

Understanding Business Automobile Mileage Deductions

The IRS defines business automobile mileage as the distance driven for specific business purposes. These miles can be tax-deductible business expenses under certain conditions. Deducting business mileage can alter the qualifying income calculations of a Schedule C Sole Proprietor Self-Employed borrower.

Overview

- » Many taxpayers find using the standard mileage rate is an easier way to expense their vehicle.
- » Vehicle depreciation included in the standard mileage deduction can often be added back to the borrower's effective income.
- » Depreciation is a part of either the vehicle depreciation or business miles but it's not reported under both.
- » Taxpayers can't depreciate their vehicle if they use the standard mileage rate but they have the option to use the actual expense method, where depreciation for the vehicle must be documented using Schedule C.

Factors Affecting Allowable Depreciation

Vehicle depreciation included as part of the standard mileage deduction may be added back by multiplying the business miles driven by the depreciation factor for the applicable year, ONLY if the file documents that the depreciation on the schedule C is not from the depreciation of a vehicle by reviewing the depreciation schedule.

Impact on Loan Qualification

Taxpayers cannot depreciate the vehicle if they use the standard mileage rate. Instead of the standard mileage rate, taxpayers can use the actual expense method. When using this method, depreciation for the vehicle must be calculated using the depreciation figures below in Schedule C.

Document Requirements for Loans

The borrower should provide their personal 1040 federal tax returns including Schedule C. Remember to crosscheck company and investor guidelines to ensure everything needed for the loan file is obtained. The source of income needs to be stable with a high likelihood of continuance.

Calculating Depreciation

Depreciation Formula

To calculate depreciation with mileage taken from line 44a of Schedule C, use this formula:

Depreciation = Miles from 44a × Depreciation Rate Per Mile (see the table below)

Yearly Depreciation Rates

Refer to the yearly changing table set by the IRS for the depreciation rate per mile. Here are the rates for the past 5 years:

Year	Depreciation Rate Per Mile
2025	\$0.33
2024	\$0.30
2023	\$0.28
2022	\$0.26
2021	\$0.26

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Additional Resources

For in-depth understanding and advanced scenarios, refer to the official IRS website:

- [Internal Revenue Bulletin: 2023-3](#)
- [B3-3.3-03, Income or Loss Reported on IRS Form 1040, Schedule C](#)
- [Freddie Mac Selling Guide: 5304.1, Stable monthly income and documentation requirements for self-employed Borrowers](#)
- [Radian's Self-Employed Cash Flow Analysis Calculator](#)

Glossary

- » Schedule C: A tax form used by sole proprietors to report income or loss from a business.
- » Depreciation: The decrease in the value of a vehicle used for business purposes over a specified time.
- » Loan Qualification: The process whereby the lender evaluates if the borrower meets the requirements to receive a loan.
- » DTI Calculation: Debt-to-Income ratio, a personal finance measure wherein an individual's debt payment is compared to total income.
- » GSEs: Government-Sponsored Enterprises like Fannie Mae and Freddie Mac.
- » Sole Proprietor: A self-employed individual who owns and operates a business by themselves.

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