

STANDARD MILEAGE RATE

2009

As you are probably aware, an employer's reimbursements to employees for properly documented business expenses are not subject to payroll taxes, nor must such reimbursements be reported on the employee's tax return. This tax-free treatment applies in the case of a mileage allowance, but only if the reimbursement rate is no more than the IRS-approved standard mileage rate, and mileage records are properly maintained.

To the extent a mileage allowance exceeds the standard mileage rate, it's considered made under what the IRS refers to as a nonaccountable plan. This means that such excess is not only taxable to the employee, but also subject to income and payroll tax withholding.

In response to recent fluctuations in gas prices, the IRS lowered the standard mileage rate for business miles during 2009. The standard rate between January 1, 2008 and June 30, 2008 was 50.5¢. In addition, the standard rate between July 1, 2008 and December 31, 2008 was increased to 58.5¢, a result of increased gas prices. For 2009, the rate will decrease to 55¢ per mile. Thus, for reimbursements after December 31, 2008 (regardless of whether the mileage was incurred before or after this date), 55¢ per mile is the maximum rate at which you may reimburse employees for the use of their vehicles in your business activities without incurring a payroll tax or withholding liability related to the reimbursement.

If you choose to reimburse employees at a higher rate in 2009, the excess over 55¢ per mile is treated as additional compensation to the employee and is subject to income and payroll tax withholding.

If you have any questions about the change in the IRS-approved reimbursement rate for mileage, please feel free to contact us.

Cohen, Smith & Company

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