

Depreciation vs. Mileage Deduction: Understanding the Key Differences

When claiming tax deductions for the business use of your car, you have two primary options: depreciation and the standard mileage rate. They represent different methods of calculating your deductible vehicle expenses:

1. Depreciation (Actual Expense Method):

- How it works: This method allows you to deduct a portion of the vehicle's cost over several years, reflecting its decline in value due to wear and tear.
- What it includes: You can deduct the actual expenses of owning and operating your vehicle, including:
 - Depreciation: The cost of the vehicle spread out over its useful life.
 - Lease payments (if applicable).
 - Maintenance and repairs.
 - Gasoline and oil.
 - Insurance.
 - Vehicle registration fees.
- Benefits: May lead to a larger deduction if you have a high-cost vehicle or significant car-related expenses like major repairs. Allows for potential "bonus depreciation" in the first year.
- Requirements: Requires detailed record-keeping of all vehicle expenses, including receipts and documentation. You'll need to calculate the business use percentage of your vehicle based on documented business mileage.

2. Standard Mileage Rate:

- How it works: The IRS sets an annual rate per business mile driven, which includes a component for depreciation. For 2024, the rate is \$0.67 per mile, with 30 cents per mile accounting for depreciation.
- What it includes: This rate covers most vehicle-related costs, including depreciation, fuel, maintenance, and insurance.

- Benefits: Simplifies tax calculations by eliminating the need to track all individual vehicle expenses. Requires only documentation of business mileage.
- Requirements: You must track your business mileage accurately. You cannot use the standard mileage rate if you:
 - Use the car for hire (e.g., taxi).
 - Use five or more cars at the same time.
 - Claim depreciation or a Section 179 deduction for the vehicle.
 - Are a rural mail carrier receiving a qualified reimbursement.