

## CAR EXPENSES TAX DEDUCTIONS

### Update on the Deduction for Automobile Expenses

By: **Vicente J. Cajigas-Campbell, CPA**

On June 30, 2021, the Puerto Rico Treasury Department published a proposed regulation (“Proposed Regulation”) to establish the guidelines for the deduction of expenses for the use and maintenance of motor vehicles provided by Section 1033.07(a)(3)(G) of the Puerto Rico Internal Revenue Code of 2011, as amended (the “PR Tax Code”). In essence, the Proposed Regulation incorporates rules that were established by means of Administrative Determinations and there are no substantial changes in contrast with the present status. As a sequel to our Special Bulletin from February 2017, we will hereby provide an update regarding this topic.

#### Executive Summary

The Proposed Regulation maintained the current two options to claim the deduction for the use and maintenance of automobile expenses: 1) A deduction determined based on a standard mileage rate of \$0.60 per mile used in the trade or business (“Standard Mileage Rate Option”) or 2) A deduction for the actual expenses incurred (“Actual Expense Option”). Once the methodology is selected, the same shall be used for the entire taxable year. Taxpayers that use five vehicles or more in the business are only allowed to use the Actual Expense Option.

#### Standard Mileage Rate Option

There were no significant changes in the rationale to claim the deduction for the use and maintenance of automobile expenses under the Standard Mileage Rate Option. In a

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nutshell, taxpayers under this methodology will continue to compute their deduction by multiplying the number of miles that the vehicle was used in the business operations times the standard mileage rate of \$0.60. This standard mileage rate shall remain in force until the Secretary of Treasury rules otherwise.

As highlighted in previous Special Bulletins, taxpayers that opt for this methodology are required to keep a daily mileage journal to support the deduction. This daily journal must include the following:

- date;
- destination;
- purpose;
- odometer reading before and after the trip or alternate odometer reading provided by the Proposed Regulation;
- number of miles traveled for business purposes;
- number of miles traveled for personal purposes; and
- total miles traveled during the year.

The Proposed Regulation, however, limits the availability of this option to taxpayers using less than five vehicles in the business.

### **Actual Expense Option**

The Proposed Regulation incorporates the alternative to deduct the actual expenses

incurred for the use and maintenance of automobile expenses. This option was originally established for a limited period of 2012 by means of Administrative Determination 12-06 and it was then extended to following periods by virtue of subsequent determinations. In 2018, Act 257-2018 amended Section 1033.07(a)(3) (G) of the PR Tax Code to, among others, make this option permanently available for taxable years commencing after December 31, 2017.

In contrast with the current guidelines, the Proposed Regulation establishes a new documentation requirement for taxpayers under the Actual Expense Option. According to the same, taxpayers under this option shall maintain a detailed report that includes the following:

- date;
- destination;
- task realized; and
- expense receipts.

Like the Standard Mileage Rate Option, expenses attributable to personal travel shall be segregated and estimates are not allowed. The Proposed Regulation also adds definitions related to employment.

### **ATBA Comments**

The 30-day period for providing comments for the Proposed Regulation has expired and the Puerto

Rico Treasury Department has the intention to submit the same to the Puerto Rico Department of State. The agency has expressed that they have not submitted the Proposed Regulation yet because they are in the process to address certain comments from the Financial Oversight and Management Board for Puerto Rico.

We encourage you to perform a cost-benefit analysis to determine which methodology to deduct automobile expenses best suits your business and to review the documentation procedures in place to ensure compliance with the applicable guidelines. Our tax professionals are ready to assist you on this matter.

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