

Business Car Allowance (accountable & non-accountable Plans)

There are two approaches to car allowances, one is an **accountable plan**. Under this approach you submit your mileage/expenses to your employer and are reimbursed for your reported expenses. This type of plan is not taxable, and does not appear on your W-2 or tax return at all. **The other approach is a non-accountable plan. Under these plans, you are given a flat sum and do not account to your employer for their expenditure. This type of allowance is taxable.** However you can deduct your expenses as employee business expenses under miscellaneous itemized deductions on Schedule A (if you itemize).

If you use your car in your job or business and you use it only for that purpose, you may deduct its entire cost of operation (subject to 2 % limits). However, if you use the car for both business and personal purposes, you may deduct only the cost of its business use.

You can generally figure the amount of your deductible car expense using one of two methods: the standard mileage rate method or the actual expense method. If you qualify to use both methods, before choosing a method, you may want to figure your deduction both ways to see which gives you a larger deduction. For 2008, the standard mileage rate is 48.5 cents a mile for all business miles driven. If you use the standard mileage rate, you can add to your deduction any parking fees and tolls incurred for business purposes.

Further, to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. Then, in later years, you can choose to use the standard mileage rate or actual expenses. **However, for a car you lease, you must use the standard mileage rate method for the entire lease period.**

To use the actual expense method, you must determine what it actually cost to operate the car for business purposes. **Include gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to business miles driven.**

Other car expenses for parking fees and tolls attributable to business use are separately deductible, whether you use the standard mileage rate or actual expenses.

The law requires that you substantiate your expenses by adequate records or by sufficient evidence to support your own statement. If your employer uses a non-accountable plan to reimburse you for the expenses, the reimbursements should be included in your wages.

Your expenses will be subject to the 2% of adjusted gross income limit. Refer to [Miscellaneous Expenses](#) for information on the 2% limit.

For more information, refer to **Publication 463**.