

for transportation expenses paid or incurred before that date. The 32.5 cents-per-mile rate also continues to apply for purposes of computing the amount allowable as a deduction for business-related transportation expenses paid or incurred before April 1, 1999. All other provisions of Rev. Proc. 98-63 will be effective January 1, 1999.

BACKGROUND

Rev. Proc 98-63 supersedes Rev. Proc. 97-58 and, as published, lowers the rate to 31 cents per mile (from 32.5 cents per mile) for mileage allowances paid to an employee on or after January 1, 1999, with respect to transportation expenses paid or incurred on or after January 1, 1999, and, for purposes of computing the amount allowable as a deduction, for transportation expenses paid or incurred on or after January 1, 1999. The reduction in the rate was based on an annual study of the fixed and variable costs of operating an automobile conducted on behalf of the Service by an independent contractor. It has come to the attention of the Service that many employers and employees will require additional time to implement this new, lower rate. Without additional time, employers who normally reimburse business transportation expenses of employees at the standard rate, and who are unable to implement the lower rate by January 1, 1999, will need to treat the excess over 31 cents per mile as wages to the employee for federal employment tax purposes. Further, employees would be required to include such excess in gross income.

MODIFICATION OF REV. PROC. 98-63

Rev. Proc. 98-63 is modified as follows:

(1) The first sentence of Section 1 of Rev. Proc. 98-63 is modified to read:

This revenue procedure updates Rev. Proc. 97-58, 1997-2 C.B. 587, by providing optional standard mileage rates for employees, self-employed individuals, or other taxpayers to use in computing the deductible costs of operating an automobile for business, charitable, medical, or moving expense purposes.

(2) Section 11 of Rev. Proc. 98-63 is modified to read:

Except as otherwise provided in this section, Rev. Proc. 97-58, 1997-2 C.B. 587, is hereby superseded for mileage allowances paid to an employee on or after January 1, 1999, with respect to transportation expenses paid or incurred on or after January 1, 1999, and, for purposes of computing the amount allowable as a deduction, for transportation expenses paid or incurred on or after January 1, 1999. Sections 2.01(1) and 5.01 of this revenue procedure are effective for mileage allowances paid to an employee on or after April 1, 1999, with respect to transportation expenses paid or incurred on or after April 1, 1999, and, for purposes of computing the amount allowable as a deduction, for business-related transportation expenses paid or incurred on or after April 1, 1999.

DRAFTING INFORMATION

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Optional Standard Mileage Rates for Employees, Self-Employed Individuals, and Other Taxpayers Used in Computing Deductible Costs

Announcement 99-7

This announcement informs taxpayers that the Internal Revenue Service is postponing until April 1, 1999, the effective date of the 31 cents-per-mile rate established in Rev. Proc. 98-63, 1998-52 I.R.B. 25 (Dec. 28, 1998). The Service has decided to make this change because it understands that many employers and employees will require additional time to implement the new rate. Accordingly, the business standard mileage rate of 32.5 cents per mile set forth in Rev. Proc. 97-58, 1997-2 C.B. 587, continues to apply with respect to mileage allowances paid to an employee before April 1, 1999,