



ALLIANT ADVISORS

FIND DIRECTION



The Navigator

Important Markers To Guide Your Way

January 2006

For more than twenty years the team at Bunge + Associates has been committed to listening to our clients and seeking new ways to improve our services. As part of that commitment we recently changed our name to Alliant Advisors to emphasize the passion we have for working in close alliance with our clients to Find Direction for their business and personal goals. To support that continuing promise we will be improving our dialogue with you. We will periodically be sending you bits of helpful and useful information through e-mail to keep you up to date on any current changes, due date reminders, or other information that may be relevant to your specific needs.

We hope you will enjoy and value this information. If you do not wish to receive this information by email please respond to this message and we will remove you from the list. For more information about any aspect of our services, visit www.alliant-advisors.com or call your local office.

The Alliant Team

POINT #1

Standard mileage rate increases by 8¢ for last four months of 2005

Ann. 2005-71, 2005-41 IRB , IR 2005-99

In response to the recent dramatic gas price increases, IRS has announced that the optional standard mileage rate has increased 8¢ to 48.5¢ a mile for all business miles driven between Sept. 1 and Dec. 31, 2005, up from 40.5¢ for the first eight months of 2005. The rate for computing deductible medical or moving expenses between Sept. 1 and Dec. 31, 2005 is boosted to 22¢ a mile, up from 15¢ for the first eight months of 2005.

Background. The mileage allowance deduction for business use of an auto replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer may, however, claim separate deductions for parking fees and tolls connected to business driving. The standard mileage rate may not be used for a purchased auto if:

- ... it was previously depreciated using a method other than straight-line for its estimated useful life;
- ... a Code Sec. 179 expensing deduction was claimed for the auto;
- ... the taxpayer depreciated it using MACRS under Code Sec. 168 ; or
- ... the vehicle is used for hire, such as a taxicab. (Rev Proc 2004-64, Sec. 5.06)

Also, the standard mileage rate can't be used to compute the deductible expenses of five or more autos owned or leased by a taxpayer and used simultaneously (such as in fleet operations). (Rev Proc 2004-64, Sec. 5.06(1)(b))

A taxpayer may use the mileage allowance method for a leased auto only if he uses that method (or a FAVR allowance method) for the entire lease period (including renewals). If the lease period began before '98, this rule applies only for the post-'97 portion of the lease period (including renewals). (Rev Proc 2004-64, Sec. 5.06(2))

Special adjustment. IRS announced that the optional standard mileage rates will increase 8¢ to 48.5¢ a mile for all business miles driven between Sept. 1 and Dec. 31, 2005, up from 40.5¢ for the first eight months of 2005. Although IRS normally updates the mileage rates once a year in the fall for the next calendar year, IRS said that it made this special adjustment for the final months of 2005 in recognition of recent gasoline price increases. (Ann. 2005-71, 2005-41 IRB , IR 2005-99)

IRS Commissioner Mark W. Everson said that with many predicting a decline in gas prices over coming months, IRS will hold off on setting the 2006 rate until closer to Jan. Everson said that next year's rate could be lower than 48.5¢, adding "While gasoline is a major factor in the mileage figure, other items enter into the calculation of mileage rates, such as the price of new vehicles and insurance."

Other applications of mileage allowance method. Employers that require employees to supply their own autos may reimburse them at a rate that doesn't exceed 48.5¢ a mile for employment-connected business mileage during the last four months of 2005, whether the autos are owned or leased. The reimbursement is treated as a tax-free accountable-plan reimbursement if the employee substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos during the last four months of 2005 may be valued at 48.5¢ per mile if the conditions specified in Reg. § 1.61-21(e)(1) are met.

Medical and moving expense rate. The new rate for computing deductible medical or moving expenses between Sept. 1 and Dec. 31, 2005 is 22¢ a mile, up from 15¢ for the first eight months of 2005.

The rate for providing services for charitable organizations is set by Code Sec. 170(i) , not IRS, and remains at 14¢ a mile.