



## Tax Reduction Letter

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### Information Release 2005-99

WASHINGTON -- The Internal Revenue Service and Treasury Department announced today an increase to the optional standard mileage rates for the final four months of 2005.

The rate will increase to 48.5 cents a mile for all business miles driven between Sept. 1 and Dec. 31, 2005. This is an increase of 8 cents from the 40.5 cent rate in effect for the first eight months of 2005, as set forth in Rev. Proc. 2004-64.

"This is about fairness for taxpayers," said IRS Commissioner Mark W. Everson. "People are entitled to deduct the real cost of operating a vehicle. We've responded to the recent gas price increases by making this special adjustment so taxpayers get the tax benefit they deserve."

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2005. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

"With many predicting a decline in gas prices over coming months, we will hold off on setting the 2006 rate until closer to January," Everson said. Next year's rate could be lower than 48.5 cents.

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.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of the extra burden of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

The new four-month rate for computing deductible medical or moving expenses will be 22 cents a mile, up from 15 cents for the first eight months of 2005. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

The annual Revenue Procedure includes limitations on who is not eligible to use the standard mileage rate.