

Using CarFAX to Reconstruct Business Mileage Logs

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Bill Nemeth, EA
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20 + years as an Enrolled Agent; 34+ Years as a Tax Professional

GAEA - Immediate Past President & GAEA Education Chair

NAEA Education Foundation – Immediate Past Chair

Bachelors degree in Automotive Engineering
(Kettering Institute (formerly GMI))

Masters degrees (MIT) in Mechanical Engineering

MBA in Marketing (Wayne State University)

Fellow of National Tax Practice Institute (NTPI fellow)

Worked as Prometric Contractor – SEE Part 1, SEE Part 3, RTRP,

Handout Material

1. PDF of PowerPoint Presentation
2 slides per page

1A - 2018 July-August EA Journal -
Reconstructing Vehicle Mileage Logs

2. Actual Mileage Log Computations and
CarFAX report for an Audit

Exams of 1040 Sch C

Most exams of personal tax returns with Sch C Self-Employment request information on car and truck expenses.

IRS *recommends* contemporaneous mileage logs per **IRC §1.274-5T(c)(1)**

But does **NOT** require them.

Records should be created in “close” Proximity to the time of the activity.

Adequate records should be available to establish & corroborate every business use.

WRITTEN Mileage Log is REQUIRED

An adequate record **MUST** be written.

It does **NOT** have to be contemporaneous.

Automobiles are LISTED Property.

IRS requires adequate records to show:

- Business Use
- Personal Use

Mileage-Logging APP is an adequate record per **IRC §1.274-5T(c)(2)** – MileIQ, etc

WRITTEN Mileage Log is REQUIRED

Who should keep a mileage log ?

Anyone who plans to take a tax deduction for business vehicle mileage.

- Uber and Lyft Drivers
- Couriers
- Real Estate Brokers
- Home remodelers
- Cops moonlighting on security details
- Etc.

WRITTEN Mileage Log is **REQUIRED**

Take-Away:

If taxpayer is under audit, he must produce a WRITTEN Mileage Log or he loses the benefit of the deduction.

No WRITTEN Log  **No Deduction**

Mileage Log – What is REQUIRED

What is required on a Perfect Mileage Log ?

Date of each trip

Business purpose and places driven

Start Odometer & End Odometer

Total miles for each trip

Evidence of the Total Miles Driven for the
Tax Year.

WRITTEN Mileage Log is REQUIRED

Although the code mandates a written mileage log, IRS is aware that most taxpayers do NOT maintain one.

Correspondingly, excerpt from a recent IDR (Information Document Request) demonstrates the IRS policy.

Excerpt from Recent IRS IDR

Car & Truck Expenses

Repair receipts, inspection slips, or any other records to show total mileage driven for the year

Log books and other records verifying the business mileage claimed

If you did not keep a log or other formal records of your business mileage, reconstruct the business use of the vehicle. This information should include current mileage reading on the vehicle used for business purposes, mileage reading on the vehicle when you acquired it, mileage reading for January 1 and December 31 of the year being audited, and mileage distance between your residence and your business location. Also bring an appointment book or calendar of your business activities during the year

If you claimed actual expenses, invoices and cancelled checks for automobile expenses you incurred during the year. These include gas, oil, tires, repairs, insurance, interest, tags and taxes

For depreciation of actual expenses provide a bill of sale or other verification to establish the cost or other basis of the vehicle, including the trade-in of another vehicle

Reconstructing a Mileage Log

Reconstructed mileage log is shown on the following page.

Example is for off-duty police officer doing security details at a popular bar in Atlanta.

Trip Details:

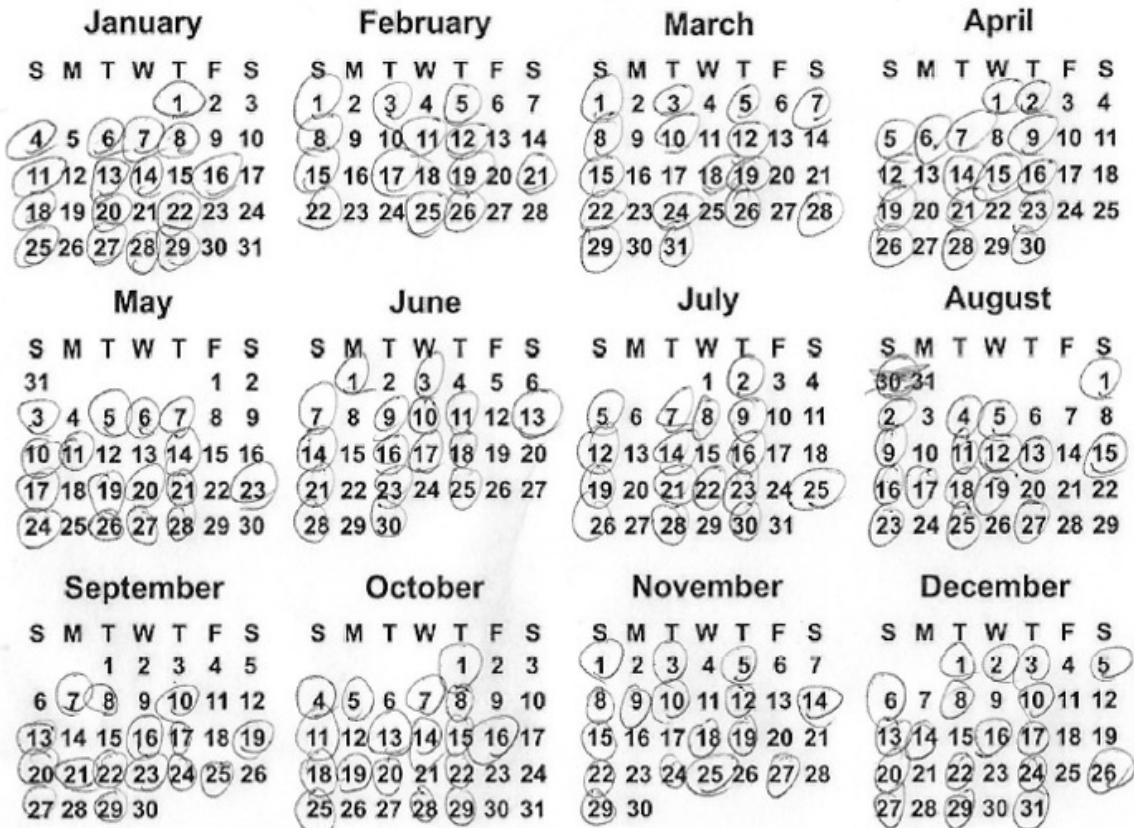
Round Trip Home to Bar & Return-102 Miles

(**GREAT** reason to have Office-In-Home –
Deductible Business Miles)

Reconstructed Log

191 days worked during 2015 @ 102 Miles Per Day
Is 19,482 Total Business Miles @ 57.5 = \$11,202.

2015



Reconstructed
Mileage Log for
off-duty police
officer doing
security details
at a popular bar
in Atlanta.

Round Trip
Home to Bar &
Return-102 Miles

How To Prove Total Miles

Have to prove total miles driven for 2015.
Total miles should be MORE than Business Miles.

Taxpayer did NOT have service records to document total miles driven for the year.

This is typical – standard reasons include:

- No service records (Changed his own oil)
- Lost service records
- Sold vehicle with service records
- No longer has the vehicle (totaled)

How To Prove Total Miles

Mileage-logging APP would have solved the proof of total miles problem.

However, we are reporting history.

Mileage-logging APP is great tool moving forward.

Fleet Operations

Reminder:

Fleet operations (5 or more vehicles in use at the same time) must use **ACTUAL** Expenses.

Fleet Operations – 100% Business ? ?

If not 100% Business, NEED Mileage Log

Example of Specialty Vehicles:

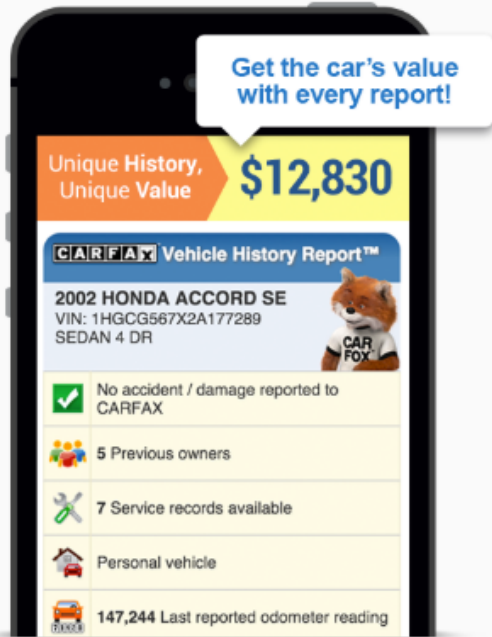
Ambulance

Plumbing Truck or Van

Mobile Locksmith Van

Security System Installation Van

**But There is
Help !**



[View a Sample Report](#)

Order CARFAX Reports

View instantly at home or on the go with your mobile device.

Step 1. Select Your Package



A car's history affects its value.
What's a car worth? Find out with every report!

1 CARFAX Report
\$39.99

Standard

Select

3 CARFAX Reports
\$59.99

Good Deal

Select

6 CARFAX Reports
\$99.99

Best Deal

Selected

Use CarFAX to get vehicle history and service records



CarFax, a commercially available web-based service, can access its nationwide vehicle database and generate a history of most American & Canadian vehicles from day one throughout the life of the vehicle.



Request a CarFAX Report

Current Car Tag (License Plate)

Still have the vehicle

OR

17-Digit VIN Number

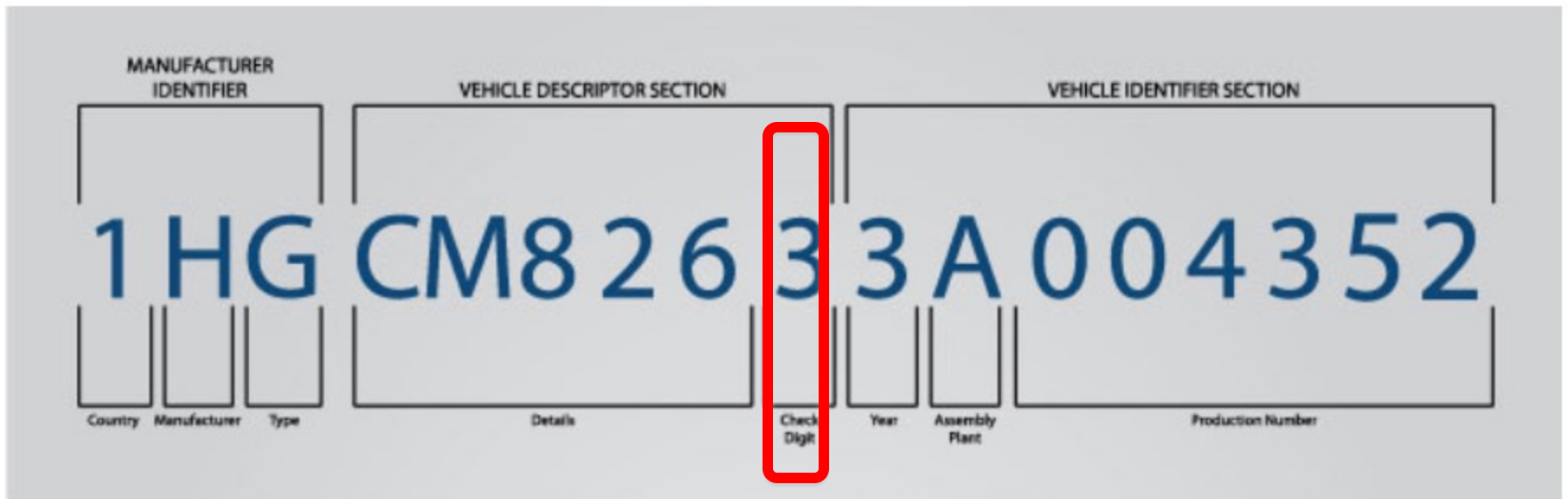
No longer have the vehicle?

Get the VIN number from your insurance company.

17 Digit VIN Number

A VIN (vehicle identification number) is a unique code given to each on-road vehicle in the United States. Since 1981, each new car has been given a standardized 17-digit code, which includes a serial number.

Note the check digit is the 9th character.

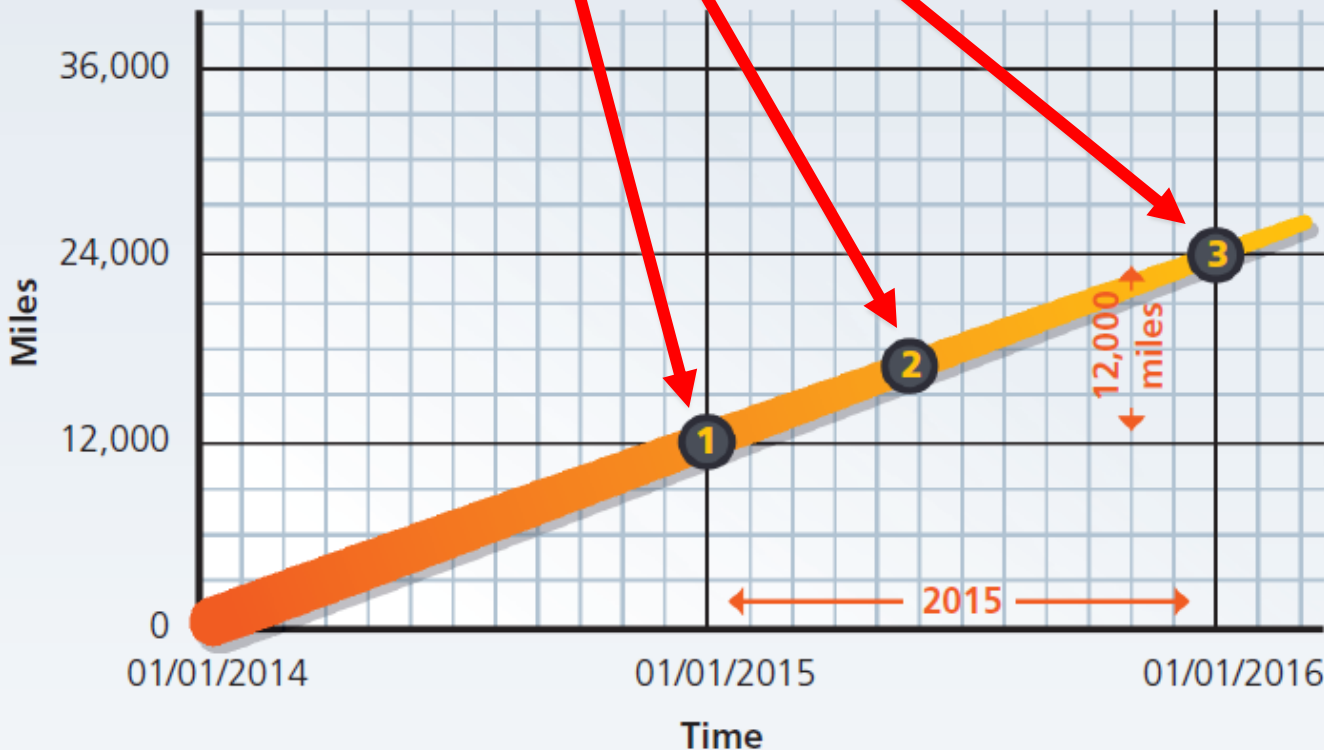


Data Points in a Sample Report—2015 Tax Year

Date	Mileage	Comments
01/01/2015	0	Vehicle purchased and registered in GA
1 01/01/2015	12,000*	Passed emissions test
2 05/22/2015	16,668**	Oil and tire rotation
3 01/01/2016	24,000*	Passed emissions test
01/01/2017	36,000*	Passed emissions test

*Source: Georgia DMV

**Source: Big 10 Tires



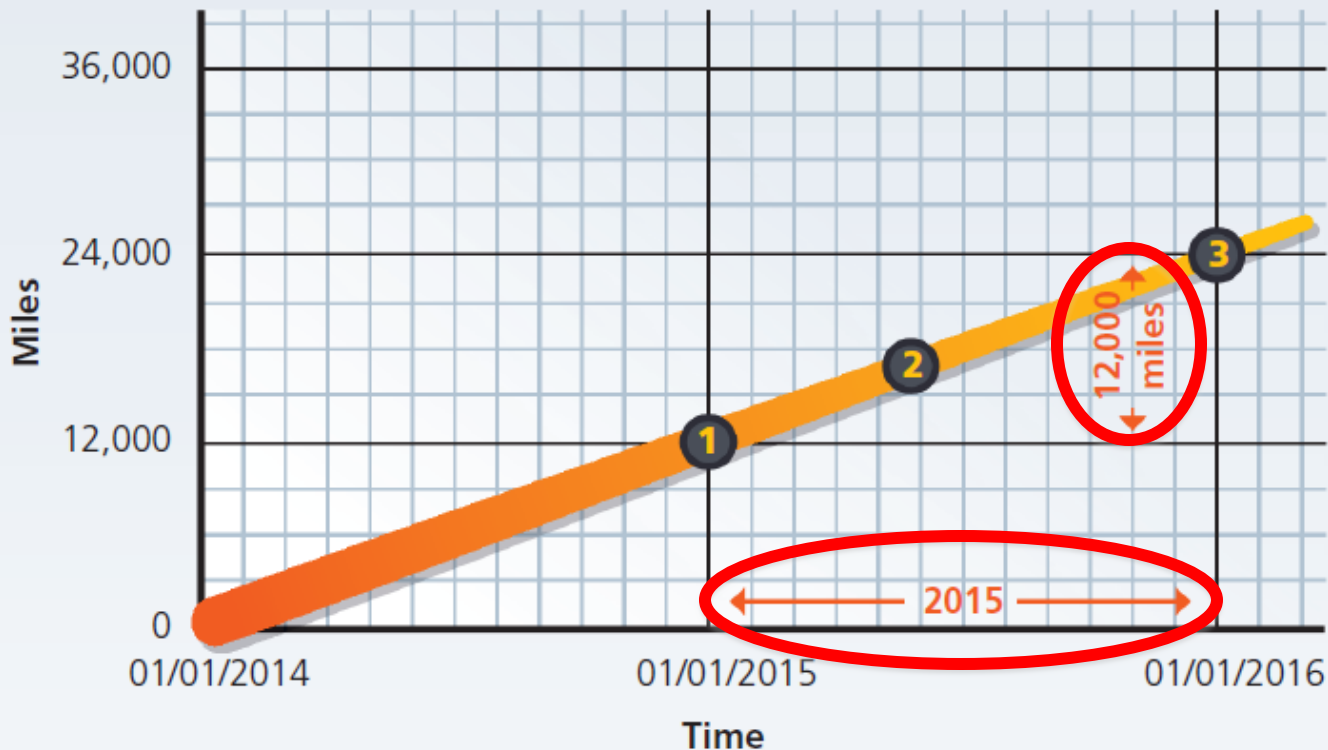
Simple example showing how to compute 2015 mileage from a CarFAX report.

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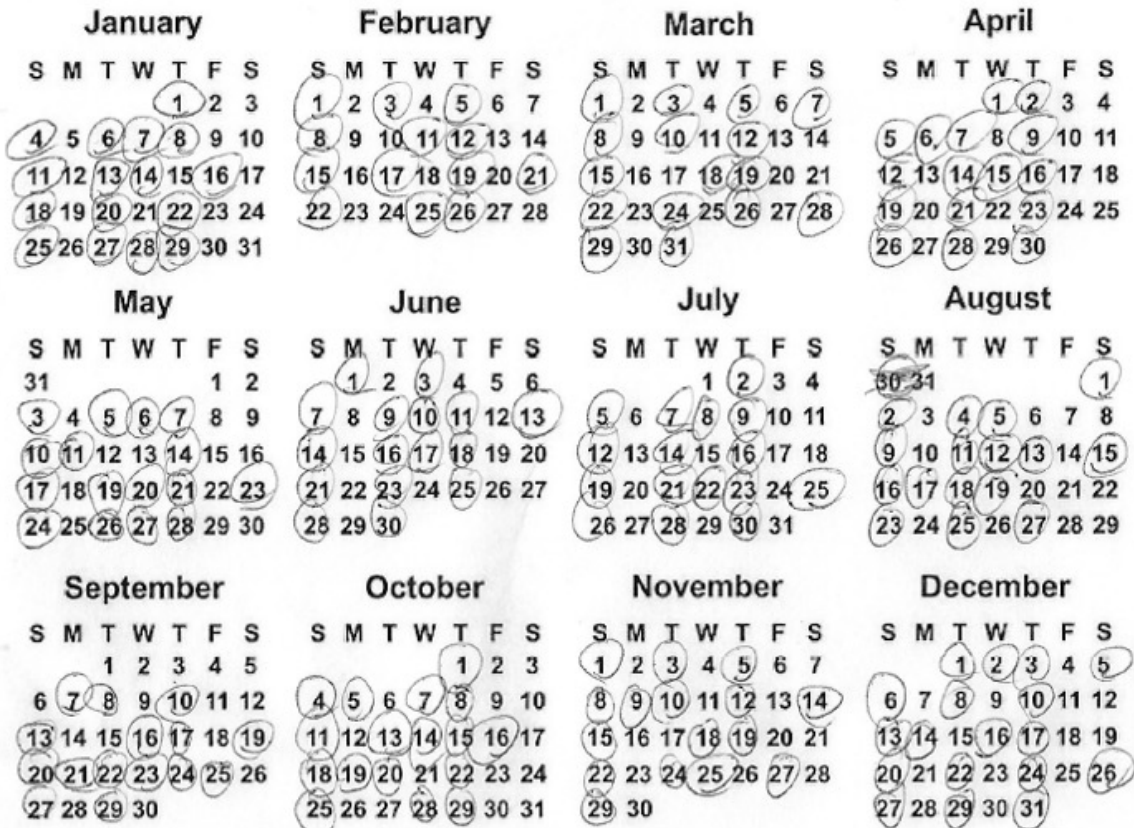


**12,000
total
miles
clocked
in 2015**

Reconstructed Log

191 days worked during 2015 @ 102 Miles Per Day
 Is 19,482 Total Business Miles @ 57.5 = \$11,202.

2015



Reconstructed
 Mileage Log for
 off-duty police
 officer doing
 security details
 at a popular bar
 in Atlanta.

Round Trip
 Home to Bar &
 Return-102 Miles

Real World Example

Off-duty police officer working security detail

19,482 Business Miles (from reconstructed log)

40,501 Total Miles from CarFAX Analysis

2015 Business Miles are less than Total Miles



Presented the following at Tax Court Appeals

Documentation to prove business mileage

Reconstructed Mileage Log

Documentation to prove total mileage

Included **COMPLETE** CarFAX report – only a portion is shown on the following pages to reduce printing cost.

Practice Note: I have found MORE is better.

If you can't dazzle them with BRILLIANCE
Baffle them with BS.



CARFAX® Vehicle History Report™

US \$39.99

An independent company established in 1986

Vehicle Information:

2007 NISSAN TITAN XE/SE/LE

VIN: 1N6BA07A17N222447

CREW PICKUP

5.6L V8 F DOHC 32V

FLEX FUEL

REAR WHEEL DRIVE

Standard Equipment | Safety Options



No accidents reported to CARFAX



No other damage reported to CARFAX



CARFAX 1-Owner vehicle



25 Service history records



Personal vehicle



350,944 Last reported odometer reading



CarFAX analysis verifies the Annual Miles: 40,501

This CARFAX Vehicle History Report is based only on information supplied to CARFAX and available as of 12/10/17 at 3:53:17 PM (EST). Other information about this vehicle, including problems, may not have been reported to CARFAX. Use this report as one important tool, along with a vehicle inspection and test drive, to make a better decision about your next used car.

Bus Miles: 19,482



Ownership History

Analysis Shows:

Owner 1

The number of owners is estimated

Year purchased

40,501 Total Miles

2007

Type of owner

In 2015.

Personal

Estimated length of ownership



10 yrs. 5 mo.

Ow ned in the following states/provinces

Georgia

Estimated miles driven per year

34,903/yr

Last reported odometer reading

350,944

CarFAX Report for Security Details

$ \begin{array}{r} 270514 \\ - 259115 \\ \hline 11429 \\ \text{Miles} \\ 365 \text{ days} = 40,501 \end{array} $	06/25/2015	259,115	TDS Auto Service Social Circle, GA 770-464-9988	Brake pads replaced Oil and filter changed
	09/18/2015		Georgia Motor Vehicle Dept. Oxford, GA Title #770303072268907	Registration issued or renewed Loan or lien reported Vehicle color noted as Red
Analysis Indicates 40,501 Miles In 2015	10/06/2015	270,544	TDS Auto Service Social Circle, GA 770-464-9988	Rear brake pads replaced Oil and filter changed
	07/01/2016		TDS Auto Service Social Circle, GA 770-464-9988	Oil and filter changed Tire(s) balanced Tire(s) mounted
	09/22/2016		Georgia Motor Vehicle Dept. Oxford, GA Title #770303072268907	Registration issued or renewed Loan or lien reported Vehicle color noted as Red
	12/19/2016	331,543	TDS Auto Service Social Circle, GA 770-464-9988	Air filter replaced Tires rotated Oil and filter changed
	01/18/2017	335,208	TDS Auto Service Social Circle, GA 770-464-9988	Starter replaced Intake manifold gasket(s) replaced
	07/13/2017	350,944	TDS Auto Service	Maintenance inspection completed

$$\begin{array}{r}
 270514 \\
 - 259115 \\
 \hline
 11429 \\
 \text{Miles} \\
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 \end{array}$$

**Analysis
Indicates
40,501
Miles In
2015**

Summary

FAXed 15 Pages of documentation to Tax Court Appeals Officer

6 minute phone conversation

Accepted the reconstructed Mileage Log

Her parting comment:

Brilliant ! !

Handout Discussion

2008 Ford Van 2016 & 2017 CarFAX & Total Miles V-2

8 page document submitted at audit to prove total miles driven for 2008 Ford Van for:

- Tax Year 2016
- Tax Year 2017

This document actually included an additional 15 pages of scanned service receipts to confirm service dates and miles matched the CarFAX report.

2008 FORD Van – Specialty Vehicle



2008 FORD Van – Specialty Vehicle



How to use CarFAX in your Tax Prep Practice

New Client with HIGH Business Miles

Wants to claim 40K+ business miles on Sch C.

Run a CarFAX report on the spot and show the taxpayer that his vehicle clocked a TOTAL of 18,000 miles for the year.

This generally brings the client back to reality and we continue with a realistic business mileage.

CarFAX as a Tool

Audit – Useful to reconstruct Mileage Logs

Tax Prep – Reality Check

Preparing Sch C - Part IV Questions

Part IV contains questions regarding business vehicles and mileage logs.

Taxpayer has reasonable evidence to claim business mileage but **NO WRITTEN** Mileage Log. Answer Question 47b truthfully.

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 01-01-2016

44 Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:

a Business 8,311 b Commuting (see instructions) _____ c Other 6,244

45 Was your vehicle available for personal use during off-duty hours? Yes No

46 Do you (or your spouse) have another vehicle available for personal use? Yes No

47 a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

Sch C Part IV Questions

Answer Question 47b truthfully. NO Written Log.
Did I just set up the taxpayer for an AUDIT?
Maybe – Until 2017, IRS could NOT **SEE**
Page 2 of Sch C on the Tax Return Transcripts !
In recent audits, I have observed the IRS
auditor has a COMPLETE image of Page 2.

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IDR REQUEST Copies of Tax Return

Often, IDRs request a copy of the taxpayer's tax returns and the bracketing returns. This allows the auditor to "SEE" more than the IRS Tax Return Transcript Shows.

2017 is under audit:

IDR will request copies of 2016, 2017, 2018



You do NOT HAVE to give the IRS Copies of filed returns

The IRS does not have the right to request information it already has in its possession.

Returns were filed and the IRS has them.
Why would they need ANOTHER copy ?

Citation:

United States v. Powell 379 US 48 (1964)

Tax Efficiency

Enhanced depreciation rules set forth in the 2017 Tax Cuts and Jobs Acts and the availability of bonus depreciation for **USED** as well as new vehicles - some of our clients would enjoy better tax efficiency if they were to take actual expenses.

It is our job to make them aware of the pros (lower taxes) and cons (more paperwork – keeping daily mileage and expense logs, saving every fuel receipt with the date and odometer reading).

Tax Efficiency & State Conformity

Every state with an income tax has different rules on Conformity with Federal Tax Law.

Most states have adopted §179 Depreciation but many have NOT adopted Bonus Depreciation.

Be sure to evaluate the best tax treatment when looking at the total tax liability:

Federal & State: Make the Taxpayer aware so he can choose the better option.

GA Example - §179 vs. Bonus

Often Bonus depreciation will yield a lower FEDERAL Tax.

GA does NOT recognize Bonus Depreciation so the Federal Bonus Depreciation is added back to GA Taxable Income.

Best practices:

If a business asset can be depreciated using either bonus or §179, evaluate which depreciation method is better for the taxpayer.

(Better = LOWER TOTAL Federal and State Tax)

Tradeoffs:

§179:

- Business use >50% (subject to recapture)
- Cannot generate an NOL

Bonus:

- Can generate an NOL
- May yield more favorable Federal Tax Situation.

§179 vs. Bonus Example

**Sub-S purchased a Box Truck for \$71,541
(Could Depreciation using §179 or Bonus)**



Specialty Box Truck over 6,000# GVWR⁴

§179 vs. Bonus – 100% Business

§ 179 Depreciation – No GA State Adjustment

BONUS Depreciation – GA State Adjustment

MUST back out the \$71,541 Bonus Depreciation

Federal 1040 Tax is the same - §179 or Bonus

GA Tax is \$3,908 LOWER using §179

Summary

Verification of car and truck expenses is often required for Schedule C Audits.

Written Mileage Logs must be provided at audit to get the appropriate business mileage tax deduction.

Taxpayers may have to rely on third party information to reconstruct their mileage logs.

CarFAX Vehicle Records can provide appropriate substantiation of total vehicle miles.

WRITTEN Mileage Log is **REQUIRED**

Take-Away:

If taxpayer is under audit, he must produce a WRITTEN Mileage Log or he loses the benefit of the deduction.

No WRITTEN Log  **No Deduction**

Questions ? ? ?



Bill Nemeth, EA