



Tax Reduction Letter

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Information Release 2003-121

WASHINGTON--The Internal Revenue Service today released the optional standard mileage rates to use for 2004 in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

To reduce a recordkeeping burden, the IRS also announced that taxpayers who use no more than four vehicles at the same time for business purposes may use the standard mileage rate, starting in 2004. Currently, those using more than one vehicle at a time cannot use the standard rate at all, leaving them to track the actual expenses for each vehicle.

"With this change, more than 800,000 businesses will become eligible to use the standard mileage rate," said IRS Commissioner Mark W. Everson. "This reflects our ongoing interest in reducing the burden for businesses to comply with the tax laws."

Although many taxpayers may still claim actual vehicle expenses for various reasons, the IRS estimates that small businesses will save 8-10 million hours a year in recordkeeping with this expansion of the standard rate option.

A taxpayer may not use the standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, or for any vehicle used for hire.

Beginning Jan. 1, 2004, the standard mileage rates for the use of a car (including vans, pickups, or panel trucks) will be:

- 37.5 cents a mile for all business miles driven, up from 36 cents a mile in 2003;
- 14 cents a mile when computing deductible medical or moving expenses, up from 12 cents a mile in 2003; and
- 14 cents a mile when giving services to a charitable organization.

Members of Congress welcomed the change.

Senator Olympia J. Snowe of Maine, chair of the Senate Committee on Small Business and Entrepreneurship, said, "I applaud the IRS for adopting this simplification measure for small businesses. This change will allow certain small businesses to put a stop to the time-consuming, costly and inconvenient practice of maintaining detailed paper records and, instead, use a simpler, standard mileage rate for business travel expenses when preparing their taxes. The IRS is providing the kind of relief that small business owners critically need: relief that allows them

to cut the time spent complying with tax laws while expanding the time left over to do what they do best, namely running their businesses and creating critical jobs for this economy."

Rep. Don Manzullo of Illinois, chairman of the House Small Business Committee, said, "These changes by the Internal Revenue Service will provide additional needed tax relief to our struggling small businesses so they can once again lead us to recovery. More than 800,000 small businesses will benefit from these changes. In addition to the tax reductions, they will save eight to 10 million hours a year in record-keeping burdens so that they can now focus on their businesses. I congratulate IRS Commissioner Everson for his leadership in making these changes and helping America's small businesses."

Rep. Doug Ose of California, Chairman of the House Government Reform Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs, which has principal oversight over paperwork reduction, said, "I applaud Commissioner Everson's initiative, which will result in a 8-10 million hour burden reduction for small businesses. The paperwork burden on small business is enormous. This reduction in tax recordkeeping is a step in the right direction."

The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. The primary reason for the mileage rate increases is the rise in fuel prices during the study period, which ended on June 30. An independent contractor, Runzheimer International, conducted the study on behalf of the IRS. The charitable standard mileage rate is set by law.

Revenue Procedure 2003-76 contains additional information on these standard mileage rates. It will appear in Internal Revenue Bulletin 2003-43, dated October 27, 2003. It is also available from the text of this release on the IRS Web site at www.irs.gov/newsroom.