SAMPLING METHOD TO CALCULATE TOTAL BUSINESS MILES DRIVEN

A tax deduction for business miles driven can be a large expense item on your return. If you claim the standard mileage rate deduction you are allowed to deduct 54 cents for 2016 for every business mile driven (53½ cents for 2017).

In lieu of the standard mileage rate method you may utilize the actual expense method, which allows you to deduct the cost of operating your vehicle (repairs, gas, insurance, oil changes, etc) including vehicle depreciation.

Regardless of which method you use, the IRS requires you maintain substantive documentary evidence of the business miles driven during the year.

The most difficult way to track your mileage and the way the IRS prefers is to keep track on every single mile you drive every day, 52 weeks a year, using a mileage logbook or business diary. This means you would have to list every trip, whether for business, commuting, or for personal reasons. Obviously this isn't a recommended method unless you enjoy detailed record keeping.

However, there is a much easier method of tracking your miles. It's called the Cohen Rule, and it's simply a sampling method. Under this method, you diligently keep track of your business miles for a sampling portion of the year and then use those mileage figures to extrapolate your business miles for the entire year.

This method assumes that you drive about the same amount for business throughout the year, and to support this assumption you must scrupulously keep an appointment book, calendar, daytime, etc., showing your business appointments/trips all year long. You must maintain an appointment book of some sort regardless of whether you use the sampling method or claim actual operating expenses of the vehicle.

It is recommended that your sample period reflect specific business mileage for at least 90 days, and represent fairly your normal mileage activity for the year. You may sample one week each month, or alternatively, a three week period in the spring, summer, fall, and winter. You may use any week per month or any three week period throughout the year. Use whatever works best. You want your sample period to be as representative as possible of the business travel you do throughout the year.

You also must be able to prove the total miles driven on the vehicle for the entire year by obtaining odometer readings in both January and December and deducting any atypical mileage before applying your sample results.

Example: Tom, a traveling salesman, uses the sample method to compute his mileage, keeping track of his business miles one week per month. The total miles he drove overall during this twelve week period was 6,000 miles of which 4,000 he recorded as business miles. As a result his business use percentage of his car was 67%. Utilizing his January 1st and December 31st odometer readings, Tom can prove that he drove a total of 27,000 miles during the year. To calculate his total business miles, he simply multiplies the total miles by the business use percentage of his car: 27,000 x 67% = 18,090. Tom is allowed to claim 18,090 business miles on his tax return as business vehicle expense.

To keep track of your business driving you can either use a paper mileage logbook or an electronic application. Logbooks are available in any stationary store and there are dozens of apps that you can use to record your mileage with an iPhone or similar device.

You must also keep copies of any document that reflects the odometer reading on a particular day, preferably more than one document. The more documents you are able to retain the better. Suggested, and common documents include oil changes, repair invoices, tire rotations, etc.