

Publication 463

Travel, Gift, and Car Expenses

For use in preparing

2023 Returns

Volume 3 of 4



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How to use the 2023 chart. To figure your depreciation deduction for 2023, find the percentage in the column of Table 4-1 based on the date that you first placed the car in service and the depreciation method that you are using. Multiply the unadjusted basis of your car (defined earlier) by that percentage to determine the amount of your depreciation deduction. If you prefer to figure your depreciation deduction without the help of the chart, see Pub. 946.



Your deduction can't be more than the maximum depreciation limit for cars. See Depreciation Limits, later.

Example. You bought a used truck in February 2022 to use exclusively in your landscape business. You paid \$9,200 for the truck with no trade-in. You didn't claim any section 179 deduction, the truck didn't qualify for the special depreciation allowance, and you chose to use the 200% DB method to get

the largest depreciation deduction in the early years.

You used the MACRS Depreciation Chart in 2022 to find your percentage. The unadjusted basis of the truck equals its cost because you used it exclusively for business. You multiplied the unadjusted basis of the truck, \$9,200, by the percentage that applied, 20%, to figure your 2022 depreciation deduction of \$1,840.

In 2023, you used the truck for personal purposes when you repaired your parent's cabin. Your records show that the business use of the truck was 90% in 2023. You used Table 4-1 to find your percentage. Reading down the first column for the date placed in service and across to the 200% DB column, you locate your percentage, 32%. You multiply the unadjusted basis of the truck, \$8,280 (\$9,200 cost \times 90% (0.90) business use), by 32% (0.32) to figure your 2023 depreciation deduction of \$2,650.

Depreciation Limits

There are limits on the amount you can deduct for depreciation of your car, truck, or van. The section 179 deduction and special depreciation allowance are treated as depreciation for purposes of the limits. The maximum amount you can deduct each year depends on the date you acquired the passenger automobile and the year you place the passenger automobile in service. These limits are shown in the following tables for 2023.

**Maximum
Depreciation Deduction for Passenger
Automobiles
(Including Trucks and Vans)
Acquired Before September 28, 2017,
and
Placed in Service During 2018–2023**

| Date Placed in Service | 1 st Year | 2 nd Year | 3 rd Year | 4th & Later Years |
|---------------------------------|----------------------|----------------------|----------------------|-------------------------|
| 2023 | \$12,200 | \$19,500 | \$11,700 | \$6,960 |
| 2022 | 11,200 | 18,000 | 10,800 | 6,460 |
| 2021 | 10,200 | 16,400 | 9,800 | 5,860 |
| 2020 | 10,100 | 16,100 | 9,700 | 5,760 |
| 2019 | 14,900 ¹ | 16,100 | 9,700 | 5,760 |

| | | | | | |
|------|--------|---|--------|-------|-------|
| 2018 | 16,400 | 2 | 16,000 | 9,600 | 5,760 |
|------|--------|---|--------|-------|-------|

1 \$10,100 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

2 \$10,000 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

**Maximum
Depreciation Deduction
for Passenger Automobiles
(Including Trucks and Vans)
Acquired After September 27, 2017,
and
Placed in Service During 2018 or Later**

| Date Placed in Service | 1 st Year | 2 nd Year | 3 rd Year | 4th & Later Years |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2023 | \$20,200 ¹ | \$19,500 | \$11,700 | \$6,960 |
| 2022 | 19,200 ² | 18,000 | 10,800 | 6,460 |
| 2021 | 18,200 ³ | 16,400 | 9,800 | 5,860 |
| 2019– 2020 | 18,100 ⁴ | 16,100 | 9,700 | 5,760 |
| 2018 | 18,000 ⁵ | 16,000 | 9,600 | 5,760 |

1 \$12,200 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

2 \$11,200 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

3 \$10,200 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

4 \$10,100 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

5 \$10,000 if the passenger automobile isn't qualified property or if you elect not to claim the special depreciation allowance.

The maximum amount you can deduct each year depends on the year you place the car in

service. These limits are shown in the following tables for prior years.

**Maximum
Depreciation Deduction
for Cars Placed in Service
Prior to 2018**

| Date Placed in Service | 1 st Year | 2 nd Year | 3 rd Year | 4 th & Later Years |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------------------|
| 2012–2017 | \$11,160 ¹ | \$5,100 | \$3,050 | \$1,875 |
| 2010–2011 | 11,060 ² | 4,900 | 2,950 | 1,775 |
| 2008–2009 | 10,960 ³ | 4,800 | 2,850 | 1,775 |
| 2007 | 3,060 | 4,900 | 2,850 | 1,775 |
| 2006 | 2,960 | 4,800 | 2,850 | 1,775 |
| 2005 | 2,960 | 4,700 | 2,850 | 1,675 |

| | | | | |
|--------------------------|---------------------|-------|-------|-------|
| 2004 | 10,610 ³ | 4,800 | 2,850 | 1,675 |
| 5/06/2003– 12/31/2003 | 10,710 ⁴ | 4,900 | 2,950 | 1,775 |
| 1/01/2003– 5/05/2003 | 7,660 ⁵ | 4,900 | 2,950 | 1,775 |

1. \$3,160 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.
2. \$3,060 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.
3. \$2,960 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.
4. \$7,660 if you acquired the car before 5/06/2003. \$3,060 if the car isn't qualified property or if you elect not to

claim any special depreciation allowance.

5. \$3,060 if you acquired the car before 9/11/2001, the car isn't qualified property, or you elect not to claim the special depreciation allowance.

Trucks and vans. For tax years prior to 2018, the maximum depreciation deductions for trucks and vans are generally higher than those for cars. A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van and rated at 6,000 pounds gross vehicle weight or less.

**Maximum
Depreciation Deduction
for Trucks and Vans
Placed in Service
Prior to 2018**

**Maximum Depreciation Deduction for
Trucks and Vans Placed in Service Prior
to 2018**

| Date Placed in Service | 1 st Year | 2 nd Year | 3 rd Year | 4th & Later Years |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2017 | \$11,5601 | \$5,700 | \$3,450 | \$2,075 |
| 2016 | 11,5601 | 5,700 | 3,350 | 2,075 |
| 2015 | 11,4601 | 5,600 | 3,350 | 1,975 |
| 2014 | 11,4601 | 5,500 | 3,350 | 1,975 |
| 2013 | 11,3601 | 5,400 | 3,250 | 1,975 |

| | | | | |
|---------------|---------------------|-------|-------|-------|
| 2012 | 11,360 ¹ | 5,300 | 3,150 | 1,875 |
| 2011 | 11,260 ¹ | 5,200 | 3,150 | 1,875 |
| 2010 | 11,160 ¹ | 5,100 | 3,050 | 1,875 |
| 2009 | 11,060 ¹ | 4,900 | 2,950 | 1,775 |
| 2008 | 11,160 ¹ | 5,100 | 3,050 | 1,875 |
| 2007 | 3,260 | 5,200 | 3,050 | 1,875 |
| 2005– 2006 | 3,260 | 5,200 | 3,150 | 1,875 |
| 2004 | 10,910 ¹ | 5,300 | 3,150 | 1,875 |
| 2003 | 11,010 ¹ | 5,400 | 3,250 | 1,975 |

2

1 If the special depreciation allowance doesn't apply or you make the election not to claim the special depreciation allowance, the first-year limit is \$3,560 for 2017 and

2016, \$3,460 for 2015 and 2014, \$3,360 for 2013 and 2012, \$3,260 for 2011, \$3,160 for 2010, \$3,060 for 2009, \$3,160 for 2008, \$3,260 for 2004, and \$3,360 for 2003.

2 If the truck or van was acquired before 5/06/2003, the truck or van is qualified property, and you claim the special depreciation allowance for the truck or van, the maximum deduction is \$7,960.

Car used less than full year. The depreciation limits aren't reduced if you use a car for less than a full year. This means that you don't reduce the limit when you either place a car in service or dispose of a car during the year. However, the depreciation limits are reduced if you don't use the car exclusively for business and investment purposes. See *Reduction for personal use* next.

Reduction for personal use. The depreciation limits are reduced based on your percentage of personal use. If you use a car less than 100% in your business or work, you must determine the depreciation deduction limit by multiplying the limit amount by the percentage of business and investment use during the tax year.

Section 179 deduction. The section 179 deduction is treated as a depreciation deduction. If you acquired a passenger automobile (including trucks and vans) after September 27, 2017, and placed it in service in 2023, use it only for business, and choose the section 179 deduction, the special depreciation allowance and depreciation deduction for that vehicle for 2023 is limited to \$20,200.

Example. On September 4, 2023, you bought and placed in service a used car for \$15,000. You used it 80% for your business, and you choose to take a section 179

deduction for the car. The car isn't qualified property for purposes of the special depreciation allowance.

Before applying the limit, you figure your maximum section 179 deduction to be \$12,000. This is the cost of your qualifying property (up to the maximum \$1,160,000 amount) multiplied by your business use ($\$15,000 \times 80\% (0.80)$).

You then figure that your section 179 deduction for 2023 is limited to \$9,760 (80% of \$12,200). You then figure your unadjusted basis of \$2,440 ($(\$15,000 \times 80\% (0.80)) - \$9,760$) for determining your depreciation deduction. You have reached your maximum depreciation deduction for 2023. For 2024, you will use your unadjusted basis of \$2,440 to figure your depreciation deduction.

Deductions in years after the recovery period. If the depreciation deductions for your car are reduced under the passenger automobile limits (discussed earlier), you will

have unrecovered basis in your car at the end of the recovery period. If you continue to use your car for business, you can deduct that unrecovered basis (subject to depreciation limits) after the recovery period ends.

Unrecovered basis. This is your cost or other basis in the car reduced by any clean-fuel vehicle deduction (for vehicles placed in service before January 1, 2006), alternative motor vehicle credit, electric vehicle credit, gas guzzler tax, and depreciation (including any special depreciation allowance, discussed earlier, unless you elect not to claim it) and section 179 deductions that would have been allowable if you had used the car 100% for business and investment use.

The recovery period. For 5-year property, your recovery period is 6 calendar years. A part year's depreciation is allowed in the first calendar year, a full year's depreciation is allowed in each of the next 4 calendar years,

and a part year's depreciation is allowed in the 6th calendar year.

Under MACRS, your recovery period is the same whether you use declining balance or straight line depreciation. You determine your unrecovered basis in the 7th year after you placed the car in service.

How to treat unrecovered basis. If you continue to use your car for business after the recovery period, you can claim a depreciation deduction in each succeeding tax year until you recover your basis in the car. The maximum amount you can deduct each year is determined by the date you placed the car in service and your business-use percentage. For example, no deduction is allowed for a year you use your car 100% for personal purposes.

Example. In April 2017, you bought and placed in service a car you used exclusively in your business. The car cost \$31,500. You didn't claim a section 179 deduction or the

special depreciation allowance for the car. You continued to use the car 100% in your business throughout the recovery period (2017 through 2022). For those years, you used the MACRS Depreciation Chart (200% DB method), the Maximum Depreciation Deduction for Cars Placed in Service Prior to 2018 table and Maximum Depreciation Deduction for Passenger Automobiles (Including Trucks and Vans) Acquired Before September 28, 2017, and Placed in Service During 2018–2023 table, earlier, for the applicable tax year to figure your depreciation deductions during the recovery period. Your depreciation deductions were subject to the depreciation limits, so you will have unrecovered basis at the end of the recovery period as shown in the following table.

MACRS

| Year | % | Amount | Limit | Deprec. Allowed |
|--------------|-------|------------------------|---------|------------------------|
| 2017 | 20.00 | \$6,300 | \$3,160 | \$3,160 |
| 2018 | 32.00 | 10,080 | 5,100 | 5,100 |
| 2019 | 19.20 | 6,048 | 3,050 | 3,050 |
| 2020 | 11.52 | 3,629 | 1,875 | 1,875 |
| 2021 | 11.52 | 3,629 | 1,875 | 1,875 |
| 2022 | 5.76 | <u>1,814</u> | 1,875 | <u>1,814</u> |
| Total | | <u>\$31,500</u> | | <u>\$16,874</u> |

For the correct limit, see the Maximum Depreciation Deduction for Cars Placed in Service Prior to 2018 table and the Maximum Depreciation Deduction for Passenger Automobiles (Including Trucks and Vans)

Acquired Before September 28, 2017, and Placed in Service During 2018– 2023 table under *Depreciation Limits*, earlier, for the maximum amount of depreciation allowed each year.

At the end of 2022, you had an unrecovered basis in the car of \$14,626 (\$31,500 – \$16,874). If you continued to use the car 100% for business in 2023 and later years, you can claim a depreciation deduction equal to the lesser of \$1,875 or your remaining unrecovered basis.

If your business use of the car was less than 100% during any year, your depreciation deduction would be less than the maximum amount allowable for that year. However, in determining your unrecovered basis in the car, you would still reduce your original basis by the maximum amount allowable as if the business use had been 100%. For example, if you had used your car 60% for business instead of 100%, your allowable depreciation

deductions would have been \$10,124 ($\$16,874 \times 60\% (0.60)$), but you still would have to reduce your basis by \$16,874 to determine your unrecovered basis.

Car Used 50% or Less for Business

If you use your car 50% or less for qualified business use (defined earlier under *Depreciation Deduction*) either in the year the car is placed in service or in a later year, special rules apply. The rules that apply in these two situations are explained in the following paragraphs. (For this purpose, “car” was defined earlier under *Actual Car Expenses* and includes certain trucks and vans.)

- **Qualified business use 50% or less in year placed in service.** If you use your car 50% or less for qualified business use, the following rules apply.
- You can’t take the section 179 deduction.
- You can’t take the special depreciation allowance.

- You must figure depreciation using the straight line method over a 5-year recovery period. You must continue to use the straight line method even if your percentage of business use increases to more than 50% in a later year.

Instead of making the computation yourself, you can use column (c) of Table 4-1 to find the percentage to use.

Example. In May 2023, you bought and placed in service a car for \$17,500. You used it 40% for your consulting business. Because you didn't use the car more than 50% for business, you can't take any section 179 deduction or special depreciation allowance, and you must use the straight line method over a 5-year recovery period to recover the cost of your car.

You deduct \$700 in 2023. This is the lesser of:

1. \$700 ($(\$17,500 \text{ cost} \times 40\% (0.40) \text{ business use}) \times 10\% (0.10) \text{ recovery percentage (from column (c) of Table 4-1)}$), or
2. \$4,880 ($\$12,200 \text{ maximum limit} \times 40\% (0.40) \text{ business use}$).

Qualified business use 50% or less in a later year. If you use your car more than 50% in qualified business use in the tax year it is placed in service but the business use drops to 50% or less in a later year, you can no longer use an accelerated depreciation method for that car.

For the year the business use drops to 50% or less and all later years in the recovery period, you must use the straight line depreciation method over a 5-year recovery period. In addition, for the year your business use drops to 50% or less, you must recapture

(include in your gross income) any excess depreciation (discussed later). You also increase the adjusted basis of your car by the same amount.

Example. In June 2020, you purchased a car for exclusive use in your business. You met the more-than-50%-use test for the first 3 years of the recovery period (2020 through 2022) but failed to meet it in the fourth year (2023). You determine your depreciation for 2023 using 20% (from column (c) of Table 4-1). You will also have to determine and include in your gross income any excess depreciation, discussed next.


Table 4-1. 2023 MACRS Depreciation Chart (Use To Figure Depreciation for 2023)

If you claim actual expenses for your car, use the chart below to find the depreciation method and percentage to use for your 2023 return for cars placed in service in 2023.

For cars placed in service before 2023, you must use the same method you used on last year's return unless a decline in your business use requires you to change to the straight line method. Refer back to the MACRS Depreciation Chart for the year you placed the car in service. (See [Car Used 50% or Less for Business](#), earlier.)

First, using the left column, find the date you first placed the car in service in 2023. Then select the depreciation method and percentage from column (a), (b), or (c) following the rules explained in this chapter.

Multiply the unadjusted basis of your car by your business-use percentage. Multiply the result by the percentage you found in the chart to find the amount of your depreciation deduction for 2023. (Also see [Depreciation Limits](#), earlier.)



If you placed your car in service after September of any year and you placed other business property in service during the same year, you may have to use the Jan. 1–Sept. 30 percentage instead of the Oct. 1–Dec. 31 percentage for your car. To find out if this applies to you, determine: 1) the basis of all business property (including other cars) you placed in service after September of that year, and 2) the basis of all business property you placed in service during that entire year. If the basis of the property placed in service after September isn't more than 40% of the basis of all property (certain property is excluded) placed in service for the entire year, use the percentage for Jan. 1–Sept. 30 for figuring depreciation for your car. See Which Convention Applies? in chapter 4 of Pub. 946 for more details.

Example. You buy machinery (basis of \$32,000) in May 2023 and a new van (basis of \$20,000) in October 2023, both used 100% in your business. You use the percentage for Jan. 1–Sept. 30, 2023, to figure the depreciation for your van. This is because the \$20,000 basis of the property (van) placed in service after September isn't more than 40% of the basis of all property placed in service during the year (40% (0.40) × (\$32,000 + 20,000) = \$20,800).

| | (a) | (b) | (c) |
|----------------------------|---|---|--------------------|
| Date Placed in Service | 200% Declining Balance (200% DB) ¹ | 150% Declining Balance (150% DB) ¹ | Straight Line (SL) |
| Oct. 1–Dec. 31, 2023 | 200 DB 5.0% | 150 DB 3.75% | SL 2.5% |
| Jan. 1–Sept. 30, 2023 | 200 DB 20.0 | 150 DB 15.0 | SL 10.0 |
| Oct. 1–Dec. 31, 2022 | 200 DB 38.0 | 150 DB 28.88 | SL 20.0 |
| Jan. 1–Sept. 30, 2022 | 200 DB 32.0 | 150 DB 25.5 | SL 20.0 |
| Oct. 1–Dec. 31, 2021 | 200 DB 22.8 | 150 DB 20.21 | SL 20.0 |
| Jan. 1–Sept. 30, 2021 | 200 DB 19.2 | 150 DB 17.85 | SL 20.0 |
| Oct. 1–Dec. 31, 2020 | 200 DB 13.68 | 150 DB 16.4 | SL 20.0 |
| Jan. 1–Sept. 30, 2020 | 200 DB 11.52 | 150 DB 16.66 | SL 20.0 |
| Oct. 1–Dec. 31, 2019 | 200 DB 10.94 | 150 DB 16.41 | SL 20.0 |
| Jan. 1–Sept. 30, 2019 | 200 DB 11.52 | 150 DB 16.66 | SL 20.0 |
| Oct. 1–Dec. 31, 2018 | 200 DB 9.58 | 150 DB 14.35 | SL 17.5 |
| Jan. 1–Sept. 30, 2018 | 200 DB 5.76 | 150 DB 8.33 | SL 10.0 |
| Prior to 2018 ² | | | |

¹ You can use this column only if the business use of your car is more than 50%.

² If your car was subject to the maximum limits for depreciation and you have unrecovered basis in the car, you can continue to claim depreciation. See [Deductions in years after the recovery period](#) under *Depreciation Limits*, earlier.

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Excess depreciation. You must include any excess depreciation in your gross income and add it to your car's adjusted basis for the first tax year in which you don't use the car more than 50% in qualified business use. Use Form 4797, Sales of Business Property, to figure and report the excess depreciation in your gross income. Excess depreciation is:

1. The amount of the depreciation deductions allowable for the car (including any section 179 deduction claimed and any special depreciation allowance claimed) for tax years in which you used the car more than 50% in qualified business use, minus
2. The amount of the depreciation deductions that would have been allowable for those years if you hadn't used the car more than 50% in qualified business use for the year you placed it in service. This means the

amount of depreciation figured using the straight line method.

Example. In September 2019, you bought a car for \$20,500 and placed it in service. You didn't claim the section 179 deduction or the special depreciation allowance. You used the car exclusively in qualified business use for 2019, 2020, 2021, and 2022. For those years, you used the appropriate MACRS Depreciation Chart to figure depreciation deductions totaling \$13,185 (\$3,160 for 2019, \$5,100 for 2020, \$3,050 for 2021, and \$1,875 for 2022) under the 200% DB method.

During 2023, you used the car 30% for business and 70% for personal purposes. Since you didn't meet the more-than-50%-use test, you must switch from the 200% DB depreciation method to the straight line depreciation method for 2023, and include in gross income for 2023 your excess depreciation determined as follows.

Total depreciation claimed:

(MACRS 200% DB method) \$13,185

Minus total depreciation
allowable: (Straight line
method)

2019—10% of \$20,500 . . .
(Limit: \$3,160) \$2,050

2020—20% of \$20,500 . . .
(Limit: \$5,100) 4,100

2021—20% of \$20,500 . . .
(Limit: \$3,050) 3,050

2022—20% of \$20,500 . . .
(Limit: \$1,875) 1,875 -11,075

Excess depreciation \$2,110

For the correct limit, see the Maximum
Depreciation Deduction for Cars Placed in

Service Prior to 2018 table and the Maximum Depreciation Deduction for Passenger Automobiles (Including Trucks and Vans) Acquired Before September 28, 2017, and Placed in Service During 2018-2023 table under *Depreciation Limits*, earlier, for the maximum amount of depreciation allowed each year.

In 2023, using Form 4797, you figure and report the \$2,110 excess depreciation you must include in your gross income. Your adjusted basis in the car is also increased by \$2,110. Your 2023 depreciation is \$1,230 ($\$20,500$ (unadjusted basis) \times 30% (0.30) (business-use percentage) \times 20% (0.20) (from column (c) of Table 4-1 on the line for Jan. 1–Sept. 30, 2019)). However, your depreciation deduction is limited to \$563 ($\$1,875 \times 30\%$ (0.30) business use).

Leasing a Car

If you lease a car, truck, or van that you use in your business, you can use the standard mileage rate or actual expenses to figure your deductible expense. This section explains how to figure actual expenses for a leased car, truck, or van.

Deductible payments. If you choose to use actual expenses, you can deduct the part of each lease payment that is for the use of the vehicle in your business. You can't deduct any part of a lease payment that is for personal use of the vehicle, such as commuting.

You must spread any advance payments over the entire lease period. You can't deduct any payments you make to buy a car, truck, or van even if the payments are called "lease payments."

If you lease a car, truck, or van for 30 days or more, you may have to reduce your lease

payment deduction by an “inclusion amount,” explained next.

Inclusion Amounts

If you lease a car, truck, or van that you use in your business for a lease term of 30 days or more, you may have to include an inclusion amount in your income for each tax year you lease the vehicle. To do this, you don't add an amount to income. Instead, you reduce your deduction for your lease payment. (This reduction has an effect similar to the limit on the depreciation deduction you would have on the vehicle if you owned it.)

The inclusion amount is a percentage of part of the fair market value of the leased vehicle multiplied by the percentage of business and investment use of the vehicle for the tax year. It is prorated for the number of days of the lease term in the tax year.

The inclusion amount applies to each tax year that you lease the vehicle if the fair market value (defined next) when the lease began was more than the amounts shown in the following tables.

All vehicles are subject to a single inclusion amount threshold for passenger automobiles leased and put into service in 2023. You may have an inclusion amount for a passenger automobile if:

**Passenger Automobiles
(Including Trucks and Vans)**

| Year Lease Began | Fair Market Value |
|-------------------------|--------------------------|
| 2023 | \$60,000 |
| 2022 | 56,000 |
| 2021 | 51,000 |
| 2018*–2020 | 50,000 |

*If the lease term began before 2018, see tables below to find out if you have an inclusion amount.

For years prior to 2018, see the inclusion tables below. You may have an inclusion amount for a passenger automobile if:

**Cars
(Except for Trucks and Vans)**

| Year Lease Began | Fair Market Value |
|-------------------------|--------------------------|
| 2013–2017 | \$19,000 |
| 2010–2012 | 18,500 |

Trucks and Vans

| Year Lease Began | Fair Market Value |
|-------------------------|--------------------------|
| 2014–2017 | \$19,500 |
| 2010–2013 | 19,000 |

Fair market value. Fair market value is the price at which the property would change hands between a willing buyer and seller, neither having to buy or sell, and both having reasonable knowledge of all the necessary facts. Sales of similar property around the same date may be helpful in figuring the fair market value of the property.

Figure the fair market value on the first day of the lease term. If the capitalized cost of a car is specified in the lease agreement, use that amount as the fair market value.

Figuring the inclusion amount. Inclusion amounts for tax years 2018–2023 are listed in Appendices A-1 through A-6 for passenger vehicles (including trucks and vans). If the fair market value of the vehicle is \$100,000 or less, use the appropriate appendix (depending on the year you first placed the vehicle in service) to determine the inclusion amount. If the fair market value is more than \$100,000, see the revenue procedure(s)

identified in the footnote of that year's appendix for the inclusion amount.

For each tax year during which you lease the car for business, determine your inclusion amount by following these three steps.

1. Locate the appendix that applies to you. To find the inclusion amount, do the following.
 - a. Find the line that includes the fair market value of the car on the first day of the lease term.
 - b. Go across the line to the column for the tax year in which the car is used under the lease to find the dollar amount. For the last tax year of the lease, use the dollar amount for the preceding year.
2. Prorate the dollar amount from (1b) for the number of days of the lease term included in the tax year.

3. Multiply the prorated amount from (2) by the percentage of business and investment use for the tax year. This is your inclusion amount.

Example. On January 17, 2023, you leased a car for 3 years and placed it in service for use in your business. The car had a fair market value of \$62,500 on the first day of the lease term. You use the car 75% for business and 25% for personal purposes during each year of the lease. Assuming you continue to use the car 75% for business, you use Appendix A-6 to arrive at the following inclusion amounts for each year of the lease. For the last tax year of the lease, 2026, you use the amount for the preceding year.

| Tax year | Dollar amount | Proration | Business use | Inclusion amount |
|----------|---------------|-----------|--------------|------------------|
| 2023 | \$13 | 348/365 | 75% | \$9 |
| 2024 | 29 | 366/366 | 75% | 22 |

| | | | | |
|------|----|---------|-----|----|
| 2025 | 43 | 365/365 | 75% | 32 |
| 2026 | 43 | 16/365 | 75% | 1 |

Note. 2024 is a leap year and includes an extra calendar day, February 29, 2024.

For each year of the lease that you deduct lease payments, you must reduce your deduction by the inclusion amount figured for that year.

Leased car changed from business to personal use. If you lease a car for business use and, in a later year, change it to personal use, follow the rules explained earlier under *Figuring the inclusion amount*. For the tax year in which you stop using the car for business, use the dollar amount for the previous tax year. Prorate the dollar amount for the number of days in the lease term that fall within the tax year.

Example. On August 16, 2022, you leased a car with a fair market value of \$64,500 for 3

years. You used the car exclusively in your data processing business. On November 6, 2023, you closed your business and went to work for a company where you aren't required to use a car for business. Using Appendix A-5, you figured your inclusion amount for 2022 and 2023 as shown in the following table and reduced your deductions for lease payments by those amounts.

| Tax year | Dollar amount | Proration | Business use | Inclusion amount |
|----------|---------------|-----------|--------------|------------------|
| 2022 | \$11 | 137/365 | 100% | \$4 |
| 2023 | 11 | 309/365 | 100% | 9 |

Leased car changed from personal to business use. If you lease a car for personal use and, in a later year, change it to business use, you must determine the car's fair market value on the date of conversion. Then figure the inclusion amount using the rules explained earlier under Figuring the inclusion

amount. Use the fair market value on the date of conversion.

Example. In March 2021, you leased a truck for 4 years for personal use. On June 1, 2023, you started working as a self-employed advertising consultant and started using the leased truck for business purposes. Your records show that your business use for June 1 through December 31 was 60%. To figure your inclusion amount for 2023, you obtained an appraisal from an independent car leasing company that showed the fair market value of your 2021 truck on June 1, 2023, was \$62,650. Using Appendix A-6, you figured your inclusion amount for 2023 as shown in the following table.

| Tax year | Dollar amount | Proration | Business use | Inclusion amount |
|----------|---------------|-----------|--------------|------------------|
| 2023 | \$13 | 214/365 | 60% | \$5 |

Reporting inclusion amounts. For information on reporting inclusion amounts, employees should see *Car rentals* under *Completing Forms 2106* in chapter 6. Sole proprietors should see the Instructions for Schedule C (Form 1040), and farmers should see the Instructions for Schedule F (Form 1040).

Disposition of a Car

If you dispose of your car, you may have a taxable gain or a deductible loss. The portion of any gain that is due to depreciation (including any section 179 deduction, clean-fuel vehicle deduction (for vehicles placed in service before January 1, 2006), and special depreciation allowance) that you claimed on the car will be treated as ordinary income. However, you may not have to recognize a gain or loss if you dispose of the car because of a casualty or theft.

This section gives some general information about dispositions of cars. For information on how to report the disposition of your car, see Pub. 544.

Note. Like-kind exchanges completed after December 31, 2017, are generally limited to exchanges of real property not held primarily for sale.

Casualty or theft. For a casualty or theft, a gain results when you receive insurance or other reimbursement that

is more than your adjusted basis in your car. If you then spend all of the proceeds to acquire replacement property (a new car or repairs to the old car) within a specified period of time, you don't recognize any gain. Your basis in the replacement property is its cost minus any gain that isn't recognized. See Pub. 547 for more information.

Trade-in. When you trade in an old car for a new one, the transaction is considered a like-

kind exchange. Generally, no gain or loss is recognized. (For exceptions, see chapter 1 of Pub. 544.) In a trade-in situation, your basis in the new property is generally your adjusted basis in the old property plus any additional amount you pay. (See Unadjusted basis, earlier.)

Depreciation adjustment when you used the standard mileage rate. If you used the standard mileage rate for the business use of your car, depreciation was included in that rate. The rate of depreciation that was allowed in the standard mileage rate is shown in the Rate of Depreciation Allowed in Standard Mileage Rate table, later. You must reduce your basis in your car (but not below zero) by the amount of this depreciation.

If your basis is reduced to zero (but not below zero) through the use of the standard mileage rate, and you continue to use your car for business, no adjustment (reduction) to the standard mileage rate is necessary. Use the

full standard mileage rate (65.5 cents (\$0.655) per mile from January 1–December 31 for 2023) for business miles driven.



These rates don't apply for any year in which the actual expenses method was used.

Rate of Depreciation Allowed in Standard Mileage Rate

| Year(s) | Depreciation Rate per Mile |
|----------------|---------------------------------------|
| 2023 | 0.28 |
| 2021–2022 | 0.26 |
| 2020 | 0.27 |
| 2019 | 0.26 |
| 2017–2018 | 0.25 |

| | |
|-----------|------|
| 2015–2016 | 0.24 |
| 2014 | 0.22 |
| 2012–2013 | 0.23 |
| 2011 | 0.22 |
| 2010 | 0.23 |
| 2008–2009 | 0.21 |
| 2007 | 0.19 |
| 2005–2006 | 0.17 |
| 2003–2004 | 0.16 |
| 2001–2002 | 0.15 |
| 2000 | 0.14 |

Example. In 2018, you bought and placed in service a car for exclusive use in your business. The car cost \$25,500. From 2018 through 2023, you used the standard mileage rate to figure your car expense deduction. You drove your car 14,100 miles in 2018, 16,300 miles in 2019, 15,600 miles in 2020, 16,700 miles in 2021, 15,100 miles in 2022, and 14,900 miles in 2023. The depreciation portion of your car expense deduction is figured as follows.

| Year | Miles x Rate | Depreciation |
|-------------|---------------------|---------------------|
| 2018 | 14,100 × \$0.25 | \$3,525 |
| 2019 | 16,300 × 0.26 | 4,238 |
| 2020 | 15,600 × 0.27 | 4,212 |
| 2021 | 16,700 × 0.26 | 4,342 |
| 2022 | 15,100 × 0.26 | 3,926 |

| | | |
|------|----------------------|--------------|
| 2023 | $14,900 \times 0.28$ | <u>4,172</u> |
|------|----------------------|--------------|

| | |
|---------------------------|------------------------|
| Total depreciation | <u>\$24,415</u> |
|---------------------------|------------------------|

At the end of 2023, your adjusted basis in the car is \$1,085 (\$25,500 – \$24,415).

Depreciation deduction for the year of disposition. If you deduct actual car expenses and you dispose of your car before the end of the recovery period (years 2 through 5), you are allowed a reduced depreciation deduction in the year of disposition.

Use the depreciation tables in Pub. 946 to figure the reduced depreciation deduction for a car disposed of in 2023.

The depreciation amounts computed using the depreciation tables in Pub. 946 for years 2 through 5 that you own your car are for a full year's depreciation. Years 1 and 6 apply the half-year or mid-quarter convention to

the computation for you. If you dispose of the vehicle in years 2 through 5 and the half-year convention applies, then the full year's depreciation amount must be divided by 2. If the mid-quarter convention applies, multiply the full year's depreciation by the percentage from the following table for the quarter that you disposed of the car.

| Quarter | Percentage |
|------------------|------------|
| First | 12.5% |
| Second | 37.5 |
| Third | 62.5 |
| | |
| . | |
| Fourth | 87.5 |

If the car is subject to the Depreciation Limits, discussed earlier, reduce (but do not increase) the computed depreciation to this

amount. See *Sale or Other Disposition Before the Recovery Period Ends* in chapter 4 of Pub. 946 for more information.

5.

Recordkeeping

If you deduct travel, gift, or transportation expenses, you must be able to prove (substantiate) certain elements of expense. This chapter discusses the records you need to keep to prove these expenses.



If you keep timely and accurate records, you will have support to show the IRS if your tax return is ever examined. You will also have proof of expenses that your employer may require if you are reimbursed under an accountable plan. These plans are discussed in chapter 6 under *Reimbursements*.

How To Prove Expenses

Table 5-1 is a summary of records you need to prove each expense discussed in this publication. You must be able to prove the elements listed across the top portion of the chart. You prove them by having the information and receipts (where needed) for the expenses listed in the first column.



You can't deduct amounts that you approximate or estimate.

You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You must generally prepare a written record for it to be considered adequate. This is because written evidence is more reliable than oral evidence alone. However, if you prepare a record on a computer, it is considered an adequate record.

What Are Adequate Records?

You should keep the proof you need in an account book, diary, log, statement of expense, trip sheets, or similar record. You should also keep documentary evidence that, together with your record, will support each element of an expense.

Documentary evidence. You must generally have documentary evidence such as receipts, canceled checks, or bills, to support your expenses.

Exception. Documentary evidence isn't needed if any of the following conditions apply.

- You have meals or lodging expenses while traveling away from home for which you account to your employer under an accountable plan, and you use a per diem allowance method that includes meals and/or lodging. (Accountable plans and

per diem allowances are discussed in chapter 6.)

- Your expense, other than lodging, is less than \$75.
- You have a transportation expense for which a receipt isn't readily available.

Adequate evidence. Documentary evidence will ordinarily be considered adequate if it shows the amount, date, place, and essential character of the expense.

For example, a hotel receipt is enough to support expenses for business travel if it has all of the following information.

- The name and location of the hotel.
- The dates you stayed there.
- Separate amounts for charges such as lodging, meals, and telephone calls.

A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information.

- The name and location of the restaurant.
- The number of people served.
- The date and amount of the expense.

If a charge is made for items other than food and beverages, the receipt must show that this is the case.

Canceled check. A canceled check, together with a bill from the payee, ordinarily establishes the cost. However, a canceled check by itself doesn't prove a business expense without other evidence to show that it was for a business purpose.

Duplicate information. You don't have to record information in your account book or other record that duplicates information shown on a receipt as long as your records

and receipts complement each other in an orderly manner.

You don't have to record amounts your employer pays directly for any ticket or other travel item. However, if you charge these items to your employer, through a credit card or otherwise, you must keep a record of the amounts you spend.

Timely kept records. You should record the elements of an expense or of a business use at or near the time of the expense or use and support it with sufficient documentary evidence. A timely kept record has more value than a statement prepared later when there is generally a lack of accurate recall.

You don't need to write down the elements of every expense on the day of the expense. If you maintain a log on a weekly basis that accounts for use during the week, the log is considered a timely kept record.

If you give your employer, client, or customer an expense account statement, it can also be considered a timely kept record. This is true if you copy it from your account book, diary, log, statement of expense, trip sheets, or similar record.

Proving business purpose. You must generally provide a written statement of the business purpose of an expense. However, the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then you don't need to give a written explanation.

Example. If you are a sales representative who calls on customers on an established sales route, you don't have to give a written explanation of the business purpose for traveling that route. You can satisfy the requirements by recording the length of the delivery route once, the date of each trip at or near the time of the trips, and the total

miles you drove the car during the tax year. You could also establish the date of each trip with a receipt, record of delivery, or other documentary evidence.

Confidential information. You don't need to put confidential information relating to an element of a deductible expense (such as the place, business purpose, or business relationship) in your account book, diary, or other record. However, you do have to record the information elsewhere at or near the time of the expense and have it available to fully prove that element of the expense.

Table 5-1. **How To Prove Certain Business Expenses**

| IF you have expenses for . . . | THEN you must keep records that show details of the following elements . . . | | | |
|--------------------------------|---|---|--|---|
| | Amount | Time | Place or Description | Business Purpose Business Relationship |
| Travel | Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, fees and tips, etc. | Dates you left and returned for each trip and number of days spent on business. | Destination or area of your travel (name of city, town, or other designation). | <u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. <u>Relationship:</u> N/A |
| Gifts | Cost of the gift. | Date of the gift. | Description of the gift. | |
| Transportation | Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year. | Date of the expense. For car expenses, the date of the use of the car. | Your business destination. | <u>Purpose:</u> Business purpose for the expense. <u>Relationship:</u> N/A |

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What if I Have Incomplete Records?

If you don't have complete records to prove an element of an expense, then you must prove the element with:

- Your own written or oral statement containing specific information about the element, and
- Other supporting evidence that is sufficient to establish the element.

If the element is the description of a gift, or the cost, time, place, or date of an expense, the supporting evidence must be either direct evidence or documentary evidence. Direct evidence can be written statements or the oral testimony of your guests or other witnesses setting forth detailed information about the element. Documentary evidence can be receipts, paid bills, or similar evidence.

If the element is either the business relationship of your guests or the business purpose of the amount spent, the supporting evidence can be circumstantial rather than direct. For example, the nature of your work, such as making deliveries, provides circumstantial evidence of the use of your car for business purposes. Invoices of deliveries establish when you used the car for business.

Sampling. You can keep an adequate record for parts of a tax year and use that record to prove the amount of business or investment use for the entire year. You must demonstrate by other evidence that the periods for which an adequate record is kept are representative of the use throughout the tax year.

Example. You use your car to visit the offices of clients, meet with suppliers and other subcontractors, and pick up and deliver items to clients. There is no other business use of the car, but you and your family use the car

for personal purposes. You keep adequate records during the first week of each month that show that 75% of the use of the car is for business. Invoices and bills show that your business use continues at the same rate during the later weeks of each month. Your weekly records are representative of the use of the car each month and are sufficient evidence to support the percentage of business use for the year.

Exceptional circumstances. You can satisfy the substantiation requirements with other evidence if, because of the nature of the situation in which an expense is made, you can't get a receipt. This applies if all the following are true.

- You were unable to obtain evidence for an element of the expense or use that completely satisfies the requirements explained earlier under *What Are Adequate Records*.

- You are unable to obtain evidence for an element that completely satisfies the two rules listed earlier under *What if I Have Incomplete Records*.
- You have presented other evidence for the element that is the best proof possible under the circumstances.

Destroyed records. If you can't produce a receipt because of reasons beyond your control, you can prove a deduction by reconstructing your records or expenses. Reasons beyond your control include fire, flood, and other casualties.

Separating and Combining Expenses

This section explains when expenses must be kept separate and when expenses can be combined.

Separating expenses. Each separate payment is generally considered a separate expense. For example, if you entertain a customer or client at dinner and then go to the theater, the dinner expense and the cost of the theater tickets are two separate expenses. You must record them separately in your records.

Combining items. You can make one daily entry in your record for reasonable categories of expenses. Examples are taxi fares, telephone calls, or other incidental travel costs. Nonentertainment meals should be in a separate category. You can include tips for meal-related services with the costs of the meals.

Expenses of a similar nature occurring during the course of a single event are considered a single expense.

Car expenses. You can account for several uses of your car that can be considered part of a single use, such as a round trip or

uninterrupted business use, with a single record. Minimal personal use, such as a stop for lunch on the way between two business stops, isn't an interruption of business use.

Example. You make deliveries at several different locations on a route that begins and ends at your employer's business premises and that includes a stop at the business premises between two deliveries. You can account for these using a single record of miles driven.

Gift expenses. You don't always have to record the name of each recipient of a gift. A general listing will be enough if it is evident that you aren't trying to avoid the \$25 annual limit on the amount you can deduct for gifts to any one person. For example, if you buy a large number of tickets to local high school basketball games and give one or two tickets to each of many customers, it is usually enough to record a general description of the recipients.

Allocating total cost. If you can prove the total cost of travel or entertainment but you can't prove how much it costs for each person who participated in the event, you may have to allocate the total cost among you and your guests on a pro rata basis. To do so, you must establish the number of persons who participated in the event.

If your return is examined. If your return is examined, you may have to provide additional information to the IRS. This information could be needed to clarify or to establish the accuracy or reliability of information contained in your records, statements, testimony, or documentary evidence before a deduction is allowed.

How Long To Keep Records and Receipts

You must keep records as long as they may be needed for the administration of any provision of the Internal Revenue Code.

Generally, this means you must keep records that support your deduction (or an item of income) for 3 years from the date you file the income tax return on which the deduction is claimed. A return filed early is considered filed on the due date. For a more complete explanation of how long to keep records, see Pub. 583, *Starting a Business and Keeping Records*.

You must keep records of the business use of your car for each year of the recovery period. See *More-than-50%-use test* in chapter 4 under *Depreciation Deduction*.

Reimbursed for expenses. Employees who give their records and documentation to their employers and are reimbursed for their expenses generally don't have to keep copies of this information. However, you may have to prove your expenses if any of the following conditions apply.

- You claim deductions for expenses that are more than reimbursements.

- Your expenses are reimbursed under a nonaccountable plan.
- Your employer doesn't use adequate accounting procedures to verify expense accounts.
- You are related to your employer as defined under Per Diem and Car Allowances in chapter 6.

Reimbursements, adequate accounting, and nonaccountable plans are discussed in chapter 6.

Examples of Records

Table 5-2 and Table 5-3 are examples of worksheets that can be used for tracking business expenses.

Table 5-2. **Daily Business Mileage and Expense Log**

Name:

| | | | Odometer Readings | | | Expenses | |
|--------------------|--------------------------------------|------------------|-------------------|------|-----------------|---------------------------------|--------|
| Date | Destination (City, Town, or Area) | Business Purpose | Start | Stop | Miles this trip | Type (Gas, oil, tolls, etc.) | Amount |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | Weekly Total | | | | | | |
| Total Year-to-Date | | | | | | | |

THIS IS NOT AN OFFICIAL INTERNAL REVENUE FORM

Table 5-3. Weekly Traveling Expense Record

From: To: Name:

| Expenses | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total |
|--|--------|--------|---------|-----------|----------|--------|----------|-------|
| 1. Travel Expenses: | | | | | | | | |
| Airlines | | | | | | | | |
| Excess Baggage | | | | | | | | |
| Bus – Train | | | | | | | | |
| Cab and Limousine | | | | | | | | |
| Tips | | | | | | | | |
| Porter | | | | | | | | |
| 2. Non-Entertainment-Related Meals and Lodging: | | | | | | | | |
| Breakfast | | | | | | | | |
| Lunch | | | | | | | | |
| Dinner | | | | | | | | |
| Hotel and Motel (Detail in Schedule B) | | | | | | | | |
| 3. Other Expenses: | | | | | | | | |
| Postage | | | | | | | | |
| Telephone & Telegraph | | | | | | | | |
| Stationery & Printing | | | | | | | | |
| Stenographer | | | | | | | | |
| Sample Room | | | | | | | | |
| Advertising | | | | | | | | |
| Assistant(s) | | | | | | | | |
| Trade Shows | | | | | | | | |
| 4. Car Expenses: (List all car expenses—the division between business and personal expenses may be made at the end of the year.) (Detail mileage in Schedule A (if applicable).) | | | | | | | | |
| Gas, oil, lube, wash | | | | | | | | |
| Repairs, parts | | | | | | | | |
| Tires, supplies | | | | | | | | |
| Parking fees, tolls | | | | | | | | |
| 5. Other (Identify) | | | | | | | | |
| Total | | | | | | | | |
| Note: Attach receipted bills for (1) ALL lodging and (2) any other expenses of \$75.00 or more. | | | | | | | | |
| Schedule A—Car | | | | | | | | |
| Mileage: End | | | | | | | | |
| Start | | | | | | | | |
| Total | | | | | | | | |
| Business Mileage | | | | | | | | |
| Schedule B—Lodging | | | | | | | | |
| Hotel or Motel | Name | | | | | | | |
| | City | | | | | | | |
| WEEKLY REIMBURSEMENTS: | | | | | | | | |
| Travel and transportation expenses. | | | | | | | | |
| Other reimbursements | | | | | | | | |
| TOTAL | | | | | | | | |

6.

How To Report

This chapter explains where and how to report the expenses discussed in this publication. It discusses reimbursements and how to treat them under accountable and nonaccountable plans. It also explains rules for independent contractors and clients, fee-basis officials, certain performing artists, Armed Forces reservists, and certain disabled employees. The chapter ends with illustrations of how to report travel, gift, and car expenses on Forms 2106.

Where To Report

This section provides general information on where to report the expenses discussed in this publication.

Self-employed. You must report your income and expenses on Schedule C (Form 1040) if you are a sole proprietor, or on

Schedule F (Form 1040) if you are a farmer. You don't use Form 2106.

If you claim car or truck expenses, you must provide certain information on the use of your vehicle. You provide this information on Schedule C (Form 1040) or Form 4562. If you file Schedule C (Form 1040):

- Report your travel expenses, except meals, on line 24a;
- Report your deductible non-entertainment-related meals (actual cost or standard meal allowance) on line 24b;
- Report your gift expenses and transportation expenses, other than car expenses, on line 27a; and
- Report your car expenses on line 9. Complete Part IV of the form unless you have to file Form 4562 for depreciation or amortization.

If you file Schedule F (Form 1040), do the following.

- Report your car expenses on line 10. Attach Form 4562 and provide information on the use of your car in Part V of Form 4562.
- Report all other business expenses discussed in this publication on line 32. You can only include 50% of your non-entertainment-related meals on that line.

See your form instructions for more information on how to complete your tax return.

Both self-employed and an employee. If you are both self-employed and an employee, you must keep separate records for each business activity. Report your business expenses for self-employment on Schedule C (Form 1040), or Schedule F (Form 1040), as discussed earlier. Report your business

expenses for your work as an employee on Form 2106, as discussed next.



Form 2106 is only used by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. Due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a), employees who do not fit into one of the listed categories may not use Form 2106.

Employees. If you are an employee, you must generally complete Form 2106 to deduct your travel and transportation expenses.

- You are an employee deducting expenses attributable to your job.
- You weren't reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 aren't considered reimbursements).

- If you claim car expenses, you use the standard mileage rate.

For more information on how to report your expenses on Form 2106, see Completing Form 2106, later.

Gifts. If you didn't receive any reimbursements (or the reimbursements were all included in box 1 of your Form W-2), the only business expense you are claiming is for gifts, and the special rules discussed later don't apply to you, don't complete Form 2106.

Statutory employees. If you received a Form W-2 and the "Statutory employee" box in box 13 was checked, report your income and expenses related to that income on Schedule C (Form 1040). Don't complete Form 2106.

Statutory employees include full-time life insurance salespersons, certain agent or commission drivers, traveling salespersons, and certain homeworkers.



If you are entitled to a reimbursement from your employer but you don't claim it, you can't claim a deduction for the expenses to which that unclaimed reimbursement applies.

Reimbursement for personal expenses. If your employer reimburses you for nondeductible personal expenses, such as for vacation trips, your employer must report the reimbursement as wage income in box 1 of your Form W-2. You can't deduct personal expenses.

Income-producing property. If you have travel or transportation expenses related to income-producing property, report your deductible expenses on the form appropriate for that activity.

For example, if you have rental real estate income and expenses, report your expenses on Schedule E (Form 1040), Supplemental Income and Loss. See Pub. 527, Residential Rental Property, for more information on the rental of real estate.

Vehicle Provided by Your Employer

If your employer provides you with a car, you may be able to deduct the actual expenses of operating that car for business purposes. The amount you can deduct depends on the amount that your employer included in your income and the business and personal miles you drove during the year. You can't use the standard mileage rate.



Form 2106 is only used by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. Due to

the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a), employees who do not fit into one of the listed categories may not use Form 2106.

Value reported on Form W-2. Your employer can figure and report either the actual value of your personal use of the car or the value of the car as if you used it only for personal purposes (100% income inclusion). Your employer must separately state the amount if 100% of the annual lease value was included in your income. If you are unsure of the amount included on your Form W-2, ask your employer.

Full value included in your income. You may be able to deduct the value of the business use of an employer-provided car if your employer reported 100% of the value of the car in your income. On your 2023 Form W-2, the amount of the value will be included

in box 1, Wages, tips, other compensation; and box 14, Other.

To claim your expenses, complete Form 2106, Part II, Sections A and C. Enter your actual expenses on line 23 of Section C and include the entire value of the employer-provided car on line 25. Complete the rest of the form.

Less than full value included in your income. If less than the full annual lease value of the car was included on your Form W-2, this means that your Form W-2 only includes the value of your personal use of the car. Don't enter this value on your Form 2106 because it isn't deductible.

If you paid any actual costs (that your employer didn't provide or reimburse you for) to operate the car, you can deduct the business portion of those costs. Examples of costs that you may have are gas, oil, and repairs. Complete Form 2106, Part II, Sections A and C. Enter your actual costs on

line 23 of Section C and leave line 25 blank. Complete the rest of the form.

Reimbursements

This section explains what to do when you receive an advance or are reimbursed for any of the employee business expenses discussed in this publication.

If you received an advance, allowance, or reimbursement for your expenses, how you report this amount and your expenses depends on whether your employer reimbursed you under an accountable plan or a nonaccountable plan.

This section explains the two types of plans, how per diem and car allowances simplify proving the amount of your expenses, and the tax treatment of your reimbursements and expenses. It also covers rules for independent contractors.

No reimbursement. You aren't reimbursed or given an allowance for your expenses if you are paid a salary or commission with the understanding that you will pay your own expenses. In this situation, you have no reimbursement or allowance arrangement, and you don't have to read this section on reimbursements. Instead, see Completing Form 2106, later, for information on completing your tax return.



Form 2106 is only used by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. Due to the suspension of miscellaneous itemized deductions subject to the 2% floor under section 67(a), employees who do not fit into one of the listed categories may not use Form 2106.

Reimbursement, allowance, or advance.

A reimbursement or other expense allowance arrangement is a system or plan that an employer uses to pay, substantiate, and recover the expenses, advances, reimbursements, and amounts charged to the employer for employee business expenses. Arrangements include per diem and car allowances.

A per diem allowance is a fixed amount of daily reimbursement your employer gives you for your lodging and M&IE when you are away from home on business. (The term "incidental expenses" is defined in chapter 1 under *Standard Meal Allowance*.) A car allowance is an amount your employer gives you for the business use of your car.

Your employer should tell you what method of reimbursement is used and what records you must provide.

Employers. If you are an employer and you reimburse employee business expenses, how you treat this reimbursement on your employee's Form W-2 depends in part on whether you have an accountable plan. Reimbursements treated as paid under an accountable plan, as explained next, aren't reported as pay. Reimbursements treated as paid under nonaccountable plans, as explained later, are reported as pay. See Pub. 15 (Circular E), Employer's Tax Guide, for information on employee pay.

Accountable Plans

To be an accountable plan, your employer's reimbursement or allowance arrangement must include all of the following rules.

1. Your expenses must have a business connection—that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.

2. You must adequately account to your employer for these expenses within a reasonable period of time.
3. You must return any excess reimbursement or allowance within a reasonable period of time.

Adequate accounting and returning excess reimbursements are discussed later.

An excess reimbursement or allowance is any amount you are paid that is more than the business-related expenses that you adequately accounted for to your employer.

Reasonable period of time. The definition of reasonable period of time depends on the facts and circumstances of your situation. However, regardless of the facts and circumstances of your situation, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.

- You receive an advance within 30 days of the time you have an expense.
- You adequately account for your expenses within 60 days after they were paid or incurred.
- You return any excess reimbursement within 120 days after the expense was paid or incurred.
- You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

Employee meets accountable plan rules.

If you meet the three rules for accountable plans, your employer shouldn't include any reimbursements in your income in box 1 of your Form W-2. If your expenses equal your reimbursements, you don't complete Form 2106. You have no deduction since your expenses and reimbursements are equal.



If your employer included reimbursements in box 1 of your Form W-2 and you meet all the rules for accountable plans, ask your employer for a corrected Form W-2.

Accountable plan rules not met. Even though you are reimbursed under an accountable plan, some of your expenses may not meet all three rules. All reimbursements that fail to meet all three rules for accountable plans are generally treated as having been reimbursed under a nonaccountable plan (discussed later).

Failure to return excess reimbursements.

If you are reimbursed under an accountable plan, but you fail to return, within a reasonable time, any amounts in excess of the substantiated amounts, the amounts paid in excess of the substantiated expenses are treated as paid under a nonaccountable plan. See Reasonable period of time, earlier, and Returning Excess Reimbursements, later.

Reimbursement of nondeductible

expenses. You may be reimbursed under your employer's accountable plan for expenses related to that employer's business, some of which would be allowable as employee business expense deductions and some of which would not. The reimbursements you receive for the nondeductible expenses don't meet rule (1) for accountable plans, and they are treated as paid under a nonaccountable plan.

Example. Your employer's plan reimburses you for travel expenses while away from home on business and also for meals when you work late at the office, even though you aren't away from home. The part of the arrangement that reimburses you for the nondeductible meals when you work late at the office is treated as paid under a nonaccountable plan.



The employer makes the decision whether to reimburse employees under an accountable plan or a nonaccountable plan. If you are an employee who receives payments under a nonaccountable plan, you can't convert these amounts to payments under an accountable plan by voluntarily accounting to your employer for the expenses and voluntarily returning excess reimbursements to the employer.

Adequate Accounting

One of the rules for an accountable plan is that you must adequately account to your employer for your expenses. You adequately account by giving your employer a statement of expense, an account book, a diary, or a similar record in which you entered each expense at or near the time you had it, along with documentary evidence (such as receipts) of your travel, mileage, and other employee business expenses. (See Table 5-1 in chapter

5 for details you need to enter in your record and documents you need to prove certain expenses.) A per diem or car allowance satisfies the adequate accounting requirement under certain conditions. See *Per Diem and Car Allowances*, later.

You must account for all amounts you received from your employer during the year as advances, reimbursements, or allowances. This includes amounts you charged to your employer by credit card or other method. You must give your employer the same type of records and supporting information that you would have to give to the IRS if the IRS questioned a deduction on your return. You must pay back the amount of any reimbursement or other expense allowance for which you don't adequately account or that is more than the amount for which you accounted.

Per Diem and Car Allowances

If your employer reimburses you for your expenses using a per diem or a car allowance, you can generally use the allowance as proof for the amount of your expenses. A per diem or car allowance satisfies the adequate accounting requirements for the amount of your expenses only if all the following conditions apply.

- Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
- The allowance is similar in form to and not more than the federal rate (defined later).
- You prove the time (dates), place, and business purpose of your expenses to your employer (as explained in Table 5-1) within a reasonable period of time.
- You aren't related to your employer (as defined next). If you are related to your

employer, you must be able to prove your expenses to the IRS even if you have already adequately accounted to your employer and returned any excess reimbursement.

If the IRS finds that an employer's travel allowance practices are not based on reasonably accurate estimates of travel costs (including recognition of cost differences in different areas for per diem amounts), you won't be considered to have accounted to your employer. In this case, you must be able to prove your expenses to the IRS.

Related to employer. You are related to your employer if:

1. Your employer is your brother or sister, half brother or half sister, spouse, ancestor, or lineal descendant;
2. Your employer is a corporation in which you own, directly or indirectly,

more than 10% in value of the
outstanding stock; or

3. Certain relationships (such as grantor, fiduciary, or beneficiary) exist between you, a trust, and your employer.

You may be considered to indirectly own stock for purposes of (2) if you have an interest in a corporation, partnership, estate, or trust that owns the stock or if a member of your family or your partner owns the stock.