

Maximizing Business Transportation Expense Deductions

The costs of commuting from a personal residence to places of business or employment generally are nondeductible personal expenditures. The deduction for commuting costs is disallowed regardless of the distance involved.

However, taxpayers whose residences qualify as their principal place of business can deduct transportation expenses incurred in going between their residence and other work locations in the same trade or business (including regular or temporary work locations), regardless of the distance. In the landmark Soliman case, the Supreme Court identified two factors for determining whether a home office qualifies as the taxpayer's principal place of business: (1) the relative importance of the activities performed at each business location and (2) the time spent at each place.

A taxpayer can meet other tests to qualify his or her residence for the home office deduction. But, the principal place of business test must be met for transportation costs between the residence and other work locations to be deductible.

For an employee to deduct daily transportation costs between a residence and other work locations in the same trade or business, the home office must be for the convenience of the employer in addition to being used exclusively and regularly as the principal place of business.

Whether telecommuters (i.e., employees who work from their residence much or all of the time) can deduct their local transportation costs depends on the particular facts. However, their home offices often will fail to qualify as their principal place of business for tax purposes because they do not satisfy the criteria mentioned above. Thus, if they also maintain an office at their employer's place of business, the cost of going between their residence and the employer's office is nondeductible.

Example: Management consultant with home office.

Jack is a self-employed management consultant for a variety of small businesses. He maintains a home office used regularly and exclusively to set up appointments, store client files, and develop management reports for his clients. Jack does most of his consulting work by telephone, email, or mail

from his home office. He routinely uses his personal auto to travel from his home to meet with prospective and current business customers or their representatives. His home office qualifies as his principal place of business.

Because Jack meets the principal-place-of-business/home-office criteria, his mileage traveling from his residence to see clients, to work at other regular or temporary work locations, or to perform other business duties is a deductible business expense.

Taxpayers who do not have a home office that qualifies as their principal place of business can still deduct the cost of daily transportation expenses incurred in going from their residence to temporary work locations in the following circumstances: (a) when the location is a temporary work site outside the metropolitan area where he or she lives and normally works (because there is no fixed place of business, the entire metropolitan area is deemed the workplace) or (b) a taxpayer who has one or more regular work locations away from home can deduct the cost of transportation from the home to a temporary work site in the same trade or business, regardless of the distance or whether the site is inside or outside the residential metropolitan area. Generally, a metropolitan area includes the area within the city limits and the suburbs that are considered part of that area.

Note: When a taxpayer has two or more regular work locations (whether in the same business or different businesses), the daily transportation costs of going between these work locations are deductible.
