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26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.

(Also Part I, §§ 62, 67, 162, 170, 213, 217, 274, 1016; 1.62-2, 1.162-17, 1.170A-1, 1.213-1, 1.217-2, 1.274-5, 1.1016-3.)

Rev. Proc. 2019-46

## SECTION 1. PURPOSE

This revenue procedure modifies Rev. Proc. 2010-51, 2010-51 I.R.B. 883, to reflect changes made to §§ 67 and 217 of the Internal Revenue Code by §§ 11045 and 11049 of Public Law No. 115-97, 131 Stat. 2054 (2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA). This revenue procedure provides rules for using optional standard mileage rates in computing the deductible costs of operating an automobile for business, charitable, medical, or moving expense purposes.

This revenue procedure also provides rules for substantiating, under § 274(d) and § 1.274-5 of the Income Tax Regulations, the amount of an employee's ordinary and necessary expenses of local travel or transportation away from home that a payor (an employer, its agent, or a third party) reimburses using a mileage allowance. Taxpayers are not required to use the substantiation methods described in this revenue procedure. A taxpayer may substantiate actual allowable expense amounts if the taxpayer maintains adequate records or other sufficient evidence. The Internal Revenue Service

(IRS) prospectively adjusts the standard mileage rates for business, medical, and moving expenses annually (to the extent warranted). The IRS publishes the standard mileage rates for the use of an automobile for business, charitable, medical, and moving expense purposes in a separate annual notice.

## SECTION 2. BACKGROUND AND CHANGES

.01 Section 162(a) allows a deduction for the ordinary and necessary expenses a taxpayer pays or incurs during the taxable year in carrying on any trade or business, including the cost of operating an automobile to the extent that it is used in a trade or business.

.02 Under § 262, a taxpayer may not deduct any portion of the cost of operating an automobile attributable to personal use.

.03 To deduct expenses for travel or listed property, a taxpayer must substantiate the expenses under § 274(d). As amended by the TCJA, § 280F(d)(4) continues to provide that listed property includes passenger automobiles and any other property used as a means of transportation.

.04 Section 1.274-5(g) and (j) authorizes the Commissioner of Internal Revenue (Commissioner) to prescribe rules and establish methods under which mileage rates and allowances that comply with reasonable business practice are treated as (1) equivalent to substantiation, by adequate records or other sufficient evidence, of the amount of transportation expenses for purposes of § 1.274-5(c), and (2) satisfying the requirements of an adequate accounting to the employer of the amount of the expenses for purposes of § 1.274-5(f).

.05 In computing adjusted gross income, § 62(a)(1) allows an individual taxpayer to deduct expenses paid or incurred by the taxpayer in carrying on a trade or business, if the trade or business does not consist of services by the taxpayer as an employee. Section 62(a)(2)(A), however, allows an employee to deduct business expenses the employee pays or incurs in performing services as an employee under a reimbursement or other expense allowance arrangement with a payor. In addition, § 62(a)(2)(B) through (E) allows a qualified performing artist, a fee-basis state or local government official, an eligible educator, and an Armed Forces reservist to deduct specified business expenses paid or incurred in performing services as an employee. The expenses paid or incurred by the taxpayer that are deductible under § 62(a)(1) or (a)(2) in computing adjusted gross income are not miscellaneous itemized deductions as described in § 67.

.06 Section 62(c) provides that an arrangement is not treated as a reimbursement or other expense allowance arrangement for purposes of § 62(a)(2)(A) if it--

(1) Does not require the employee to substantiate the expenses covered under the arrangement to the payor, or

(2) Allows the employee to retain any amount in excess of the substantiated expenses covered under the arrangement.

.07 Section 62(c) further provides, however, that substantiation is not required for the expense to the extent provided in regulations under § 274(d).

.08 Under § 1.62-2(c), a reimbursement or other expense allowance arrangement satisfies the requirements of § 62(c) if it meets the requirements of business connection,

substantiation, and returning amounts in excess of expenses. If an arrangement meets these requirements, all amounts paid under the arrangement are treated as paid under an accountable plan and are excluded from income and wages. If an arrangement does not meet one or more of these requirements, all amounts paid under the arrangement are treated as paid under a nonaccountable plan and are included in the employee's gross income, must be reported as wages or compensation on the employee's Form W-2, and are subject to the withholding and payment of employment taxes (Federal Insurance Contributions Act, Federal Unemployment Tax Act, Railroad Retirement Tax Act, Railroad Unemployment Repayment Tax, and income tax).

.09 Section 1.62-2(e)(2) provides that the amount of a business expense substantiated under § 1.274-5(g) is treated as substantiated for purposes of § 1.62-2.

.10 Under § 1.62-2(f)(2), the Commissioner may prescribe rules for treating an arrangement providing mileage allowances as satisfying the requirement of returning amounts in excess of expenses if the arrangement requires the employee to return amounts that relate to unsubstantiated travel miles, even if the employee is not required to return the portion of the allowance for substantiated travel miles that exceeds the deemed substantiated amount for those miles. The allowance must be reasonably calculated not to exceed the amount of the employee's expenses and the employee must be required to return within a reasonable period (as defined in § 1.62-2(g)) any portion of the allowance that relates to unsubstantiated travel miles. Under § 1.62-2(h)(2)(i)(B), the portion of the allowance that relates to substantiated travel days, that exceeds the substantiated amount for those days, and that the employee is not required

to return is subject to withholding and payment of employment taxes. See §§ 31.3121(a)-3, 31.3231(e)-1(a)(5), 31.3306(b)-2, and 31.3401(a)-4 of the Employment Tax Regulations.

.11 Under § 1.62-2(h)(2)(i)(B)(4), the Commissioner may prescribe special rules for the timing of withholding and paying employment taxes on mileage allowances.

.12 Section 67(a) generally provides that, in the case of an individual, the miscellaneous itemized deductions for any taxable year shall be allowed only to the extent that the aggregate of such deductions exceeds 2 percent of adjusted gross income (2-percent floor).

.13 Section 11045(a) of the TCJA amended § 67 by adding subsection (g), which temporarily suspends all miscellaneous itemized deductions that are subject to the 2-percent floor for any taxable year beginning after December 31, 2017, and before January 1, 2026 (suspension period). For any taxable year during the suspension period, a taxpayer is not permitted to claim miscellaneous itemized deductions, including unreimbursed employee travel expenses. However, in computing adjusted gross income, deductions allowed for expenses that are described in § 62(a)(1) or (2) are not miscellaneous itemized expenses and are therefore not suspended.

.14 Section 217(a) generally allows a deduction for moving expenses paid or incurred during the taxable year by the taxpayer in connection with starting work as an employee or as a self-employed individual at a new principal place of work (as defined in § 1.217-2(c)(3)) (moving expenses).

.15 Section 11049(a) of the TCJA amended § 217 by adding subsection (k), which

temporarily suspends the deduction for moving expenses for any taxable year during the suspension period. However, under § 217(g), the suspension of the deduction does not apply to a member of the Armed Forces on active duty who moves pursuant to a military order and incident to a permanent change of station. For any taxable year during the suspension period, a taxpayer other than a taxpayer described in § 217(g) is not permitted to claim a deduction for moving expenses.

.16 This revenue procedure modifies Rev. Proc. 2010-51 as follows:

(1) Section 4.02 is modified to provide that a taxpayer may not use the business standard mileage rate to claim a miscellaneous itemized deduction during the suspension period.

(2) Sections 4.03 is modified to provide that a taxpayer may not claim a miscellaneous itemized deduction during the suspension period for parking fees and tolls attributable to the taxpayer using the automobile for business purposes.

(3) Section 4.04 is modified to provide that, under § 1016(a)(2), a taxpayer must reduce the basis of an automobile used in business by the greater of the amount of depreciation the taxpayer claims for the automobile or the amount of depreciation allowable. If a taxpayer uses the business standard mileage rate to compute the expense of operating an automobile for any year, a per-mile amount (published by the IRS in an annual notice) is treated as the depreciation claimed by the taxpayer and the depreciation allowable for those years in which the taxpayer used the business standard mileage rate.

(4) Section 4.05(4) is added to provide that a taxpayer may not use the business

standard mileage rate to claim a miscellaneous itemized deduction during the suspension period for unreimbursed travel expenses.

(5) Section 4.06 is added to provide that a taxpayer who pays or incurs unreimbursed employee travel expenses during the suspension period that are deductible by the taxpayer in computing adjusted gross income may use the business standard mileage rate to compute an adjustment to gross income.

(6) Section 5.02 is modified to provide that the deduction for moving expenses during the suspension period does not apply unless the taxpayer is a member of the Armed Forces on active duty moving pursuant to a military order and incident to a permanent change of station.

(7) Section 6.03(2) is modified to provide that in using the fixed and variable rate (FAVR) allowance, an employee may not claim a miscellaneous itemized deduction during the suspension period for parking fees and tolls attributable to the employee driving the standard automobile in performing services as an employee.

(8) Section 7.06 is added to provide that if during the suspension period, an employee's substantiated expenses are less than the employee's actual expenses, the employee may not claim an itemized deduction for the excess amount.

(9) Section 7.08 (formerly section 7.07) is modified to provide that an employee's amount computed under section 4 for the business standard mileage rate is an itemized deduction subject to the 2-percent floor and is not deductible during the suspension period.

(10) Section 8.04 is added to clarify that amounts paid under a mileage

allowance to an employee regardless of whether the employee incurs deductible business expenses are treated as paid under a nonaccountable plan.

### SECTION 3. DEFINITIONS

.01 *Standard mileage rate.* The term "standard mileage rate" means the amount the IRS provides for optional use by taxpayers to substantiate the amount of--

(1) Deductible costs of operating for business purposes automobiles, including vans, pickups, or panel trucks, they own or lease, and

(2) Deductible costs of operating automobiles for charitable, medical, or moving expense purposes.

.02 *Transportation expenses.* The term "transportation expenses" means the expenses of operating an automobile for local transportation or transportation away from home.

.03 *Mileage allowance.* The term "mileage allowance" means a payment under a reimbursement or other expense allowance arrangement that is--

(1) Paid for the ordinary and necessary business expenses an employee incurs, or that the payor reasonably anticipates an employee will incur, for transportation expenses in performing services as an employee,

(2) Reasonably calculated not to exceed the amount of the expenses or anticipated expenses, and

(3) Paid at the applicable standard mileage rate, a flat rate or stated schedule, or under any other IRS-specified rate or schedule.

.04 *Flat rate or stated schedule.* A mileage allowance is paid at a flat rate or stated



schedule if it is paid on a uniform and objective basis for the expenses described in section 3.03 of this revenue procedure. The allowance may be paid periodically at a fixed rate, at a cents-per-mile rate, at a variable rate based on a stated schedule, at a rate that combines any of these rates, or on any other basis that is consistently applied and accords with reasonable business practice. Thus, for example, a periodic payment at a fixed rate to cover the fixed costs, including depreciation or lease payments, insurance, registration and license fees, and personal property taxes, of driving an automobile in performing services as an employee, coupled with a periodic payment at a cents-per-mile rate to cover the variable costs, including gasoline and all taxes thereon, oil, tires, and routine maintenance and repairs, of using an automobile for those purposes, is an allowance paid at a flat rate or stated schedule. Likewise, a periodic payment at a variable rate based on a stated schedule for different locations to cover the costs of driving an automobile in performing services as an employee is an allowance paid at a flat rate or stated schedule.

*.05 Lease period.* The term “lease period” includes renewal periods.

*.06 Suspension period.* The term “suspension period” means any taxable year beginning after December 31, 2017, and before January 1, 2026.

*.07 Armed Forces.* The term “Armed Forces” means the Armed Forces of the United States.

#### SECTION 4. BUSINESS STANDARD MILEAGE RATE

*.01 Use of the business standard mileage rate.* A taxpayer may use the business standard mileage rate (published by the IRS in an annual notice) to substantiate the

amount of a deduction to compute adjusted gross income for an automobile that a taxpayer either owns or leases. A taxpayer generally may deduct an amount equal to either the business standard mileage rate times the number of business miles traveled, or the actual fixed and variable costs the taxpayer pays or incurs that are allocable to traveling those business miles, subject to the limitations in section 4.05 of this revenue procedure.

*.02 Business standard mileage rate in lieu of fixed and variable costs.* A taxpayer computes a deduction using the business standard mileage rate on a yearly basis and in lieu of computing the fixed and variable costs of the automobile allocable to business purposes, except as provided in section 7.06 of this revenue procedure. Items such as: depreciation or lease payments; maintenance and repairs; tires; gasoline, including all taxes thereon; oil; insurance; and license and registration fees are included in fixed and variable costs for this purpose. However, during the suspension period, a taxpayer may not use the business standard mileage rate to claim a miscellaneous itemized deduction. See sections 4.05(4) and 7.06 of this revenue procedure. Notwithstanding the suspension of miscellaneous itemized deductions, a taxpayer may use the standard business mileage rate in computing adjusted gross income under § 62(a)(1) or (2). See sections 4.06 and 7.07 of this revenue procedure.

*.03 Parking fees, tolls, interest, and taxes.*

(1) During the suspension period, a taxpayer may not claim a miscellaneous itemized deduction for parking fees and tolls attributable to the use of the automobile for business purposes. See § 67(g). A taxpayer may deduct, as separate items, parking

fees and tolls attributable to the use of the automobile for business purposes to the extent the items are deductible in computing adjusted gross income under § 62(a)(1) or (2).

(2) A taxpayer may deduct interest relating to the purchase of the automobile and state and local personal property taxes as separate items to the extent allowable under § 163 or § 164, respectively. Under § 163(h)(2)(A), interest is nondeductible personal interest if it is paid or incurred on indebtedness properly allocable to the trade or business of performing services as an employee. Section 164 provides that state and local taxes a taxpayer pays or incurs in connection with an acquisition or disposition of property are treated as part of the cost of the acquired property or as a reduction in the amount realized on the disposition of the property. If the automobile is operated less than 100 percent for business purposes, a taxpayer must allocate the business and nonbusiness portion of the allowable taxes and interest deduction.

*.04 Depreciation.* Under § 1016(a)(2), a taxpayer must reduce the basis of an automobile used in business by the greater of the amount of depreciation the taxpayer claims for the automobile or the amount of depreciation allowable. If a taxpayer uses the business standard mileage rate to compute the expense of operating an automobile for any year, a per-mile amount (published by the IRS in an annual notice) is treated as the depreciation claimed by the taxpayer and the depreciation allowable for those years in which the taxpayer used the business standard mileage rate. If the taxpayer deducted the actual costs of operating an automobile for one or more of those years, the taxpayer may not use the business standard mileage rate to determine the amount

treated as depreciation for those years.

*.05 Limitations.*

(1) A taxpayer may not use the business standard mileage rate to compute the deductible expenses of five or more automobiles a taxpayer owns or leases and uses simultaneously (such as in fleet operations).

(2) A taxpayer may not use the business standard mileage rate to compute the deductible business expenses of an automobile a taxpayer leases unless the taxpayer uses either the business standard mileage rate or FAVR allowance (as provided in section 6 of this revenue procedure) for the entire lease period.

(3) A taxpayer may not use the business standard mileage rate to compute the deductible expenses of an automobile for which the taxpayer has (a) claimed depreciation using a method other than straight-line for its estimated useful life, (b) claimed a § 179 deduction, (c) claimed the additional first-year depreciation allowance under, for example, § 168(k) or former § 168(n), or (d) used the Accelerated Cost Recovery System (ACRS) under former § 168 or the Modified Accelerated Cost Recovery System (MACRS) under current § 168. By using the business standard mileage rate, the taxpayer has elected to exclude the automobile, if owned, from MACRS pursuant to § 168(f)(1). If, after using the business standard mileage rate, the taxpayer uses actual costs, the taxpayer must use straight-line depreciation for the automobile's remaining estimated useful life, subject to the applicable depreciation deduction limitations under § 280F.

(4) A taxpayer may not use the business standard mileage rate to claim a

miscellaneous itemized deduction subject to the 2-percent floor under § 67 for unreimbursed travel expenses paid or incurred during the suspension period. See § 67(g).

(5) A taxpayer who is an employee of the United States Postal Service may not use the business standard mileage rate or this revenue procedure to compute the amount of the taxpayer's deductible automobile expenses incurred in performing services involving the collection and delivery of mail on a rural route if the taxpayer receives qualified reimbursements, as defined in § 162(o), for the expenses. See § 162(o) for the rules that apply to these qualified reimbursements.

*.06 Use of the business standard mileage rate during the suspension period in computing adjusted gross income.* A taxpayer who pays or incurs unreimbursed employee travel expenses that are deductible by such taxpayer in computing adjusted gross income under § 62 may use the business standard mileage rate to compute the adjustment to gross income, notwithstanding the suspension of miscellaneous itemized deductions under § 67(g) during the suspension period.

## SECTION 5. CHARITABLE AND MEDICAL AND MOVING STANDARD MILEAGE RATES

*.01 Charitable standard mileage rate.* A taxpayer may use the charitable standard mileage rate (published by the IRS in an annual notice) to compute the charitable contribution deduction for use of an automobile in rendering gratuitous services to a charitable organization under § 170.

*.02 Medical and moving standard mileage rates.*

(1) A taxpayer may use the medical standard mileage rate (published by the IRS in an annual notice) to compute the deduction for use of an automobile as medical care described in § 213.

(2) During the suspension period, a taxpayer who is a member of the Armed Forces on active duty moving pursuant to a military order and incident to a permanent change of station may use the moving standard mileage rate (published by the IRS in an annual notice) to compute the deduction for the use of an automobile as a moving expense deductible under § 217. No other taxpayers may claim a moving expense deduction under § 217 during the suspension period.

*.03 Charitable, medical, or moving standard mileage rate in lieu of variable expenses.* A deduction computed using the applicable standard mileage rate for charitable, medical, or moving expense miles is in lieu of a deduction for variable expenses, including gasoline and oil, of the automobile allocable to those purposes. Costs for items such as depreciation or lease payments, insurance, and license and registration fees are not deductible for these purposes and are not included in the charitable, medical, or moving standard mileage rate.

*.04 Parking fees, tolls, and taxes.* A taxpayer may deduct, as separate items, parking fees and tolls attributable to the use of the automobile for deductible charitable, medical, or moving expense purposes to the extent otherwise allowable. State and local personal property taxes are not deductible as charitable, medical, or moving expenses. State and local personal property taxes may be deducted as separate items

to the extent allowable under § 164.

## SECTION 6. FIXED AND VARIABLE RATE ALLOWANCE

### *.01 In general.*

(1) The ordinary and necessary expenses an employee pays or incurs in driving an automobile the employee owns or leases in performing services as an employee of the employer are deemed substantiated, in an amount determined under section 7 of this revenue procedure, when a payor reimburses those expenses using a FAVR allowance. A FAVR allowance is a mileage allowance using a flat rate or stated schedule that combines periodic fixed and variable rate payments that meet all the requirements of this section 6.

(2) A payor must base the amount of a FAVR allowance on data that (a) is derived from the base locality, (b) reflects retail prices paid by consumers, and (c) is reasonable and statistically defensible in approximating the actual expenses employees receiving the allowance would incur as owners of the standard automobile.

### *.02 Computing a FAVR allowance.*

(1) *FAVR allowance.* A FAVR allowance includes periodic fixed payments and periodic variable payments. A payor may maintain more than one FAVR allowance. A FAVR allowance that uses the same payor, standard automobile or an automobile of the same make and model that is comparably equipped, retention period, and business use percentage is considered one FAVR allowance, even though other features of the allowance may vary. A FAVR allowance also includes any optional high mileage payments. However, optional high mileage payments are included in an employee's

gross income, are reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of employment taxes when paid. See section 7.05 of this revenue procedure. An optional high mileage payment covers the additional depreciation for a standard automobile attributable to business miles an employee drives and substantiates for a calendar year in excess of the annual business mileage for that year. If a FAVR allowance covers an employee for less than the entire calendar year, the annual business mileage may be prorated on a monthly basis for purposes of the preceding sentence.

(2) *Periodic fixed payment.* A periodic fixed payment covers the projected fixed costs (including depreciation or lease payments, insurance, registration and license fees, and personal property taxes) of driving the standard automobile in performing services as an employee of the employer in a base locality, and must be paid at least quarterly. A payor may compute a periodic fixed payment by (a) dividing the total projected fixed costs of the standard automobile for all years of the retention period, determined at the beginning of the retention period, by the number of periodic fixed payments in the retention period, and (b) multiplying the resulting amount by the business use percentage.

(3) *Periodic variable payment.* A periodic variable payment covers the projected variable costs, including gasoline and all taxes thereon, oil, tires, and routine maintenance and repairs, of driving a standard automobile in performing services as an employee in a base locality, and must be paid at least quarterly. A payor may compute a periodic variable payment rate for a computation period by dividing the total projected



variable costs for the standard automobile for the computation period, determined at the beginning of the computation period, by the computation period mileage. A computation period may be any period of a year or less. Computation period mileage is the total mileage, business and personal, a payor reasonably projects a standard automobile will be driven during a computation period and equals the retention mileage divided by the number of computation periods in the retention period. For each business mile an employee substantiates for the computation period, a payor must make a periodic variable payment at a rate that does not exceed the rate for that computation period.

(4) *Base locality.* A base locality is the particular geographic locality or region of the United States where an employee generally pays or incurs the costs of driving an automobile in performing services as an employee. Thus, for purposes of determining the amount of fixed costs, the base locality is generally the geographic locality or region where the employee resides. For purposes of determining the amount of variable costs, the base locality is generally the geographic locality or region where the employee drives the automobile in performing services as an employee.

(5) *Standard automobile.* A standard automobile is the automobile a payor selects on which a specific FAVR allowance is based.

(6) *Standard automobile cost.* The standard automobile cost for a calendar year may not exceed 95 percent of the sum of (a) the retail dealer invoice cost of the standard automobile in the base locality, and (b) state and local sales or use taxes on the purchase of the automobile. The maximum standard automobile cost for a given taxable year is published by the IRS in an annual notice.

(7) *Annual mileage.* Annual mileage is the total mileage, business and personal, a payor reasonably projects an employee will drive a standard automobile during a calendar year. Annual mileage equals the annual business mileage divided by the business use percentage.

(8) *Annual business mileage.* Annual business mileage is the mileage a payor reasonably projects an employee will drive a standard automobile in performing services as an employee during the calendar year, but may not be less than 6,250 miles for a calendar year. Annual business mileage equals the annual mileage multiplied by the business use percentage.

(9) *Business use percentage.* A payor determines the business use percentage by dividing the annual business mileage by the annual mileage. The business use percentage may not exceed 75 percent. In lieu of demonstrating the reasonableness of the business use percentage based on records of total mileage and business mileage driven by employees annually, a payor may use a business use percentage that is less than or equal to the following percentages for a FAVR allowance that is paid for the following annual business mileage:

<i>Annual business mileage</i>	<i>Business use percentage</i>
6,250 or more but less than 10,000	45 percent
10,000 or more but less than 15,000	55 percent
15,000 or more but less than 20,000	65 percent
20,000 or more	75 percent

(10) *Retention period.* A retention period is the period in calendar years a payor

selects during which the payor expects an employee to drive a standard automobile in performing services as an employee before the automobile is replaced. The period may not be less than two calendar years.

(11) *Retention mileage.* Retention mileage is the annual mileage multiplied by the number of calendar years in the retention period.

(12) *Residual value.* The residual value of a standard automobile is the projected amount for which it could be sold at the end of the retention period after being driven the retention mileage. The IRS will accept the following safe harbor residual values for a standard automobile computed as a percentage of the standard automobile cost:

<i>Retention period</i>	<i>Residual value</i>
2 years	70 percent
3 years	60 percent
4 years	50 percent

.03 *FAVR allowance in lieu of fixed and variable costs.*

(1) A reimbursement computed using a FAVR allowance is in lieu of the employee's deduction of all the fixed and variable costs the employee pays or incurs in driving the automobile in performing services as an employee, except as provided in section 7.06 of this revenue procedure. Items such as: depreciation or lease payments; maintenance and repairs; tires; gasoline, including all taxes thereon; oil; insurance; license and registration fees; and personal property taxes are included in fixed and variable costs for this purpose.

(2) During the suspension period, an employee may not claim a miscellaneous

itemized deduction for parking fees and tolls attributable to the employee driving the standard automobile in performing services as an employee.

*.04 Depreciation.*

(1) A payor may not provide a FAVR allowance for an automobile for which an employee has (a) claimed depreciation using a method other than straight-line for its estimated useful life, (b) claimed a § 179 deduction, (c) claimed the additional first-year depreciation allowance under, for example, § 168(k) or former § 168(n), or (d) used ACRS under former § 168 or MACRS under current § 168. If an employee uses actual costs for an owned automobile that has been covered by a FAVR allowance, the employee must use straight-line depreciation for the automobile's remaining estimated useful life, subject to the applicable depreciation deduction limitations under § 280F.

(2) Except as provided in section 6.04(3) of this revenue procedure, the total amount of the depreciation component for the retention period a payor includes in computing the periodic fixed payments for that retention period may not exceed the excess of the standard automobile cost over the residual value of the standard automobile. In addition, the total amount of the depreciation component may not exceed the sum of the annual § 280F limitations on depreciation in effect at the beginning of the retention period that apply to the standard automobile during the retention period.

(3) If the depreciation component of the periodic fixed payments exceeds the limitations in section 6.04(2) of this revenue procedure, the IRS will treat that section as satisfied if the total annual amount of the FAVR (periodic fixed and variable) payments a

payor makes to an employee driving 80 percent of the annual business mileage of the standard automobile does not exceed the business standard mileage rate for that year multiplied by 80 percent of the annual business mileage of the standard automobile.

(4) The depreciation included in each periodic fixed payment portion of a FAVR allowance paid for an automobile reduces the basis of the automobile, but not below zero, in determining adjusted basis as required by § 1016(a)(2). See section 6.07(2) of this revenue procedure for the requirement that the employer report the depreciation component of a periodic fixed payment to the employee.

*.05 FAVR allowance limitations.*

(1) A payor may provide a FAVR allowance only to an employee who substantiates to the payor for a calendar year at least 5,000 miles driven in performing services as an employee or, if greater, 80 percent of the annual business mileage of that FAVR allowance. If the employee is covered by the FAVR allowance for less than the entire calendar year, the payor may prorate these limits on a monthly basis.

(2) A payor may not provide a FAVR allowance to a control employee, as defined in § 1.61-21(f)(5) and (6), excluding the \$100,000 limitation in paragraph (f)(5)(iii).

(3) A payor may not provide a FAVR allowance if at any time during a calendar year a majority of the employees the FAVR allowance covers are management employees.

(4) A payor may not provide a FAVR allowance to any employee unless at all times during a calendar year FAVR allowances provided by the payor cover at least five employees in total.

(5) A payor may provide a FAVR allowance only for an automobile (a) the employee receiving the payment owns or leases, (b) the cost of which, as a new vehicle, whether or not purchased new by the employee, was at least 90 percent of the standard automobile cost included in determining the FAVR allowance for the first calendar year the employee receives the allowance for that automobile, and (c) for which the model year does not differ from the current calendar year by more than the number of years in the retention period.

(6) A payor may not provide a FAVR allowance for an automobile an employee leases for which the employee has used actual expenses to compute the deductible business expenses of the automobile for any year during the lease period.

(7) The insurance cost component of a FAVR allowance must be based on the rates charged in the base locality for insurance coverage on the standard automobile during the current calendar year without considering rate-increasing factors such as poor driving records or young drivers.

(8) A payor may provide a FAVR allowance only to an employee whose insurance coverage limits on the automobile for which the FAVR allowance is paid are at least equal to the insurance coverage limits used to compute the periodic fixed payment under that FAVR allowance.

*.06 Employee reporting.* Within 30 days after a FAVR allowance initially covers an employee's automobile, or again covers the automobile if coverage has lapsed, the employee by written declaration must provide the payor with the following information:

(1) the make, model, and year of the employee's automobile, (2) written proof of the

insurance coverage limits on the automobile, (3) the odometer reading of the automobile, (4) if owned, the purchase price of the automobile or, if leased, the price at which the automobile is ordinarily sold by retailers (gross capitalized cost of the automobile), and (5) if owned, whether the employee has claimed depreciation for the automobile using any of the depreciation methods prohibited by section 6.04(1) of this revenue procedure or, if leased, whether the employee has computed deductible business expenses for the automobile using actual expenses. The employee also must provide the information in (1), (2), and (3) to the payor within 30 days after the beginning of each calendar year that a FAVR allowance covers the employee's automobile.

*.07 Payor recordkeeping and reporting.*

(1) The payor or its agent must maintain written records stating (a) the statistical data and projections on which the FAVR allowance payments are based, and (b) the information the employees provided under section 6.06 of this revenue procedure.

(2) Within 30 days of the end of each calendar year, the payor must provide each employee covered by a FAVR allowance during that year with a statement that lists the amount of depreciation included in each periodic fixed payment portion of the FAVR allowance paid during that calendar year to an automobile owner and explains that by receiving a FAVR allowance the employee has elected to exclude the automobile from the MACRS under § 168(f)(1). For automobile lessees, the statement must explain that by receiving the FAVR allowance the employee may not compute the deductible business expenses of the automobile using actual expenses for the lease period.

*.08 Failure to meet section 6 requirements.* If an employee receives a mileage

allowance that fails to meet one or more of the requirements of this section 6, the employee may not be treated as covered by any FAVR allowance of the payor during the period of the failure. Nevertheless, the expenses to which that mileage allowance relates may be deemed substantiated using the method described in sections 4, 7.01(1), and 7.02 of this revenue procedure to the extent the requirements of those sections are met.

#### SECTION 7. MILEAGE ALLOWANCES

.01 If a payor pays a mileage allowance in lieu of reimbursing actual transportation expenses an employee incurs or may incur, the payor is deemed to have substantiated either:

(1) For any mileage allowance other than a FAVR allowance, the lesser of the amount paid under the mileage allowance or the business standard mileage rate multiplied by the number of substantiated business miles; or

(2) For a FAVR allowance, the amount paid under the FAVR allowance less the sum of (a) any periodic variable rate payment that relates to miles in excess of the substantiated business miles that the employee fails to return to the payor although required to do so, (b) any portion of a periodic fixed payment that relates to a period during which the employee is treated as not covered by the FAVR allowance and that the employee fails to return to the payor although required to do so, and (c) any optional high mileage payments.

.02 An employee is deemed to satisfy the adequate accounting requirements of § 1.274-5(f) and the requirement to substantiate by adequate records or other sufficient



evidence for purposes of § 1.274-5(c) if the amount of transportation expenses is deemed substantiated under the rules provided in section 7.01 of this revenue procedure, and the employee actually substantiates to the payor the elements of time, place (or use), and business purpose of the transportation expenses under § 1.274-5T(b)(2) (travel away from home), § 1.274-5T(b)(6) (listed property, which includes passenger automobiles and any other property used as a means of transportation), and § 1.274-5(c) (rules of substantiation).

.03 An arrangement providing mileage allowances is treated as satisfying the requirement of § 1.62-2(f)(2) on returning amounts in excess of expenses as follows:

(1) For a mileage allowance, other than a FAVR allowance, paid only at a cents-per-mile rate, the requirement to return excess amounts is treated as satisfied if an employee is required to return within a reasonable period of time, as defined in § 1.62-2(g), any portion of the allowance that relates to unsubstantiated travel miles, even though the arrangement does not require the employee to return the portion of the allowance that relates to substantiated travel miles and that exceeds the amount of the employee's expenses deemed substantiated. For example, a payor provides an employee an advance mileage allowance of \$170.00 based on an anticipated 250 business miles at 68 cents per mile, at a time when the business standard mileage rate is 58 cents per mile, and the employee substantiates 150 business miles. The requirement to return excess amounts is treated as satisfied if the employee is required to return the portion of the allowance that relates to the 100 unsubstantiated business miles (\$68.00) even though the employee is not required to return the portion of the

allowance (\$15.00) that exceeds the amount of the employee's expenses deemed substantiated under section 7.01 of this revenue procedure (\$87.00) for the 150 substantiated business miles. However, the \$15.00 excess portion of the allowance is treated as paid under a nonaccountable plan as discussed in section 7.05 of this revenue procedure.

(2) For a mileage allowance, other than a FAVR allowance, paid other than only at a cents-per-mile rate, the requirement to return excess amounts is treated as satisfied if the employee is required to return within a reasonable period of time, as defined in § 1.62-2(g), any portion of the allowance that exceeds the product of the business standard mileage rate and the number of substantiated travel miles. For example, a payor provides an employee an advance mileage allowance of \$400 per month plus 20 cents per mile based on an anticipated 2000 miles for a total of \$800, at a time when the business standard mileage rate is 58 cents per mile, and the employee substantiates 1000 business miles. The requirement to return excess amounts is treated as satisfied if the employee is required to return \$220, the portion of the allowance that exceeds the product of the standard mileage rate and the miles substantiated (\$580).

(3) For a FAVR allowance, the requirement to return excess amounts is treated as satisfied if the employee is required to return, within a reasonable period of time, as defined in § 1.62-2(g), (a) the portion, if any, of the periodic variable payment received that relates to miles in excess of substantiated business miles, and (b) the portion, if any, of a periodic fixed payment that relates to a period during which the employee was

not covered by the FAVR allowance.

.04 An employee is not required to include in gross income the portion of a mileage allowance received from a payor that is less than or equal to the amount deemed substantiated under section 7.01 of this revenue procedure, provided the employee substantiates under section 7.02 of this revenue procedure. See § 1.274-5T(f)(2)(i). Assuming that the remaining requirements for an accountable plan provided in § 1.62-2 are satisfied, that portion of the allowance is treated as paid under an accountable plan, is not reported as wages or other compensation on the employee's Form W-2, and is exempt from withholding and payment of employment taxes. See § 1.62-2(c)(2) and (c)(4).

.05 An employee is required to include in gross income the portion of a mileage allowance received from a payor that exceeds the amount deemed substantiated under section 7.01 of this revenue procedure. See § 1.274-5T(f)(2)(ii). In addition, the excess portion of the allowance is treated as paid under a nonaccountable plan, is reported as wages or other compensation on the employee's Form W-2, and is subject to withholding and payment of employment taxes. See § 1.62-2(c)(3)(ii), (c)(5), and (h)(2)(i)(B).

.06 If during the suspension period an employee's substantiated expenses are less than the employee's actual expenses, the employee may not claim an itemized deduction for the amount by which the business transportation expenses exceed the amount that is deemed substantiated. See § 67(g).

.07 A self-employed individual may deduct an amount computed under section 4 of

this revenue procedure in computing adjusted gross income under § 62(a)(1).

.08 An employee may deduct an amount computed under section 4 of this revenue procedure only as an itemized deduction, unless the amount is used to compute adjusted gross income under § 62(a)(2)(B)-(a)(2)(E). This itemized deduction is subject to the 2-percent floor on miscellaneous itemized deductions in § 67, and is therefore suspended. Notwithstanding the suspension of miscellaneous itemized deductions, an employee who is a qualifying performing artist, fee-basis state or local government official, educator, or Armed Forces reservist under § 62(a)(2)(B)-(a)(2)(E) may deduct an amount computed under section 4 of this revenue procedure. This amount is deducted under § 62(a)(2) in computing adjusted gross income and is not a miscellaneous itemized deduction as described in § 67.

#### SECTION 8. WITHHOLDING AND PAYMENT OF EMPLOYMENT TAXES

.01 The portion of a mileage allowance, other than a FAVR allowance, if any, that relates to substantiated business miles and that exceeds the amount deemed substantiated for those miles under section 7.01(1) of this revenue procedure is treated as paid under a nonaccountable plan and is subject to withholding and payment of employment taxes. See § 1.62-2(h)(2)(i)(B).

(1) For a mileage allowance paid as a reimbursement, the excess described in section 8.01 of this revenue procedure is subject to withholding and payment of employment taxes in the payroll period in which a payor reimburses the expenses for the substantiated business miles. See § 1.62-2(h)(2)(i)(B)(2).

(2) For a mileage allowance paid as an advance, the excess described in section

8.01 of this revenue procedure is subject to withholding and payment of employment taxes no later than the first payroll period following the payroll period in which the business miles for which the advance was paid are substantiated. See § 1.62-2(h)(2)(i)(B)(3). If some or all of the business miles for which the advance was paid are not substantiated within a reasonable period of time and the employee does not return the portion of the allowance that relates to those miles within a reasonable period of time, the portion of the allowance that relates to those miles is subject to withholding and payment of employment taxes no later than the first payroll period following the end of the reasonable period. See § 1.62-2(h)(2)(i)(A).

(3) For a mileage allowance that is not computed on the basis of a fixed amount per mile of travel (for example, a mileage allowance that combines periodic fixed and variable rate payments, but that does not satisfy the requirements of section 6 of this revenue procedure), the payor must compute periodically, no less frequently than quarterly, the amount, if any, that exceeds the amount deemed substantiated under section 7.01(1) of this revenue procedure by comparing the total mileage allowance paid for the period to the business standard mileage rate multiplied by the number of business miles the employee substantiated for the period. Any excess is subject to withholding and payment of employment taxes no later than the first payroll period following the payroll period in which the excess is computed. See § 1.62-2(h)(2)(i)(B)(4).

(4) For example, a payor provides employees a mileage allowance under an arrangement that otherwise meets the requirements of an accountable plan at a rate of

68 cents per mile, when the business standard mileage rate is 58 cents per mile. The payor does not require the return of the portion of the allowance that exceeds the business standard mileage rate for the substantiated business miles (10 cents). In June, the payor advances an employee \$340.00 for 500 miles to be traveled during the month. In July, the employee substantiates to the payor 400 business miles traveled in June and returns \$68.00 to the payor for the 100 business miles not traveled. The amount deemed substantiated for the 400 miles traveled is \$232.00 and the employee is not required to return \$40.00. No later than the first payroll period following the payroll period in which the 400 business miles traveled are substantiated, the payor must withhold and pay employment taxes on \$40.00.

.02 The portion of a FAVR allowance, if any, that exceeds the amount deemed substantiated for those miles under section 7.01(2) of this revenue procedure is subject to withholding and payment of employment taxes. See § 1.62-2(h)(2)(i)(B).

(1) Any periodic variable rate payment that relates to miles in excess of the business miles an employee substantiates and that the employee fails to return within a reasonable period, or any portion of a periodic fixed payment that relates to a period during which the employee is treated as not covered by the FAVR allowance and that the employee fails to return within a reasonable period, is subject to withholding and payment of employment taxes no later than the first payroll period following the end of the reasonable period. See § 1.62-2(h)(2)(i)(A).

(2) Any optional high mileage payment is subject to withholding and payment of employment taxes when paid.

.03 All payments to an employee under a mileage allowance are treated as paid under a nonaccountable plan if the arrangement evidences a pattern of abuse. An arrangement evidences a pattern of abuse if, for example, it has no process to determine when an allowance exceeds the amount that may be deemed substantiated and the arrangement routinely pays allowances in excess of the amount that may be deemed substantiated without (1) requiring actual substantiation or repayment of the excess amount, or (2) treating the excess allowances as wages for employment tax purposes. See § 62(c), § 1.62-2(k), and Rev. Rul. 2006-56, 2006-2 C.B. 874. Thus, these payments are included in the employee's gross income, are reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of employment taxes. See § 1.62-2(c)(3), (c)(5), and (h)(2).

.04 If a payor arranges to pay an amount to an employee regardless of whether the employee incurs (or is reasonably expected to incur) deductible business expenses or other *bona fide* expenses related to the employer's business that are not deductible, the arrangement does not meet the business connection requirement of § 1.62-2(d), and all amounts paid under the arrangement are treated as paid under a nonaccountable plan. Thus, an arrangement that recharacterizes taxable wages as nontaxable reimbursements or allowances in order to avoid the suspension of miscellaneous itemized deductions under § 67(g) does not satisfy the business connection requirement of the accountable plan rules under § 62(c) and the applicable regulations. See § 62(c), § 1.62-2(d), and Rev. Rul. 2012-25, 2012-37 I.R.B. 337.

SECTION 9. EFFECTIVE DATE

This revenue procedure is effective for (1) deductible transportation expenses paid or incurred on or after November 14, 2019, and (2) mileage allowances or reimbursements (a) paid to an employee or to a charitable volunteer on or after November 14, 2019, and (b) for transportation expenses the employee or charitable volunteer pays or incurs on or after November 14, 2019. Notwithstanding the effective date in this section 9, amendments made by the TCJA to §§ 67 and 217 are effective for any taxable year beginning after December 31, 2017, and before January 1, 2026.

#### SECTION 10. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2010-51 is modified, and as modified, is superseded.

#### DRAFTING INFORMATION

The principal author of this revenue procedure is Anna Gleysteen of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Ms. Gleysteen at (202) 317-7007 (not a toll-free call).