The Internal Revenue Service (IRS) recognizes two methods of accounting for the business use of vehicles.

- **Actual Expenses**. Depreciation, license and registration fees, gas, oil, tolls, lease payments—there are rules affecting the amount you can deduct—insurance, garage rent, parking fees, repairs and maintenance and interest are all deductible. In addition, if your car is damaged, destroyed or stolen you may be able to deduct the portion of the loss not covered by insurance.
- **Standard Mileage Rate**. The mileage rate for 2009 is $.55 per mile. You can also deduct the business portion of your parking fees, tolls, loan interest and license fees. You can not use this method if your business has five or more vehicles in service at the same time. If you lease your car or truck and choose this method, you must use it for the entire length of the lease. Written records are required to document the date, purpose and number of miles driven.

IRS requires you make your choice by the due date of your federal tax return – including extensions. This choice must be made in the first year the vehicle is placed in service. Your may, however, in later years switch from mileage to the actual expense method, with some strings attached.

The mileage method is usually the best option for inexpensive new and used vehicles. For example, using the mileage method, a $15,000 car driven 12,000 business miles in a year yields approximately a $7,000 tax deduction. The same vehicle would only account for a $6,200 deduction using actual expenses.