SECTION 1. PURPOSE

This annual notice provides the 2016-2017 special per diem rates for taxpayers to use in substantiating the amount of ordinary and necessary business expenses incurred while traveling away from home, specifically (1) the special transportation industry meal and incidental expenses (M&IE) rates, (2) the rate for the incidental expenses only deduction, and (3) the rates and list of high-cost localities for purposes of the high-low substantiation method.

SECTION 2. BACKGROUND


Section 3.02(3) of Rev. Proc. 2011-47 provides that the term “incidental expenses” has the same meaning as in the Federal Travel Regulations, 41 C.F.R. 300-3.1, and that future changes to the definition of incidental expenses in the Federal Travel Regulations would be announced in the annual per diem notice. Subsequent to
the publication of Rev. Proc. 2011-47, the General Services Administration published final regulations revising the definition of incidental expenses under the Federal Travel Regulations to include only fees and tips given to porters, baggage carriers, hotel staff, and staff on ships. Transportation between places of lodging or business and places where meals are taken, and the mailing cost of filing travel vouchers and paying employer-sponsored charge card billings, are no longer included in incidental expenses. Accordingly, taxpayers using the per diem rates may separately deduct or be reimbursed for transportation and mailing expenses.

SECTION 3. SPECIAL M&IE RATES FOR TRANSPORTATION INDUSTRY

The special M&IE rates for taxpayers in the transportation industry are $63 for any locality of travel in the continental United States (CONUS) and $68 for any locality of travel outside the continental United States (OCONUS). See section 4.04 of Rev. Proc. 2011-47.

SECTION 4. RATE FOR INCIDENTAL EXPENSES ONLY DEDUCTION

The rate for any CONUS or OCONUS locality of travel for the incidental expenses only deduction is $5 per day. See section 4.05 of Rev. Proc. 2011-47.

SECTION 5. HIGH-LOW SUBSTANTIATION METHOD

1. Annual high-low rates. For purposes of the high-low substantiation method, the per diem rates in lieu of the rates described in Notice 2015-63 (the per diem substantiation method) are $282 for travel to any high-cost locality and $189 for travel to any other locality within CONUS. The amount of the $282 high rate and $189 low rate that is treated as paid for meals for purposes of § 274(n) is $68 for travel to any high-cost locality and $57 for travel to any other locality within CONUS. See section 5.02 of
Rev. Proc. 2011-47. The per diem rates in lieu of the rates described in Notice 2015-63 (the meal and incidental expenses only substantiation method) are $68 for travel to any high-cost locality and $57 for travel to any other locality within CONUS.

2. High-cost localities. The following localities have a federal per diem rate of $236 or more, and are high-cost localities for all of the calendar year or the portion of the calendar year specified in parentheses under the key city name.

<table>
<thead>
<tr>
<th>Key city</th>
<th>County or other defined location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td></td>
</tr>
<tr>
<td>Sedona</td>
<td>City Limits of Sedona</td>
</tr>
<tr>
<td>(March 1-April 30)</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td></td>
</tr>
<tr>
<td>Los Angeles</td>
<td>Los Angeles, Orange, Ventura, Edwards AFB less the city of Santa Monica</td>
</tr>
<tr>
<td>(January 1-March 31)</td>
<td>Marin</td>
</tr>
<tr>
<td>Mill Valley/San Rafael/Novato</td>
<td>(October 1-October 31 and June 1-September 30)</td>
</tr>
<tr>
<td>Monterey</td>
<td>Monterey</td>
</tr>
<tr>
<td>(July 1-August 31)</td>
<td></td>
</tr>
<tr>
<td>Napa</td>
<td>Napa</td>
</tr>
<tr>
<td>(October 1-October 31 and May 1-September 30)</td>
<td>San Francisco</td>
</tr>
<tr>
<td>San Francisco</td>
<td></td>
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<tr>
<td>San Mateo/Foster City/Belmont</td>
<td>San Mateo</td>
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<tr>
<td>Santa Barbara</td>
<td>Santa Barbara</td>
</tr>
<tr>
<td>Santa Monica</td>
<td>City limits of Santa Monica</td>
</tr>
<tr>
<td>Sunnyvale/Palo Alto/San Jose</td>
<td>Santa Clara</td>
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<tr>
<td>Colorado</td>
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<tr>
<td>Aspen</td>
<td>Pitkin</td>
</tr>
<tr>
<td>(December 1-March 31 and June 1-August 31)</td>
<td>Denver, Adams, Arapahoe, and Jefferson</td>
</tr>
<tr>
<td>Denver/Aurora</td>
<td>Denver, Adams, Arapahoe, and Jefferson</td>
</tr>
<tr>
<td>(October 1-November 30 and February 1-September 30)</td>
<td>Grand</td>
</tr>
<tr>
<td>Grand Lake</td>
<td>Summit</td>
</tr>
<tr>
<td>(December 1-March 31)</td>
<td></td>
</tr>
<tr>
<td>Silverthorne/Breckenridge</td>
<td>Summit</td>
</tr>
<tr>
<td>(December 1-March 31)</td>
<td></td>
</tr>
<tr>
<td>Steamboat Springs</td>
<td>Routt</td>
</tr>
<tr>
<td>(December 1-March 31)</td>
<td></td>
</tr>
</tbody>
</table>
Telluride San Miguel
(December 1-March 31 and June 1-August 31)
Vail Eagle
(December 1-August 31)

District of Columbia
Washington D.C. (also the cities of Alexandria, Falls Church, and Fairfax, and the counties of Arlington and Fairfax, in Virginia; and the counties of Montgomery and Prince George's in Maryland) (See also Maryland and Virginia)

Florida
Boca Raton/Delray Beach/Jupiter Palm Beach and Hendry
(January 1-April 30)
Fort Lauderdale Broward
(January 1-April 30)
Fort Walton Beach/De Funiak Springs Okaloosa and Walton
(June 1-July 31)
Key West Monroe
Miami Miami-Dade
(December 1-March 31)
Naples Collier
(December 1-April 30)
Vero Beach Indian River
(December 1-April 30)

Illinois
Chicago Cook and Lake
(October 1-November 30 and April 1-September 30)

Maine
Bar Harbor Hancock
(July 1-August 31)

Maryland
Ocean City Worcester
(June 1-August 31)
Washington, DC Metro Area Montgomery and Prince George’s

Massachusetts
Boston/Cambridge Suffolk, city of Cambridge
Falmouth City limits of Falmouth
(July 1-August 31)
Martha's Vineyard Dukes
(June 1-September 30)
Nantucket Nantucket
(October 1-December 31 and June 1-September 30)

Michigan
Traverse City/Leland
(July 1-August 31)

Grand Traverse and Leelanau

New York
Lake Placid
(July 1-August 31)

Essex

New York City

Bronx, Kings, New York, Queens, and Richmond

Saratoga Springs/Schenectady
(July 1-August 31)

Saratoga and Schenectady

North Carolina
Kill Devil
(June 1-August 31)

Dare

Oregon
Seaside
(July 1-August 31)

Clatsop

Pennsylvania
Hershey
(June 1-August 31)

Hershey

Philadelphia
(October 1-November 30, April 1-June 30, and September 1-September 30)

Philadelphia

Rhode Island
Jamestown/Middletown/Newport
(July 1-August 31)

Newport

South Carolina
Charleston
(October 1-November 30 and March 1-September 30)

Charleston, Berkeley and Dorchester

Utah
Park City
(December 1-March 31)

Summit

Virginia
Virginia Beach
(June 1-August 31)

City of Virginia Beach
3. Changes in high-cost localities. The list of high-cost localities in this notice differs from the list of high-cost localities in section 5 of Notice 2015-63.

a. The following localities have been added to the list of high-cost localities:
   
   Sedona, AZ; Los Angeles, California; Mill Valley/San Rafael/Novato, California; Vero Beach, Florida; Kill Devil, North Carolina; Seaside, Oregon.

b. The following localities have changed the portion of the year in which they are high-cost localities: Denver/Aurora, Colorado; Vail, Colorado; Fort Lauderdale, Florida; Naples, Florida; Chicago, Illinois; Philadelphia, Pennsylvania; Jamestown/Middletown/Newport, Rhode Island; Jackson/Pinedale, Wyoming.

c. The following localities have been removed from the list of high-cost localities:
   
   Mammoth Lakes, California; Midland, Texas.

SECTION 6. EFFECTIVE DATE

This notice is effective for per diem allowances for lodging, meal, and incidental expenses, or for meal and incidental expenses only, that are paid to any employee on or after October 1, 2016, for travel away from home on or after October 1, 2016. For purposes of computing the amount allowable as a deduction for travel away from home, this notice is effective for meal and incidental expenses or for incidental expenses only
paid or incurred on or after October 1, 2016. See sections 4.06 and 5.04 of Rev. Proc. 2011-47 for transition rules for the last 3 months of calendar year 2016.

SECTION 7. EFFECT ON OTHER DOCUMENTS

Notice 2015-63 is superseded.

DRAFTING INFORMATION

The principal author of this notice is Elizabeth Binder of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this notice contact Elizabeth Binder at (202) 317-7005 (not a toll-free call).