehicle expenses, the IRS does have guardrails in place to prevent exploitation of these tax rules.

Luxury vehicle caps. If depreciation is taken on a business vehicle, Congress wanted to be sure that vehicles selling above a certain price point did not enable their owners to take a larger write-off because of that

premium cost. For example, the maximum depreciation deduction for passenger automobiles and for trucks and vans first placed in service in 2026 (for which no first-year bonus depreciation applies) is \$12,300 for the first year and \$19,800 for the second year.

Bonus depreciation. Bonus depreciation may be added to the available first-year deduction allowed on the purchase of a vehicle used for business. For most vehicles (those that are not fully depreciated in their first-year after applying the cap), business taxpayers claiming bonus depreciation are allowed an additional \$8,000 in first year depreciation over and above the \$12,300 first-year limit.

Section 179 Deduction. A vehicle may qualify for expensing under Code Sec. 179 in the tax year that it is placed in service if business use of the vehicle exceeds 50%. However, the sum of the section 179 expense deduction and regular first-year depreciation deduction (including any bonus depreciation) cannot exceed the applicable first-year depreciation cap for that vehicle.

Personal and business use. If you use your business vehicle for personal trips (including commuting back and forth from home and your principal business location) you must pro-rate your deduction to exclude the percentage of personal use. The key number here is 50%. If you use your vehicle more than 50% for business during the year, you can pro-rate your deduction. You also have the option of using the standard mileage rate, based on miles of business use for the year times the prescribed rate.

This alert covers only the surface level of the tax rules related to deductions for business-use vehicles that could potentially benefit you or your family. The tax rules in this area are complex and there are many issues to consider when taking deductions for business-use vehicles. Please contact us if you have questions, want more information, or would like us to help you with deductions for business-use vehicles so that by working together we can deliver the best tax results for you.

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