Small Businesses and Landlords Reminded After Tax Court Enforces "Strict" Mileage Rules

Recent Tax Court decision disallows vehicle and travel deductions under IRC §274(d), reminding small businesses and landlords of strict substantiation rules

Proper Mileage Log and Recordkeeping

COLORADO SPRINGS, CO, UNITED STATES, November 6, 2025 /EINPresswire.com/ -- U.S. Tax Court case, Safdar S. Khan & Maryam Tahir v. Commissioner (T.C. Summary Op. 2025-5) from February, 2025 has once again reminded taxpayers that "strict" really does mean strict. Under Sections 274(d) and 6001, the Court disallowed every vehicle and travel deduction for lack of adequate records — no mileage log, no receipts, no deduction was the resounding ruling.

The opinion was blunt:

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> *Jason Watson, CPA, CEO and Partner, WCG CPAs & Advisors*

"Petitioners did not maintain adequate books or records that support the claimed expenses under section 274(d)."

And when the taxpayers asked the Court to estimate their expenses under the long-standing Cohan v. Commissioner rule, the Court refused.

"Because petitioners failed to satisfy the substantiation requirements of section 274(d) and the rules of section 6001, we cannot apply the Cohan rule to estimate the business use of the automobile or the travel expenses."

"This is the Tax Court reminding everyone that poor recordkeeping can cost you thousands," said Jason Watson, CPA, CEO and Partner for WCG CPAs & Advisors. "Mileage, travel, meals — these are hot-button audit areas. If you can't show who, what, where, and why, you will lose every IRS challenge. The Khan case just hammered that point home.”

Watson added that the decision has broad implications beyond small businesses. “Landlords are often guilty of the same habits,” he said. “They drive to properties, meet contractors, and think ‘it’s all business,’ but without logs or receipts tied to a rental activity, the IRS defaults to personal or commuting mileage. Section 274(d) applies to them, too.”

The Khan ruling also underscored the need for independent corroboration. IRS examiners routinely verify mileage through repair invoices, oil-change records, or inspection slips that show odometer readings. “Even a perfect mileage app is incomplete if it doesn’t reconcile to something from a disinterested third-party,” Watson said.

Rachael Weber, CPA, Partner at WCG, noted that today’s technology leaves little excuse for missing documentation. “The irony is that it’s easier than ever to comply,” she said. “There are apps that track every trip automatically. But many taxpayers still wait until April to guess how many miles they drove. Theis ruling reminds us all.”

The IRS does permit taxpayers to annualize mileage using a “representative period” log, but only if that period truly reflects year-round driving patterns and is backed by detailed, contemporaneous records. “You can’t just multiply three good months by four,” Jason Watson cautioned. “The sample has to be credible and typical — otherwise, you’re still out of luck.”

For S corporation owners, WCG advises adopting an Accountable Plan — a formal reimbursement policy that keeps mileage and travel deductions on the business return rather than the personal 1040 tax return. “At 70 cents per mile for 2025, the math adds up quickly,” Watson said. “An Accountable Plan keeps the paperwork clean and lowers your risk."

The bottom line? Khan reinforces proper recordkeeping is a must for small business owners and real estate investors.

About WCG CPAs & Advisors
WCG CPAs & Advisors is a full-service tax and accounting firm based in Colorado Springs, Colorado. Serving clients nationwide with over 90 tax professionals, WCG specializes in small-business owners, real-estate investors and rental-property owners. Learn more at https://wcginc.com

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