



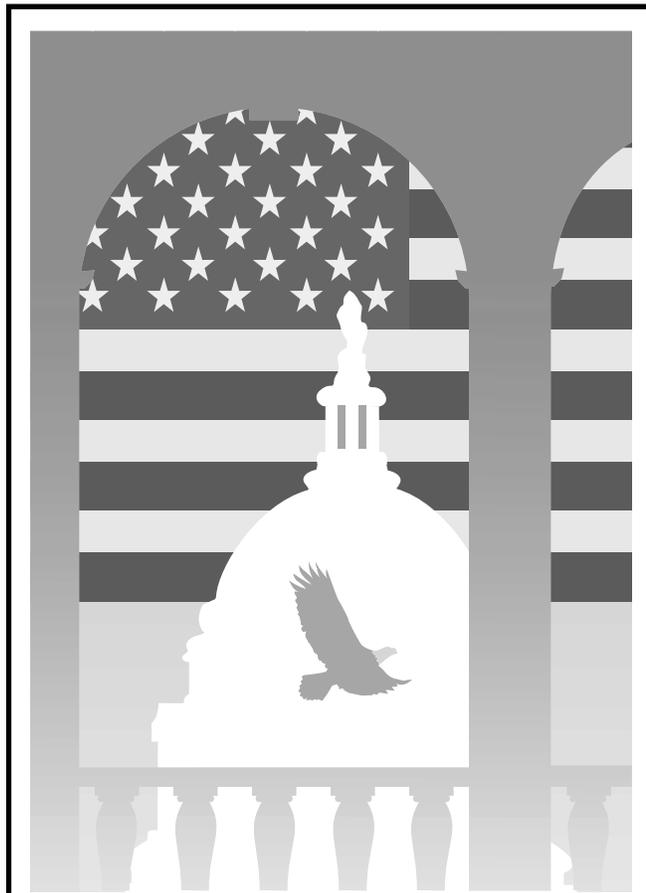
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# Travel, Entertainment, Gift, and Car Expenses

For use in preparing  
**2000** Returns



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## Important Changes

**Standard mileage rate.** The standard mileage rate for the cost of operating your car in 2000 is 32½ cents a mile for all business miles.

Car expenses and use of the standard mileage rate are explained in chapter 4.

**Depreciation limits on cars.** Generally, the total section 179 and depreciation deductions you can claim for a car that you use in your business and first placed in service in 2000 is \$3,060. Depreciation on cars and the section 179 deduction are covered in chapter 4.

**Exceptions for clean-fuel cars.** There are two exceptions to the depreciation limits for cars that run on clean fuel. See *Exceptions for clean-fuel cars* under *Depreciation Limits* in chapter 4.

**Meal expenses when subject to "hours of service" limits.** Generally, you can deduct only 50% of your business-related meal expenses while traveling away from your tax home for business purposes. You can deduct a higher percentage if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. (These limits apply to certain workers who are under certain federal regulations.) The percentage is 60% for 2000 and 2001 and it gradually increases to 80% by the year 2008. Business meal expenses are covered in chapter 1.

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

## Important Reminders

**Standard meal allowance.** The standard meal allowance (also referred to as the limit on meals and incidental expenses (M&IE rate)) for most small localities in the United States is \$30. However, the standard meal allowance is higher for most major cities and many other localities in the continental United States. See Publication 1542, *Per Diem Rates*. These rates (allowances/limits) are also listed in Appendix A of Chapter 41, Part 301 of the Code of Federal Regulations. If you have a computer, you can find them on the Internet at [www.policyworks.gov/perdiem](http://www.policyworks.gov/perdiem). Click on "Domestic per diem rates." Use of the standard meal allowance is explained in chapter 1.

**Days you depart and return.** For the days you depart for and return from a business trip, you can claim  $\frac{3}{4}$  of the standard meal allowance amount. For more information, see *Travel for days you depart and return* under *Standard Meal Allowance* in chapter 1.

**Limits that apply to employee deductions.** If you are an employee, deduct your work-related expenses discussed in this publication as a miscellaneous itemized deduction on Schedule A (Form 1040). Generally, the amount of miscellaneous itemized deductions you can deduct is limited to the amount that is more than 2% of your adjusted gross income. It may be further limited if your adjusted gross income is more than \$128,950 (\$64,475 if you are married filing separately). How to report your expenses is covered in chapter 6.

## Introduction

You may be able to deduct the ordinary and necessary business-related expenses you have for:

- Travel away from home,
- Entertainment,
- Gifts, or
- Local transportation.

An **ordinary expense** is one that is common and accepted in your field of trade, business, or profession. A **necessary expense** is one that is helpful and appropriate for your business. An expense does not have to be indispensable to be considered necessary.

This publication explains what expenses are deductible, how to report them on your return, what records you need to prove your expenses, and how to treat any expense reimbursements you may receive.

**Who should use this publication.** You should read this publication if you are an employee or a sole proprietor who has these business-related expenses that may be deductible. Other businesses (such as partnerships, corporations, and trusts) and employers who reimburse their employees for business expenses should refer to their tax form instructions and chapter 13 of Publication 535, *Business Expenses*, for information on deducting travel, entertainment, and transportation expenses.

**Who does not need to use this publication.** You will not need to read this publication if **all** of the following are true.

- 1) You fully accounted to your employer for your work-related expenses.
- 2) You received full reimbursement for your expenses.
- 3) Your employer required you to return any excess reimbursement and you did so.
- 4) Box 13 of your Form W-2, *Wage and Tax Statement*, shows no amount with a code L.

If you meet these four conditions, there is no need to show the expenses or the reimbursements on your return. If you would like more information on reimbursements and accounting to your employer, see chapter 6.



*If you meet these conditions and your employer included reimbursements on your Form W-2 in error, ask your employer for a corrected Form W-2.*

If you do not meet all of these conditions, you generally must complete Form 2106 or 2106-EZ and itemize your deductions on Schedule A (Form 1040) to claim your expenses. See chapter 6.

**Volunteers.** If you perform services as a volunteer worker for a qualified charity, you may be able to deduct some of your costs as a charitable contribution. See *Out-of-Pocket Expenses in Giving Services* in Publication 526, *Charitable Contributions*, for information on the expenses you can deduct.

**Users of employer-provided vehicles.** If an employer-provided vehicle was available for your use, you received a fringe benefit. Gen-

erally, your employer must include the value of the use or availability in your income as pay. However, there are exceptions if the use of the vehicle qualifies as a working condition fringe benefit (such as the use of a qualified nonpersonal use vehicle). Employers should see Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, for information on fringe benefits.

A **working condition fringe benefit** is any property or service provided to you by your employer for which you could deduct the cost as an employee business expense if you had paid for it.

A **qualified nonpersonal use vehicle** is one that is not likely to be used more than minimally for personal purposes because of its design.

For information on how to report your car expenses that your employer did not provide or reimburse you for (such as when you pay for gas and maintenance for a car your employer provides), see *Vehicle Provided by Your Employer* in chapter 6.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

## Useful Items

You may want to see:

### Publication

- 225** Farmer's Tax Guide
- 529** Miscellaneous Deductions
- 535** Business Expenses
- 946** How To Depreciate Property
- 1542** Per Diem Rates

### Form (and Instructions)

- Schedule A (Form 1040)** Itemized Deductions
- Schedule C (Form 1040)** Profit or Loss From Business
- Schedule C-EZ (Form 1040)** Net Profit From Business
- Schedule F (Form 1040)** Profit or Loss From Farming
- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses
- 4562** Depreciation and Amortization

See chapter 7, *How To Get Tax Help*, for information about getting these publications and forms.

# 1.

## Travel Expenses

If you temporarily travel away from your tax home, you can use this chapter to determine if you have deductible travel expenses. This chapter defines “tax home,” “temporary assignment,” and “travel expenses,” including the “standard meal allowance.” It also discusses the rules for travel inside and outside the United States, luxury water travel, and deductible convention expenses.

**Travel expenses defined.** For tax purposes, travel expenses are the ordinary and necessary expenses of traveling away from home for your business, profession, or job. However, you cannot deduct expenses that are lavish or extravagant. See, later, *What Travel Expenses Are Deductible?*

You will find examples of deductible travel expenses in *Table 1*, later.

**Traveling away from home.** You are traveling away from home if:

- 1) Your duties require you to be away from the general area of your tax home (defined later) substantially longer than an ordinary day's work, and
- 2) You need to get sleep or rest to meet the demands of your work while away from home.

This rest requirement is not satisfied by merely napping in your car. You do not have to be away from your tax home for a whole day or from dusk to dawn as long as your relief from duty is long enough to get necessary sleep or rest.

**Example 1.** You are a railroad conductor. You leave your home terminal on a regularly scheduled round-trip run between two cities and return home 16 hours later. During the run, you have 6 hours off at your turnaround point where you eat two meals and rent a hotel room to get necessary sleep before starting the return trip. You are considered to be away from home, and you can deduct travel expenses.

**Example 2.** You are a truck driver. You leave your terminal and return to it later the same day. You get an hour off at your turnaround point to eat. Because you are not off to get necessary sleep and the brief time off is not an adequate rest period, your trip is not considered as travel away from home. You cannot deduct travel expenses.

## Tax Home

To deduct travel expenses, you must first determine the location of your tax home.

Generally, your tax home is your regular place of business or post of duty, regardless of where you maintain your family home. It includes the **entire city or general area** in which your business or work is located. If you have more than one regular place of business, your tax home is your main place of

business. See *Main place of business or work*, later. If you do not have a regular or a main place of business because of the nature of your work, then your tax home may be the place where you regularly live. See *No main place of business or work*, later.

If you do not have a regular place of business or post of duty and there is no place where you regularly live, you are considered a **transient (an itinerant)** and your tax home is wherever you work. As a transient, you cannot claim a travel expense deduction because you are never considered away from home.

**Main place of business or work.** If you have more than one place of work, consider the following when determining your main place of business or work.

- 1) The total time you ordinarily spend working in each area.
- 2) The degree of your business activity in each area.
- 3) The relative amount of your income from each area.

**Example.** You live in Cincinnati where you have a seasonal job for 8 months each year and earn \$25,000. You work the other 4 months in Miami, also at a seasonal job, and earn \$9,000. Cincinnati is your main place of work because you spend most of your time there and earn most of your income there.

**No main place of business or work.** You may have a tax home even if you do not have a regular or main place of work. Your tax home may be the home where you regularly live.

**Factors used to determine tax home.** If you do not have a regular or main place of business or work, use the following three factors to see if you have a tax home.

- 1) You perform part of your business in the area of your main home and use that home for lodging while doing business in the area.
- 2) You have living expenses at your main home that you duplicate because your business requires you to be away from that home.
- 3) You have not abandoned the area in which both your traditional place of lodging and your main home are located; you have a member or members of your family living at your main home; or you often use that home for lodging.

If you satisfy all three factors, your tax home is the home where you regularly live, and you may be able to deduct travel expenses. If you satisfy only two factors, you may have a tax home depending on all the facts and circumstances. If you satisfy only one factor, you are a **transient**; your tax home is wherever you work and you cannot deduct travel expenses.

**Example 1.** You are single and live in Boston in an apartment you rent. You have worked for your employer in Boston for a number of years. Your employer enrolls you in a 12-month executive training program. You do not expect to return to work in Boston after you complete your training.

During your training, you do not do any work in Boston. Instead, you receive classroom and on-the-job training throughout the United States. You keep your apartment in Boston and return to it frequently. You use your apartment to conduct your personal business. You also keep up your community contacts in Boston. When you complete your training, you are transferred to Los Angeles.

You do not satisfy factor (1) because you did not work in Boston. You satisfy factor (2) because you had duplicate living expenses. You also satisfy factor (3) because you did not abandon your apartment in Boston as your traditional home, you kept your community contacts, and you frequently returned to live in your apartment. You have a tax home in Boston for travel expense deduction purposes.

**Example 2.** You are an outside salesperson with a sales territory covering several states. Your employer's main office is in Newark, but you do not conduct any business there. Your work assignments are temporary, and you have no way of knowing where your future assignments will be located. You have a room in your married sister's house in Dayton. You stay there for one or two weekends a year, but you do no work in the area. You do not pay your sister for the use of the room.

You do not satisfy any of the three factors listed earlier. You are a transient and have no tax home. Because you are never away from home, you cannot deduct the cost of your meals and lodging as travel expenses.

**Living away from your tax home.** If you (and your family) live in an area outside your tax home (main place of work), you cannot deduct the cost of traveling between your tax home and your family home. You also cannot deduct the cost of meals and lodging while at your tax home. See *Example 1* that follows.

If you are working temporarily in the same city where you and your family live, you may be considered as traveling away from home. See *Example 2*, below.

**Example 1.** You are a truck driver and you and your family live in Tucson. You are employed by a trucking firm that has its terminal in Phoenix. At the end of your long runs, you return to your home terminal in Phoenix and spend one night there before returning home. You cannot deduct any expenses you have for meals and lodging in Phoenix or the cost of traveling from Phoenix to Tucson. This is because Phoenix is your tax home.

**Example 2.** Your family home is in Pittsburgh, where you work 12 weeks a year. The rest of the year you work for the same employer in Baltimore. In Baltimore, you eat in restaurants and sleep in a rooming house. Your salary is the same whether you are in Pittsburgh or Baltimore.

Because you spend most of your working time and earn most of your salary in Baltimore, that city is your tax home. You cannot deduct any expenses you have for meals and lodging there. However, when you return to work in Pittsburgh, you are away from your tax home even though you stay at your family home. You can deduct the cost of your round trip between Baltimore and Pittsburgh. You can also deduct your part of your family's living expenses for meals and lodging while you are living and working in Pittsburgh.

## Temporary Assignment or Job

You may regularly work within the city or general area of your tax home and also work at another location. It may not be practical to return home from this other location at the end of each work day.

If your assignment or job away from your main place of work is **temporary**, your tax home does not change. You are considered to be away from home for the whole period you are away from your main place of work. Your travel expenses are deductible. Generally, a temporary assignment in a single location is one that is realistically expected to last (and does in fact last) for one year or less.

However, if your assignment or job is **indefinite**, the location of the assignment or job becomes your new tax home and you cannot deduct your travel expenses while there. An assignment or job in a single location is considered indefinite if it is realistically expected to last for more than one year, whether or not it actually lasts for more than one year.

If your assignment is indefinite, you must include in your income any amounts you receive from your employer for living expenses, even if they are called travel allowances and you account to your employer for them. You may be able to deduct the cost of relocating to your new tax home as a moving expense. See Publication 521, *Moving Expenses*, for more information.

**Exception for federal crime investigations or prosecutions.** If you are a federal employee participating in a federal crime investigation or prosecution, you are not subject to the one-year rule for deducting temporary travel expenses. This means you may be able to deduct travel expenses even if you are away from your tax home for more than one year.

For you to qualify, the Attorney General must certify that you are traveling:

- 1) For the federal government,
- 2) In a temporary duty status, and
- 3) To investigate or prosecute, or provide support services for the investigation or prosecution of, a federal crime.

You can deduct your otherwise allowable travel expenses throughout the period of certification.

**Determining temporary or indefinite.** You must determine whether your assignment is temporary or indefinite when you start work. If you expect employment to last for one year or less, it is temporary unless there are facts and circumstances that indicate otherwise. Employment that is initially temporary may become indefinite due to changed circumstances. A series of assignments to the same location, all for short periods but that together cover a long period, may be considered an indefinite assignment.

The following examples illustrate when you can and cannot deduct travel expenses for a temporary assignment.

**Example 1.** You are a construction worker. You live and regularly work in Los Angeles. You are a member of a trade union in Los Angeles that helps you get work in the Los Angeles area. Because of a shortage of work, you took a job on a construction project in Fresno. Your job was scheduled to end in

eight months, and you planned to return to Los Angeles at that time. The job actually lasted 10 months, after which time you returned to Los Angeles. Your family continued to live in your home in Los Angeles.

While in Fresno, you lived in a trailer you own. You returned to Los Angeles most weekends and maintained contact with the local union to see if you could get work in Los Angeles. You realistically expected the job in Fresno to last eight months. The job actually did last less than one year. Because you expected to return home when it ended, your tax home is in Los Angeles for travel expense deduction purposes.

**Example 2.** The facts are the same as in *Example 1*, except that you realistically expected the work in Fresno to last 18 months. The job actually was completed in 10 months.

Your job in Fresno is indefinite because you realistically expected the work to last longer than one year, even though it actually lasted less than one year. You cannot deduct any travel expenses you had in Fresno.

**Example 3.** The facts are the same as in *Example 1*, except that you realistically expected the work in Fresno to last 9 months. After 8 months, however, you were asked to remain for 7 more months (for a total actual stay of 15 months).

Initially, you realistically expected the job in Fresno to last for only 9 months. However, due to changed circumstances occurring after 8 months, it was no longer realistic for you to expect that the job in Fresno would last for one year or less. You can only deduct your travel expenses for the first 8 months. You cannot deduct any travel expenses you had after that time.

**Going home on days off.** If you go back to your tax home from a temporary assignment on your days off, you are not considered away from home while you are in your hometown. You cannot deduct the cost of your meals and lodging there. However, you can deduct your travel expenses, including meals and lodging, while traveling from the area of your temporary place of work to your hometown and back to work. You can claim these expenses up to the amount it would have cost you for meals and lodging had you stayed at your temporary place of work.

If you keep your hotel room during your visit home, you can deduct the cost of your hotel room. In addition, you can deduct your expenses of returning home up to the amount you would have spent for meals had you stayed at your temporary place of work.

**Probationary work period.** If you take a job that requires you to move, with the understanding that you will keep the job if your work is satisfactory during a probationary period, the job is indefinite. You cannot deduct any of your expenses for meals and lodging during the probationary period.

**Members of the Armed Forces.** If you are a member of the U.S. Armed Forces on a permanent duty assignment overseas, you are not traveling away from home. You cannot deduct your expenses for meals and lodging. You cannot deduct these expenses even if you have to maintain a home in the United States for your family members who are not allowed to accompany you overseas. If you are transferred from one permanent duty station to another, you may have

deductible moving expenses, which are explained in Publication 521.

A naval officer assigned to permanent duty aboard a ship that has regular eating and living facilities has a tax home aboard ship for travel expense purposes.

## What Travel Expenses Are Deductible?

Once you have determined that you are traveling away from your tax home, you can determine what travel expenses are deductible.

Deductible travel expenses include those ordinary and necessary expenses you have when you travel away from home on business. The type of expense you can deduct depends on the facts and your circumstances.

*Table 1* summarizes travel expenses you may be able to deduct. You may have other deductible travel expenses that are not covered there, depending on the facts and your circumstances.

 When you travel away from home on business, you should keep records of all the expenses you have and any advances you receive from your employer. You can use a log, diary, notebook, or any other written record to keep track of your expenses. The types of expenses you need to record, along with supporting documentation, are described in *Table 4* (see chapter 5).

**Travel expenses for another individual.** If a spouse, dependent, or other individual goes with you (or your employee) on a business trip or to a business convention, you generally cannot deduct his or her travel expenses.

**Employee.** You can deduct the travel expenses you have for an accompanying individual if that individual:

- 1) Is your employee,
- 2) Has a bona fide business purpose for the travel, and
- 3) Would otherwise be allowed to deduct the travel expenses.

**Business associate.** If a business associate travels with you and meets the conditions in (2) and (3) above, you can claim the deductible travel expenses you have for that person. A business associate is someone with whom you could reasonably expect to actively conduct business. A business associate can be a current or prospective (likely to become) customer, client, supplier, employee, agent, partner, or professional advisor.

**Bona fide business purpose.** For a bona fide business purpose to exist, you must prove a real business purpose for the individual's presence. Incidental services, such as typing notes or assisting in entertaining customers, are not enough to warrant a deduction.

**Example.** Jerry drives to Chicago on business and takes his wife, Linda, with him. Linda is not Jerry's employee. Even if her presence serves a bona fide business purpose, her expenses are not deductible.

Jerry pays \$115 a day for a double room. A single room costs \$90 a day. He can deduct the total cost of driving his car to and from Chicago, but only \$90 a day for his hotel

room. If he uses public transportation, he can deduct only his fare.

## Meals

Unless you meet the rules for business entertainment, you cannot deduct the cost of meals if it is not necessary for you to stop for sleep or rest to properly perform your duties. These rules are explained in chapter 2.

**50% limit on meals.** You can use either the actual cost of your meals or a standard amount to figure your meals expense. (See *Standard Meal Allowance* later in this chapter.) However, you can generally deduct only 50% of the cost of your unreimbursed business-related meals.

If you are reimbursed for the cost of your meals, how you apply the 50% limit depends on whether your employer's reimbursement plan was accountable or nonaccountable. If you are not reimbursed, the 50% limit applies whether the unreimbursed meal expense is for business travel or business entertainment. Chapter 2 discusses the 50% limit in more detail, and chapter 6 discusses accountable and nonaccountable plans.

**Lavish or extravagant.** You cannot deduct expenses for meals that are lavish or extravagant. An expense is not considered lavish or extravagant if it is reasonable based on the facts and circumstances. Expenses will not be disallowed merely because they are more than a fixed dollar amount or take place at deluxe restaurants, hotels, nightclubs, or resorts.

## Standard Meal Allowance

You generally can deduct a standard amount for your daily **meals and incidental expenses (M&IE)** while you are traveling away from home on business. In this publication, "standard meal allowance" refers to the federal rate for M&IE (which varies based on where and when you travel).

**Incidental expenses.** These include, but are not limited to, your costs for the following items.

- 1) Laundry, cleaning and pressing of clothing.
- 2) Fees and tips for persons who provide services, such as porters and baggage carriers.

Incidental expenses do not include taxicab fares, lodging taxes, or the costs of telegrams or telephone calls.



**Federal employees should refer to the Federal Travel Regulations at 41 CFR 301 for changes affecting their claims for reimbursement of these expenses.**

The standard meal allowance method is an alternative to the actual cost method. It allows you to deduct a set amount, depending on where and when you travel, instead of keeping records of your actual costs. If you use the standard meal allowance, you still must keep records to prove the time, place, and business purpose of your travel. See the recordkeeping rules for travel in chapter 5.



**There is no optional standard lodging amount similar to the standard meal allowance. Your allowable lodging expense deduction is your actual cost.**

## Table 1. Travel Expenses You Can Deduct

This chart summarizes expenses you can deduct when you travel away from home for business purposes.

IF you have expenses for:	THEN you can deduct the costs of:
<b>Transportation</b>	Travel by airplane, train, bus, or car between your home and your business destination. If you were provided with a ticket or you are riding free as a result of a frequent traveler or similar program, your cost is zero. If you travel by ship, see <i>Luxury Water Travel</i> and <i>Cruise ships</i> (under <i>Conventions</i> ) for additional rules and limits.
<b>Taxi, commuter bus, and airport limousine</b>	Fares for these and other types of transportation that take you to or from: <ol style="list-style-type: none"> <li>1) The airport or station and your hotel, and</li> <li>2) The hotel and the work location of your customers or clients, your business meeting place, or your temporary work location.</li> </ol>
<b>Baggage and shipping</b>	Sending baggage and sample or display material between your regular and temporary work locations.
<b>Car</b>	Operating and maintaining your car when traveling away from home on business. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking. If you rent a car while away from home on business, you can deduct only the business-use portion of the expenses.
<b>Lodging and meals</b>	Your lodging and meals if your business trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. Meals include amounts spent for food, beverages, taxes, and related tips. See <i>Meals</i> for additional rules and limits.
<b>Cleaning</b>	Dry cleaning and laundry.
<b>Telephone</b>	Business calls while on your business trip. This includes business communication by fax machine or other communication devices.
<b>Tips</b>	Tips you pay for any expenses in this chart.
<b>Other</b>	Other similar ordinary and necessary expenses related to your business travel. These expenses might include transportation to or from a business meal, public stenographer's fees, computer rental fees, and operating and maintaining a house trailer.

### Who can use the standard meal allowance.

You can use the standard meal allowance whether you are an employee or self-employed, and whether or not you are reimbursed for your traveling expenses. You cannot use the standard meal allowance if you are related to your employer as defined next.

**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.

**Use of the standard meal allowance for other travel.** You can use the standard meal allowance to prove meal expenses you have

when you travel in connection with investment and other income-producing property. You can also use it to prove meal expenses you have when you travel for qualifying educational purposes. You **cannot** use the standard meal allowance to prove the amount of your meals when you travel for medical or charitable purposes.

**Amount of standard meal allowance.** The standard meal allowance is the federal M&IE rate. For travel in 2000, the rate is **\$30 a day** for most areas in the United States. Other locations in the United States are designated as high-cost areas, qualifying for higher standard meal allowances. Locations qualifying for rates of \$34, \$38, \$42, or \$46 a day are listed in Publication 1542.

If you travel to more than one location in one day, use the rate in effect for the area where you stop for sleep or rest. If you work in the transportation industry, however, see *Special rate for transportation workers*, later.

**50% limit may apply.** If you are not reimbursed or if you are reimbursed under a nonaccountable plan for meal expenses, you can generally deduct only 50% of the standard meal allowance. If you are reimbursed under an accountable plan and you are deducting amounts that are more than your re-

reimbursements, you can deduct only 50% of the excess amount. The 50% limit is discussed in more detail in chapter 2, and accountable and nonaccountable plans are discussed in chapter 6.

**Standard meal allowance for areas outside the continental United States.** The standard meal allowance rates do not apply to travel in Alaska, Hawaii, or any other locations outside the continental United States. The federal per diem rates for these locations are published monthly in the *Maximum Travel Per Diem Allowances for Foreign Areas*.



Your employer may have these rates available, or you can purchase the publication from the:

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#### **Special rate for transportation workers.**

You can use a special standard meal allowance if you work in the transportation industry. You are in the transportation industry if your work:

- 1) Directly involves moving people or goods by airplane, barge, bus, ship, train, or truck, and
- 2) Regularly requires you to travel away from home and, during any single trip, usually involves travel to areas eligible for different standard meal allowance rates.

If this applies to you, you can claim a **\$38 a day** standard meal allowance (\$42 for travel outside the continental United States).

Using the special rate for transportation workers eliminates the need for you to determine the standard meal allowance for every area where you stop for sleep or rest. If you choose to use the special rate for any trip, you must use the special rate (and not use the regular standard meal allowance rates) for all trips you take that year.

**Travel for days you depart and return.** For both the day you depart for and the day you return from a business trip, you must prorate the standard meal allowance. You can do so by one of two methods.

- **Method 1:** You can claim  $\frac{3}{4}$  of the standard meal allowance.
- **Method 2:** You can use any method that you consistently apply and that is in accordance with reasonable business practice.

**Example.** Jen is employed in New Orleans as a convention planner. In March, her employer sent her on a 3-day trip to Washington, DC, to attend a planning seminar. She left her home in New Orleans at 10 a.m. on Wednesday and arrived in Washington, DC, at 5:30 p.m. After spending two nights there, she flew back to New Orleans on Friday and arrived back home at 8:00 p.m. Jen's employer gave her a flat amount to cover her expenses and included it with her wages.

Under Method 1, Jen can claim  $2\frac{1}{2}$  days of the standard meal allowance for Washington, DC:  $\frac{3}{4}$  of the daily rate for Wednesday and Friday (the days she departed and returned), and the full daily rate for Thursday.

Under Method 2, Jen could also use any method that she applies consistently and that is in accordance with reasonable business practice. For example, she could claim 3 days of the standard meal allowance even though a federal employee would be limited to only  $2\frac{1}{2}$  days.

## Travel in the United States

The following discussion applies to travel in the United States. For this purpose, the United States includes the 50 states and the District of Columbia. The treatment of your travel expenses depends on how much of your trip was business related and on how much of your trip occurred within the United States. See *Part of Trip Outside the United States*, later.

### Trip Primarily for Business

You can deduct all of your travel expenses if your trip was entirely business related. If your trip was primarily for business and, while at your business destination, you extended your stay for a vacation, made a nonbusiness side trip, or had other nonbusiness activities, you can deduct your business-related travel expenses. These expenses include the travel costs of getting to and from your business destination and any business-related expenses at your business destination.

**Example.** You work in Atlanta and take a business trip to New Orleans. On your way home, you stop in Mobile to visit your parents. You spend \$630 for the 9 days you are away from home for travel, meals, lodging, and other travel expenses. If you had not stopped in Mobile, you would have been gone only 6 days, and your total cost would have been \$580. You can deduct \$580 for your trip, including the cost of round-trip transportation to and from New Orleans. The cost of your meals is subject to the 50% limit on meals mentioned earlier.

### Trip Primarily for Personal Reasons

If your trip was primarily for personal reasons, such as a vacation, the entire cost of the trip is a nondeductible personal expense. However, you can deduct any expenses you have while at your destination that are directly related to your business.

A trip to a resort or on a cruise ship may be a vacation even if the promoter advertises that it is primarily for business. The scheduling of incidental business activities during a trip, such as viewing videotapes or attending lectures dealing with general subjects, will not change what is really a vacation into a business trip.

## Part of Trip Outside the United States

If part of your trip is outside the United States, use the rules described later in this chapter under *Travel Outside the United States* for that part of the trip. For the part of your trip that is inside the United States, use the rules in this section. Travel outside the United States does not include travel from one point in the United States to another point in the United States. The following discussion can help you determine whether your trip was entirely within the United States.

**Public transportation.** If you travel by public transportation, any place in the United States where that vehicle makes a scheduled stop is a point in the United States. Once the vehicle leaves the last scheduled stop in the United States on its way to a point outside the United States, you apply the rules under *Travel Outside the United States*.

**Example.** You fly from New York to Puerto Rico with a scheduled stop in Miami. You return to New York nonstop. The flight from New York to Miami is in the United States, so only the flight from Miami to Puerto Rico is outside the United States. Because there are no scheduled stops between Puerto Rico and New York, all of the return trip is outside the United States.

**Private car.** Travel by private car in the United States is travel between points in the United States, even though you are on your way to a destination outside the United States.

**Example.** You travel by car from Denver to Mexico City and return. Your travel from Denver to the border and from the border back to Denver is travel in the United States, and the rules in this section apply. The rules under *Travel Outside the United States* apply to your trip from the border to Mexico City and back to the border.

## Travel Outside the United States

If any part of your business travel is outside the United States, some of your deductions for the cost of getting to and from your destination may be limited. For this purpose, the United States includes the 50 states and the District of Columbia.

How much of your travel expenses you can deduct depends in part upon how much of your trip outside the United States was business related.

### Travel Entirely for Business or Considered Entirely for Business

You can deduct all your travel expenses of getting to and from your business destination if your trip is entirely for business or considered entirely for business.

**Travel entirely for business.** If you travel outside the United States and you spend the entire time on business activities, you can deduct all of your travel expenses.

**Travel considered entirely for business.** Even if you did not spend your entire time on business activities, your trip is considered

entirely for business if you meet at least one of the following four exceptions.

**Exception 1 – No substantial control.**

Your trip is considered entirely for business if you did not have substantial control over arranging the trip. You are not considered to have substantial control merely because you have control over the timing of your trip.

You are considered not to have substantial control over your trip if you:

- 1) Are an employee who was reimbursed or paid a travel expense allowance,
- 2) Are not related to your employer, and
- 3) Are not a managing executive.

“Related to your employer” was defined earlier in this chapter under *Standard Meal Allowance*.

A “managing executive” is an employee who has the authority and responsibility, without being subject to the veto of another, to decide on the need for the business travel.

A self-employed person generally has substantial control over arranging business trips.

**Exception 2 – Outside United States no more than a week.** Your trip is considered entirely for business if you were outside the United States for a week or less, combining business and nonbusiness activities. One week means seven consecutive days. In counting the days, do not count the day you leave the United States, but do count the day you return to the United States.

**Example.** You traveled to Brussels primarily for business. You left Denver on Tuesday and flew to New York. On Wednesday, you flew from New York to Brussels, arriving the next morning. On Thursday and Friday, you had business discussions, and from Saturday until Tuesday, you were sightseeing. You flew back to New York, arriving Wednesday afternoon. On Thursday, you flew back to Denver. Although you were away from your home in Denver for more than a week, you were not outside the United States for more than a week. This is because the day you depart does not count as a day outside the United States. You can deduct your cost of the round-trip flight between Denver and Brussels. You can also deduct the cost of your stay in Brussels for Thursday and Friday while you conducted business. However, you cannot deduct the cost of your stay in Brussels from Saturday through Tuesday because those days were spent on nonbusiness activities.

**Exception 3 – Less than 25% of time on personal activities.** Your trip is considered entirely for business if you were outside the United States for more than a week, but you spent less than 25% of the total time you were outside the United States on nonbusiness activities. For this purpose, count both the day your trip began and the day it ended.

**Example.** You flew from Seattle to Tokyo, where you spent 14 days on business and 5 days on personal matters. You then flew back to Seattle. You spent one day flying in each direction. Because only  $\frac{5}{21}$  (less than 25%) of your total time abroad was for nonbusiness activities, you can deduct as travel expenses what it would have cost you to make the trip if you had not engaged in any nonbusiness activity. The amount you can deduct is the cost of the round-trip plane fare and 16 days

of meals (subject to the 50% limit), lodging, and other related expenses.

**Exception 4 – Vacation not a major consideration.** Your trip is considered entirely for business if you can establish that a personal vacation was not a major consideration, even if you have substantial control over arranging the trip.

**Travel not entirely for business.** If you do not meet any of the above exceptions, you may still be able to deduct some of your expenses. See *Travel Primarily for Business*, next.

## Travel Primarily for Business

If you travel outside the United States primarily for business but spend some of your time on nonbusiness activities, you generally cannot deduct all of your travel expenses. You can only deduct the business portion of your cost of getting to and from your destination. You must allocate the costs between your business and nonbusiness activities to determine your deductible amount. See *Travel allocation rules*, below.



*You do not have to allocate your travel expenses if you meet one of the four exceptions listed earlier under Travel considered entirely for business. In those cases, you can deduct the total cost of getting to and from your destination.*

**Travel allocation rules.** If your trip outside the United States was primarily for business, you must allocate your travel time on a day-to-day basis between business days and nonbusiness days. The days you depart from and return to the United States are both counted as days outside the United States.

To figure the deductible amount of your round-trip travel expenses, use the following fraction. The numerator (top number) is the total number of business days outside the United States. The denominator (bottom number) is the total number of travel days outside the United States.

**Counting business days.** Your business days include transportation days, days your presence was required, days you spent on business, and certain weekends and holidays.

**Transportation day.** Count as a business day any day you spend traveling to or from a business destination. However, if because of a nonbusiness activity you do not travel by a direct route, your business days are the days it would take you to travel a reasonably direct route to your business destination. Extra days for side trips or nonbusiness activities cannot be counted as business days.

**Presence required.** Count as a business day any day your presence is required at a particular place for a specific business purpose. Count it as a business day even if you spend most of the day on nonbusiness activities.

**Day spent on business.** If your principal activity during working hours is pursuit of your trade or business, count the day as a business day. Also, count as a business day any day you are prevented from working because of circumstances beyond your control.

**Certain weekends and holidays.** Count weekends, holidays, and other necessary standby days as business days if they fall

between business days. But if they follow your business meetings or activity and you remain at your business destination for non-business or personal reasons, do not count them as business days.

**Example 1.** Your tax home is New York City. You travel to Quebec where you have a business appointment on Friday. You have another appointment on the following Monday. Because your presence was required on both Friday and Monday, they are business days. Because the weekend is between business days, Saturday and Sunday are counted as business days. This is true even though you use the weekend for sightseeing, visiting friends, or other nonbusiness activity.

**Example 2.** If, in *Example 1*, you had no business in Quebec after Friday, but stayed until Monday before starting home, Saturday and Sunday would be nonbusiness days.

**Nonbusiness activity on the way to or from your business destination.** If you stopped for a vacation or other nonbusiness activity either on the way from the United States to your business destination, or on the way back to the United States from your business destination, you must allocate part of your travel expenses to the nonbusiness activity. The part you must allocate is the amount it would have cost you to travel between the point where travel outside the United States begins and your nonbusiness destination and a return to the point where travel outside the United States ends. You determine the nonbusiness portion of that expense by multiplying it by a fraction. The numerator of the fraction is the number of nonbusiness days during your travel outside the United States and the denominator is the total number of days you spend outside the United States.

**Example.** You live in New York. On May 4 you flew to Paris to attend a business conference that began on May 5. The conference ended at noon on May 14. That evening you flew to Dublin where you visited with friends until the afternoon of May 21, when you flew directly home to New York. The primary purpose for the trip was to attend the conference.

If you had not stopped in Dublin, you would have arrived home the evening of May 14. You did not meet any of the exceptions that would allow you to consider your travel entirely for business. May 4 through May 14 (11 days) are business days and May 15 through May 21 (7 days) are nonbusiness days.

You can deduct the cost of your meals (subject to the 50% limit), lodging, and other business-related travel expenses while in Paris.

You cannot deduct your expenses while in Dublin. You also cannot deduct  $\frac{7}{18}$  of what it would have cost you to travel round-trip between New York and Dublin.

You paid \$450 to fly from New York to Paris, \$200 to fly from Paris to Dublin, and \$500 to fly from Dublin back to New York. Roundtrip airfare from New York to Dublin would have been \$850.

You figure the deductible part of your air travel expenses by subtracting  $\frac{7}{18}$  of the round-trip fare and other expenses you would have had in traveling directly between New York and Dublin ( $850 \times \frac{7}{18} = \$331$ ) from your total expenses in traveling from New York to Paris to Dublin and back to New York ( $\$450 + \$200 + \$500 = \$1,150$ ).

Your deductible air travel expense is \$819 (\$1,150 – \$331).

**Nonbusiness activity at, near, or beyond business destination.** If you had a vacation or other nonbusiness activity at, near, or beyond your business destination, you must allocate part of your travel expenses to the nonbusiness activity. The part you must allocate is the amount it would have cost you to travel between the point where travel outside the United States begins and your business destination and a return to the point where travel outside the United States ends. You determine the nonbusiness portion of that expense by multiplying it by a fraction. The numerator of the fraction is the number of nonbusiness days during your travel outside the United States and the denominator is the total number of days you spend outside the United States. None of your travel expenses for nonbusiness activities at, near, or beyond your business destination are deductible.

**Example.** Assume that the dates are the same as in the previous example but that instead of going to Dublin for your vacation, you fly to Venice, Italy, for a vacation. You cannot deduct any part of the cost of your trip from Paris to Venice and return to Paris. In addition, you cannot deduct  $\frac{7}{18}$  of the airfare and other expenses from New York to Paris and back to New York. You can deduct  $\frac{11}{18}$  of the round-trip plane fare and other travel expenses from New York to Paris, plus your meals, lodging, and any other business expenses you had in Paris. (Assume these expenses total \$900). If the round-trip plane fare and other travel-related expenses (such as food during the trip) are \$800 from New York to Paris, you can deduct travel costs of \$489 ( $\frac{11}{18} \times \$800$ ), plus the full \$900 for the expenses you had in Paris.

**Other methods.** You can use another method of counting business days if you establish that it more clearly reflects the time spent on nonbusiness activities outside the United States.

## Travel Primarily for Vacation

If you travel outside the United States primarily for vacation or for investment purposes, the entire cost of the trip is a nondeductible **personal expense**. This is true even if you spend some time attending brief professional seminars or a continuing education program. You can, however, deduct your registration fees and any other expenses you have that are directly related to your business.

**Example.** The university from which you graduated has a continuing education program for members of its alumni association. This program consists of trips to various foreign countries where academic exercises and conferences are set up to acquaint individuals in most occupations with selected facilities in several regions of the world. However, none of the conferences are directed toward specific occupations or professions. It is up to each participant to seek out specialists and organizational settings appropriate to his or her occupational interests.

Three-hour sessions are held each day over a 5-day period at each of the selected overseas facilities where participants can meet with individual practitioners. These sessions are composed of a variety of activities

including workshops, mini-lectures, role playing, skill development, and exercises. Professional conference directors schedule and conduct the sessions. Participants can choose those sessions they wish to attend.

You can participate in this program since you are a member of the alumni association. You and your family take one of the trips. You spend about 2 hours at each of the planned sessions. The rest of the time you go touring and sightseeing with your family. The trip lasts less than 1 week.

Your travel expenses for the trip are not deductible since the trip was primarily a vacation. However, registration fees and any other incidental expenses you have for the five planned sessions you attended that are directly related and beneficial to your business are deductible business expenses. These expenses should be specifically stated in your records to ensure proper allocation of your deductible business expenses.

## Luxury Water Travel

If you travel by ocean liner, cruise ship, or other form of luxury water transportation for business purposes, there is a daily limit on the amount you can deduct. The limit is **twice** the highest federal per diem rate allowable at the time of your travel. (Generally, the federal per diem is the amount paid to federal government employees for daily living expenses when they travel away from home, but in the United States, for business purposes.)

**Daily limit on luxury water travel.** The highest federal per diem rate allowed and the daily limit for luxury water travel in 2000 is shown in the following table.

2000 Dates	Highest Federal Per Diem	Daily Limit on Luxury Water Travel
Jan. 1–Jun. 14	\$ 244	\$ 488
Jun. 15–Sep 15	253	506
Sep. 16–Dec. 31	244	448

**Example.** Caroline, a travel agent, traveled by ocean liner from New York to London, England, on business in May. Her expense for the 6-day cruise was \$3,000. Caroline's deduction for the cruise cannot exceed \$2,928 (6 days × \$488 daily limit).

**Meals and entertainment.** If your expenses for luxury water travel include **separately stated** amounts for meals or entertainment, those amounts are subject to the 50% limit on meals and entertainment before you apply the daily limit. For a discussion of the 50% limit, see chapter 2.

**Example.** In the previous example, Caroline's luxury water travel had a total cost of \$3,000. Of that amount, \$1,600 was separately stated as meals and entertainment. Caroline, who is self-employed, is not reimbursed for any of her travel expenses. Caroline computes her deductible travel expenses as follows.

Meals and entertainment .....	\$1,600
50% limit .....	<u>× .50</u>
Allowable meals & entertainment	\$ 800
Other travel expenses .....	<u>+ 1,400</u>
Allowable cost before the daily limit .....	\$2,200
Daily limit for May 2000 .....	\$488
Times number of days .....	<u>× 6</u>
Maximum luxury water travel deduction ....	\$2,928
<b>Amount of allowable deduction .....</b>	<b><u>\$2,200</u></b>

Caroline's deduction for her cruise is limited to \$2,200, even though the limit on luxury water travel is higher.

**Not separately stated.** If your meal or entertainment charges are not separately stated or are not clearly identifiable, you do not have to allocate any portion of the total charge to meals or entertainment.

## Exceptions

The per diem rule does not apply to expenses you have to attend a convention, seminar, or meeting on board a cruise ship. See *Cruise ships, under Conventions Held Outside the North American Area*.

## Conventions

You can deduct your travel expenses when you attend a convention if you can show that your attendance benefits your trade or business. You cannot deduct the travel expenses for your family. If the convention is for investment, political, social, or other purposes unrelated to your trade or business, you cannot deduct the expenses. You cannot deduct nonbusiness expenses.



**Your appointment or election as a delegate does not, in itself, determine whether you can deduct travel expenses. You can deduct your travel expenses only if your attendance is connected to your own trade or business.**

**Convention agenda.** The convention agenda or program generally shows the purpose of the convention. You can show your attendance at the convention benefits your trade or business by comparing the agenda with the official duties and responsibilities of your position. The agenda does not have to deal specifically with your official duties and responsibilities; it will be enough if the agenda is so related to your position that it shows your attendance was for business purposes.

## Conventions Held Outside the North American Area

You cannot deduct expenses for attending a convention, seminar, or similar meeting held outside the North American area **unless** the meeting is directly related to your trade or business. Also, it must be as reasonable to hold the meeting outside the North American area as in it. If the meeting meets these requirements, you also must satisfy the rules for deducting expenses for business trips in general, discussed earlier under *Travel Outside the United States*.

**North American area.** The North American area includes the following locations.

American Samoa	Kingman Reef
Baker Island	Marshall Islands
Barbados	Mexico
Bermuda	Micronesia
Canada	Midway Islands
Costa Rica	Northern Mariana Islands
Dominica	Palau
Dominican Republic	Palmyra
Grenada	Puerto Rico
Guam	Saint Lucia
Guyana	Trinidad and Tobago
Honduras	USA
Howland Island	U.S. Virgin Islands
Jamaica	Wake Island
Jarvis Island	
Johnston Island	

**Reasonableness test.** The following factors are taken into account to determine if it was reasonable to hold the meeting outside the North American area.

- 1) The purpose of the meeting and the activities taking place at the meeting.
- 2) The purposes and activities of the sponsoring organizations or groups.
- 3) The homes of the active members of the sponsoring organizations and the places at which other meetings of the sponsoring organizations or groups have been or will be held.
- 4) Other relevant factors you may present.

**Cruise ships.** You can deduct up to \$2,000 per year of your expenses of attending conventions, seminars, or similar meetings held on cruise ships. You must, however, establish that the meeting is directly related to your trade or business. All ships that sail are considered cruise ships.

You can deduct these expenses if all of the following requirements are met.

- 1) The cruise ship is a vessel registered in the United States.
- 2) All of the cruise ship's ports of call are in the United States or in possessions of the United States.
- 3) You attach to your return a written statement signed by you that includes information about:
  - a) The total days of the trip, excluding the days of transportation to and from the cruise ship port,
  - b) The number of hours each day that you devoted to scheduled business activities, and
  - c) A program of the scheduled business activities of the meeting.
- 4) You attach to your return a written statement signed by an officer of the organization or group sponsoring the meeting that includes:
  - a) A schedule of the business activities of each day of the meeting, and
  - b) The number of hours you attended the scheduled business activities.

## 2. Entertainment Expenses

You may be able to deduct business-related entertainment expenses you have for entertaining a client, customer, or employee. The rules and definitions are summarized in *Table 2*.

You can deduct entertainment expenses only if they are both ordinary and necessary and meet one of the following two tests.

- 1) Directly-related test.
- 2) Associated test.



**The amount you can deduct for entertainment expenses may be limited.** Generally, you can deduct only 50% of your unreimbursed entertainment expenses. This limit is discussed later under 50% Limit.

**Club dues and membership fees.** You cannot deduct dues (including initiation fees) for membership in any club organized for business, pleasure, recreation, or other social purpose. This rule applies to any membership organization if one of its principal purposes is to conduct entertainment activities for members or their guests, or to provide members or their guests with access to entertainment facilities, discussed later.

The purposes and activities of a club, not its name, will determine whether or not you can deduct the dues. You cannot deduct dues paid to country clubs, golf and athletic clubs, airline clubs, hotel clubs, and clubs operated to provide meals under circumstances generally considered to be conducive to business discussions.

**Entertainment facilities.** Generally, you cannot deduct any expenses for the cost of using an entertainment facility. This includes expenses for depreciation and operating costs such as rent, utilities, maintenance and protection.

An entertainment facility is any property you own, rent, or use for entertainment. Examples include a yacht, hunting lodge, fishing camp, swimming pool, tennis court, bowling alley, car, airplane, apartment, hotel suite, or home in a vacation resort.

**Out-of-pocket expenses.** You can deduct out-of-pocket expenses, such as for food and beverages, catering, gas, and fishing bait, that you provided during entertainment at a facility. These are not expenses for the use of an entertainment facility. However, these expenses are subject to the directly-related and associated tests and to the 50% limit, all discussed later.

## What Entertainment Expenses Are Deductible?

This section explains different types of entertainment expenses that you may be able to deduct.

**Entertainment.** Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips.

Entertainment also may include meeting personal, living, or family needs of individuals, such as providing meals, a hotel suite, or a car to customers or their families.

**A meal as a form of entertainment.** Entertainment includes the cost of a meal you provide to a customer or client, whether the meal is a part of other entertainment or by itself. A meal expense includes the cost of food, beverages, taxes, and tips for the meal. To deduct an entertainment-related meal, you or your employee must be present when the food or beverages are provided.



**You cannot claim the cost of your meal both as an entertainment expense and as a travel expense.**



**Meals sold in the normal course of your business are not considered entertainment.**

**Deduction may depend on your type of business.** Your kind of business may determine if a particular activity is considered entertainment. For example, if you are a dress designer and have a fashion show to introduce your new designs to store buyers, the show generally is not considered entertainment. This is because fashion shows are typical in your business. But, if you are an appliance distributor and hold a fashion show for the spouses of your retailers, the show generally is considered entertainment.

**Taking turns paying for meals or entertainment.** Expenses are *not* deductible when a group of business acquaintances take turns picking up each others' meal or entertainment checks without regard to whether any business purposes are served.

**Lavish or extravagant expenses.** You cannot deduct expenses for entertainment that are lavish or extravagant. An expense is not considered lavish or extravagant if it is reasonable considering the facts and circumstances. Expenses will not be disallowed just because they are more than a fixed dollar amount or take place at deluxe restaurants, hotels, nightclubs, or resorts.

**Allocating between business and non-business.** If you entertain business and nonbusiness individuals at the same event, you must divide your entertainment expenses between business and nonbusiness. You can deduct only the business part. If you cannot establish the part of the expense for each person participating, allocate the expense to each participant on a pro rata basis.

**Example.** You entertain a group of individuals that includes yourself, three business prospects, and seven social guests. Only  $\frac{4}{11}$  of the expense qualifies as a business entertainment expense. You cannot deduct the expenses for the seven social guests because those costs are nonbusiness expenses.

**Trade association meetings.** You can deduct entertainment expenses that are directly related to and necessary for attending business meetings or conventions of certain exempt organizations. These organizations include business leagues, chambers of commerce, real estate boards, trade associations, and professional associations. The expenses of your attendance must be related to your active trade or business. These expenses are subject to the 50% limit on entertainment expenses.

**Entertainment tickets.** Generally, you cannot deduct more than the face value of an entertainment ticket, even if you paid a higher price. For example, you cannot deduct service fees you pay to ticket agencies or brokers or any amount over the face value of the tickets you pay to scalpers.

**Exception for events that benefit charitable organizations.** Different rules apply when the cost of a ticket to a sports event benefits a charitable organization. You can

take into account the full cost you pay for the ticket, even if it is more than the face value, if all of the following conditions apply.

- 1) The event's main purpose is to benefit a qualified charitable organization.
- 2) The entire net proceeds go to the charity.
- 3) The event uses volunteers to perform substantially all the event's work.

**TIP** *The 50% limit on entertainment does not apply to any expense for a package deal that includes a ticket to such a charitable sports event.*

**Example 1.** You purchase tickets to a golf tournament organized by the local volunteer fire company. All net proceeds will be used to buy new fire equipment. The volunteers will run the tournament. You can deduct the entire cost of the tickets as a business expense if they otherwise qualify as an entertainment expense.

**Example 2.** You purchase tickets to a college football game through a ticket broker. After having a business discussion, you take a client to the game. Net proceeds from the game go to colleges that qualify as charitable organizations. However, since the colleges also pay individuals to perform services, such as coaching and recruiting, you can only use the face value of the tickets in determining your business deduction. Also, your deduction is subject to the 50% limit.

**Skyboxes and other private luxury boxes.** If you rent a skybox or other private luxury box for more than one event at the same sports arena, you generally cannot deduct more than the price of a nonluxury box seat ticket.

To determine whether a skybox has been rented for more than one event, count each game or other performance as one event. For example, renting a skybox for a series of playoff games is considered renting it for more than one event. All skyboxes you rent in the same arena, along with any rentals by related parties, are considered in making this determination.

Related parties include:

- 1) Family members (spouses, ancestors, and lineal descendants),
- 2) Parties who have made a reciprocal arrangement involving the sharing of skyboxes,
- 3) Related corporations,
- 4) A partnership and its principal partners, and
- 5) A corporation and a partnership with common ownership.

**Example.** You pay \$3,000 to rent a 10-seat skybox at Team Stadium for three baseball games. The cost of regular nonluxury box seats at each event is \$20 a seat. You can deduct (subject to the 50% limit) \$600 [(10 seats × \$20 each) × 3 events].

**Food and beverages in skybox seats.** If expenses for food and beverages are separately stated, you can deduct these expenses in addition to the amounts allowable for the skybox, subject to the requirements and limits that apply. The amounts separately stated for food and beverages must be rea-

Table 2. When Are Entertainment Expenses Deductible?

<b>General rule</b>	You can deduct ordinary and necessary expenses to entertain a client, customer, or employee if the expenses meet the directly-related test or the associated test.
<b>Definitions</b>	<ul style="list-style-type: none"> <li>• <u>Entertainment</u> includes any activity generally considered to provide entertainment, amusement, or recreation, and includes meals provided to a customer or client.</li> <li>• An <u>ordinary</u> expense is one that is common and accepted in your field of business, trade, or profession.</li> <li>• A <u>necessary</u> expense is one that is helpful and appropriate, although not necessarily indispensable, for your business.</li> </ul>
<b>Tests to be met</b>	<p><b>Directly-related test</b></p> <ul style="list-style-type: none"> <li>• Entertainment took place in a clear business setting, <b>or</b></li> <li>• Main purpose of entertainment was the active conduct of business, <b>and</b></li> </ul> <p>You did engage in business with the person during the entertainment period, <b>and</b></p> <p>You had more than a general expectation of getting income or some other specific business benefit.</p> <p><b>Associated test</b></p> <ul style="list-style-type: none"> <li>• Entertainment is associated with your trade or business, <b>and</b></li> <li>• Entertainment directly precedes or follows a substantial business discussion.</li> </ul>
<b>Other rules</b>	<ul style="list-style-type: none"> <li>• You cannot deduct the cost of your meal as an entertainment expense if you are claiming the meal as a travel expense.</li> <li>• You cannot deduct expenses that are lavish or extravagant under the circumstances.</li> <li>• You generally can deduct only 50% of your unreimbursed entertainment expenses (see <i>50% Limit</i>).</li> </ul>

sonable. You cannot inflate the charges for food and beverages to avoid the limited deduction for skybox rentals.

### Directly-Related Test

To meet the directly-related test for entertainment expenses (including entertainment-related meals), you must show that:

- 1) The main purpose of the combined business and entertainment was the active conduct of business,
- 2) You did engage in business with the person during the entertainment period, and
- 3) You had more than a general expectation of getting income or some other specific business benefit at some future time.

Business is generally not considered to be the main purpose when business and entertainment are combined on hunting or fishing trips, or on yachts or other pleasure boats. Even if you show that business was the main purpose, you generally cannot deduct the expenses for the use of an entertainment facility. See *Entertainment facilities* earlier in this chapter.

You must consider all the facts, including the nature of the business transacted and the reasons for conducting business during the entertainment. It is not necessary to devote more time to business than to entertainment.

However, if the business discussion is only incidental to the entertainment, the entertainment expenses do not meet the directly-related test.

**TIP** *You do not have to show that business income or other business benefit actually resulted from each entertainment expense.*

**Clear business setting.** If the entertainment takes place in a clear business setting and is for your business or work, the expenses are considered directly related to your business or work. The following situations are examples of entertainment in a clear business setting.

- 1) Entertainment in a hospitality room at a convention where business goodwill is created through the display or discussion of business products.
- 2) Entertainment that is mainly a price rebate on the sale of your products (such as a restaurant owner providing an occasional free meal to a loyal customer).
- 3) Entertainment of a clear business nature occurring under circumstances where there is no meaningful personal or social relationship between you and the persons entertained. An example is entertainment of business and civic leaders at the opening of a new hotel or play when the purpose is to get business publicity rather than to create or maintain the goodwill of the persons entertained.

**Expenses not considered directly related.** Entertainment expenses generally are not considered directly related if you are not there or in situations where there are substantial distractions that generally prevent you from actively conducting business. The following are examples of situations where there are substantial distractions.

- 1) A meeting or discussion at a nightclub, theater, or sporting event.
- 2) A meeting or discussion during what is essentially a social gathering, such as a cocktail party.
- 3) A meeting with a group that includes persons who are not business associates at places such as cocktail lounges, country clubs, golf clubs, athletic clubs, or vacation resorts.

### Associated Test

Even if your expenses do not meet the directly-related test, they may meet the associated test.

To meet the associated test for entertainment expenses (including entertainment-related meals), you must show that the entertainment:

- 1) Is associated with your trade or business, and
- 2) Directly precedes or follows a substantial business discussion (defined later).

Generally, any ordinary and necessary expense is associated with the active conduct of your trade or business if you can show that you had a clear business purpose for having the expense. The purpose may be to get new business or to encourage the continuation of an existing business relationship.

**Substantial business discussion.** Whether a business discussion is substantial depends on the facts of each case. A business discussion will not be considered substantial unless you can show that you actively engaged in the discussion, meeting, negotiation, or other business transaction to get income or some other specific business benefit.

The meeting does not have to be for any specified length of time, but you must show that the business discussion was substantial in relation to the meal or entertainment. It is not necessary that you devote more time to business than to entertainment. You do not have to discuss business during the meal or entertainment.

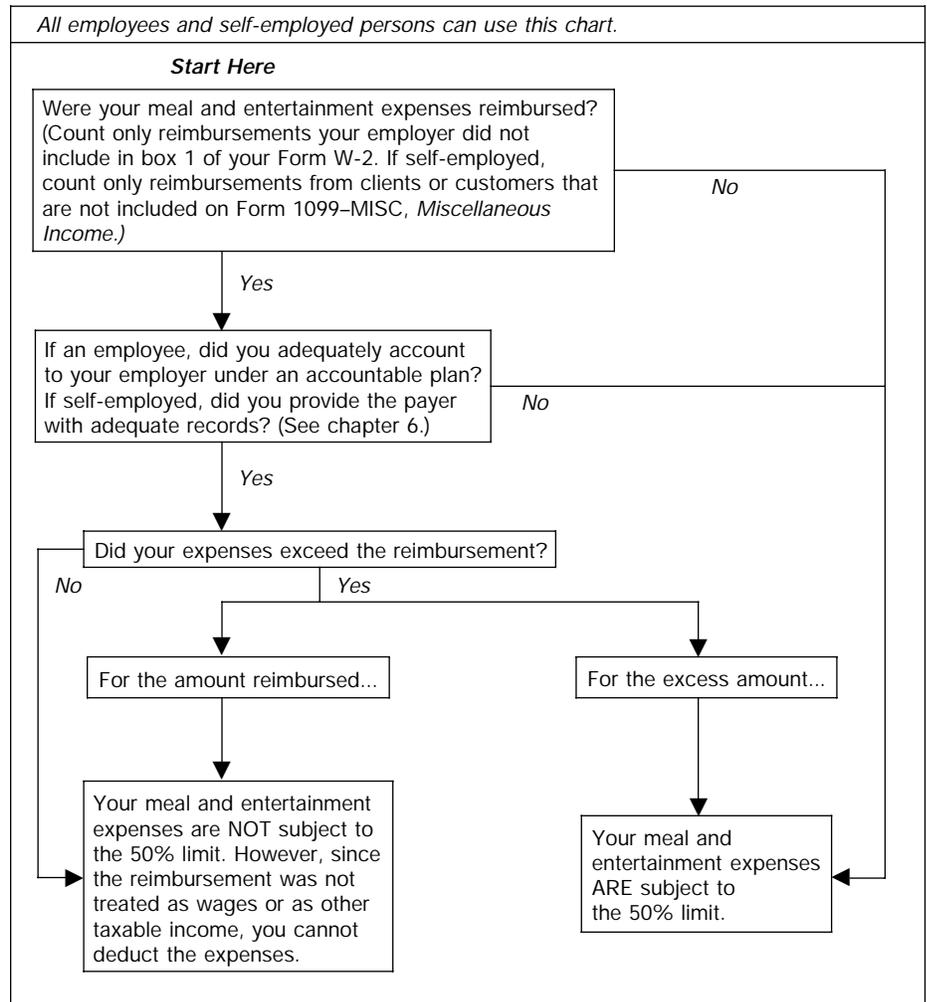
**Meetings at conventions.** You are considered to have a substantial business discussion if you attend meetings at a convention or similar event, or at a trade or business meeting sponsored and conducted by a business or professional organization. However, your reason for attending the convention or meeting must be to further your trade or business. The organization that sponsors the convention or meeting must schedule a program of business activities that is the main activity of the convention or meeting.

**Directly before or after business discussion.** If the entertainment is held on the same day as the business discussion, it is considered to be held directly before or after the business discussion.

If the entertainment and the business discussion are not held on the same day, you

Figure A. Does the 50% Limit Apply to Your Expenses?

There are exceptions to these rules. See *Exceptions to the 50% Limit*.



must consider the facts of each case to see if the associated test is met. Among the facts to consider are the place, date, and duration of the business discussion. If you or your business associates are from out of town, you must also consider the dates of arrival and departure, and the reasons the entertainment and the discussion did not take place on the same day.

**Example.** A group of business associates comes from out of town to your place of business to hold a substantial business discussion. If you entertain those business guests on the evening before the business discussion, or on the evening of the day following the business discussion, the entertainment generally is considered to be held directly before or after the discussion. The expense meets the associated test.

**Expenses for spouses.** You generally cannot deduct the cost of entertainment for your spouse or for the spouse of a customer. However, you can deduct these costs if you can show that you had a clear business purpose, rather than a personal or social purpose, for providing the entertainment.

**Example.** You entertain a customer. The cost is an ordinary and necessary business expense and is allowed under the entertainment rules. The customer's spouse joins you because it is impractical to entertain the

customer without the spouse. You can deduct the cost of entertaining the customer's spouse as an ordinary and necessary business expense. If your spouse joins the party because the customer's spouse is present, the cost of the entertainment for your spouse is also an ordinary and necessary business expense.

### 50% Limit

In general, you can deduct only 50% of your business-related meal and entertainment expenses. (If you are subject to the Department of Transportation's "hours of service" limits, you can deduct a higher percentage. See *Individuals subject to "hours of service" limits*, later.) The 50% limit applies to employees or their employers, and to self-employed persons (including independent contractors) or their clients, depending on whether the expenses are reimbursed. *Figure A* summarizes the general rules explained in this section.

The 50% limit applies to business meals or entertainment expenses you have while:

- 1) Traveling away from home (whether eating alone or with others) on business,
- 2) Entertaining customers at your place of business, a restaurant, or other location, or
- 3) Attending a business convention or reception, business meeting, or business luncheon at a club.

**Covered expenses.** Taxes and tips relating to a business meal or entertainment activity are included in the amount that is subject to the 50% limit. Expenses such as cover charges for admission to a nightclub, rent paid for a room in which you hold a dinner or cocktail party, or the amount paid for parking at a sports arena are subject to the 50% limit. However, the cost of transportation to and from a business meal or a business-related entertainment activity is not subject to the 50% limit.

**Separating costs.** If you have an expense for goods and services consisting of meals, entertainment, and other services (such as lodging or transportation), you must allocate that expense between the cost of meals and entertainment and the cost of the other services. You must have a reasonable basis for making this allocation. For example, you must allocate your expenses if a hotel includes one or more meals in its room charge, or if you are provided with one per diem amount to cover both your lodging and meal expenses.

**Application of 50% limit.** The 50% limit on meal and entertainment expenses applies if the expense is otherwise deductible and is not covered by one of the exceptions discussed later.

The 50% limit also applies to activities that are not a trade or business. It applies to meal and entertainment expenses you have for the production of income, including rental or royalty income. It also applies to the cost of meals included in deductible educational expenses.

**When to apply the 50% limit.** You apply the 50% limit after determining the amount that would otherwise qualify for a deduction. You first have to determine the amount of meal and entertainment expenses that would be deductible under the other rules discussed in this publication.

**Example 1.** You spend \$100 for a business-related meal. If \$40 of that amount is not allowable because it is lavish and extravagant, the remaining \$60 is subject to the 50% limit. Your deduction cannot be more than \$30 ( $.50 \times \$60$ ).

**Example 2.** You purchase two tickets to a concert and give them to a client. You purchased the tickets through a ticket agent. You paid \$150 for the two tickets, which had a face value of \$60 each (\$120 total). Your deduction cannot be more than \$60 ( $.50 \times \$120$ ).

### Exceptions to the 50% Limit

Generally, business-related meal and entertainment expenses are subject to the 50% limit. *Figure A* can help you determine if the 50% limit applies to you.

**Expenses not subject to 50% limit.** Your meal or entertainment expense is **not** subject to the 50% limit if the expense meets one of the following exceptions.

**1 – Employee's reimbursed expenses.** If you are an employee, you are not subject to the 50% limit on expenses for which your employer reimburses you under an accountable plan. Accountable plans are discussed in chapter 6.

**2 – Self-employed.** If you are self-employed, your deductible meal and entertainment expenses are not subject to the 50%

limit if **all three** of the following requirements are met.

- 1) You have these expenses as an independent contractor.
- 2) Your customer or client reimburses you or gives you an allowance for these expenses in connection with services you perform.
- 3) You provide adequate records of these expenses to your customer or client. (See chapter 5.)

In this case, your client or customer is subject to the 50% limit on the expenses.

**Example.** You are a self-employed attorney who adequately accounts for meal and entertainment expenses to a client who reimburses you for these expenses. You are not subject to the directly-related or associated test, nor are you subject to the 50% limit. If the client can deduct the expenses, the client is subject to the 50% limit.

If you (the contractor) have expenses for meals and entertainment related to providing services for a client but do not adequately account for and seek reimbursement from the client for those expenses, you are subject to the directly-related or associated test and to the 50% limit.

**3 – Advertising expenses.** You are not subject to the 50% limit if you provide meals, entertainment, or recreational facilities to the general public as a means of advertising or promoting goodwill in the community. For example, the expense of sponsoring a television or radio show is deductible, as is the expense of distributing free food and beverages to the general public.

**4 – Sale of meals or entertainment.** You are not subject to the 50% limit if you actually sell meals, entertainment, goods and services, or use of facilities to the public. For example, if you run a nightclub, your expense for the entertainment you furnish to your customers, such as a floor show, is a business expense.

**5 – Charitable sports event.** You are not subject to the 50% limit if you pay for a package deal that includes a ticket to a qualified charitable sports event. For the conditions the sports event must meet, see *Exception for events that benefit charitable organizations under Entertainment tickets*, earlier.

**Individuals subject to "hours of service" limits.** You can deduct a higher percentage of your meal expenses if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. The percentage is 60% for 2000, and it gradually increases to 80% by the year 2008.

Individuals subject to the Department of Transportation's "hours of service" limits include the following persons.

- 1) Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.
- 2) Interstate truck operators and bus drivers who are under Department of Transportation regulations.
- 3) Certain railroad employees (such as engineers, conductors, train crews, dis-

patchers, and control operations personnel) who are under Federal Railroad Administration regulations.

- 4) Certain merchant mariners who are under Coast Guard regulations.

## 3.

# Business Gift Expenses

If you give business gifts in the course of your trade or business, you can deduct all or part of the cost. This chapter explains the limits and rules for deducting business gifts.

**\$25 limit on business gifts.** You can deduct no more than \$25 for business gifts you give directly or indirectly to any one person during your tax year. A gift to a company that is intended for the eventual personal use or benefit of a particular person or a limited class of people will be considered an indirect gift to that particular person or to the individuals within that class of people who receive the gift.

If you give a gift to a member of a customer's family, the gift is generally considered to be an indirect gift to the customer. This rule does not apply if you have a bona fide, independent business connection with that family member and the gift is not intended for the customer's eventual use.

If you and your spouse both give gifts, both of you are treated as one taxpayer. It does not matter whether you have separate businesses, are separately employed, or whether each of you has an independent connection with the recipient. If a partnership gives gifts, the partnership and the partners are treated as one taxpayer.

**Example.** Bob Jones sells products to Local Company. He and his wife, Jan, gave Local Company three cheese packages to thank them for their business. They paid \$80 for each package, or \$240 total. Three of Local Company's executives took the packages home for their families' use. Bob and Jan have no independent business relationship with any of the executives' other family members. They can deduct a total of \$75 ( $\$25 \text{ limit} \times 3$ ) for the cheese packages.

**Incidental costs.** Incidental costs, such as engraving on jewelry, or packaging, insuring, and mailing, are generally not included in determining the cost of a gift for purposes of the \$25 limit.

A related cost is incidental only if it does not add substantial value to the gift. For example, the cost of gift wrapping is an incidental cost. However, the purchase of an ornamental basket for packaging fruit is not an incidental cost if the value of the basket is substantial compared to the value of the fruit.

**Exceptions.** The following items are not considered gifts for purposes of the \$25 limit.

- 1) An item that costs \$4 or less and:
  - a) Has your name clearly and permanently imprinted on the gift, and

- b) Is one of a number of identical items you widely distribute.

Examples include pens, desk sets, and plastic bags and cases.

- 2) Signs, display racks, or other promotional material to be used on the business premises of the recipient.

**Gift or entertainment.** Any item that might be considered either a gift or an entertainment expense generally will be considered an entertainment expense. However, if you give a customer packaged food or beverages that you intend the customer to use at a later date, treat it as a gift expense.

If you give a customer tickets to a theater performance or sporting event and you do not go with the customer to the performance or event, you have a choice. You can treat the cost of the tickets as either a gift expense or an entertainment expense, whichever is to your advantage.

You can change your treatment of the tickets at a later date, but not after the time allowed for the assessment of income tax. In most instances, this assessment period ends 3 years after the due date of your income tax return.

If you go with the customer to the event, you must treat the cost of the tickets as an entertainment expense. You cannot choose, in this case, to treat the cost of the tickets as a gift expense.

## 4.

# Local Transportation Expenses

This chapter discusses expenses you can deduct for local business transportation. This includes the cost of transportation by air, rail, bus, taxi, etc., and the cost of driving and maintaining your car.

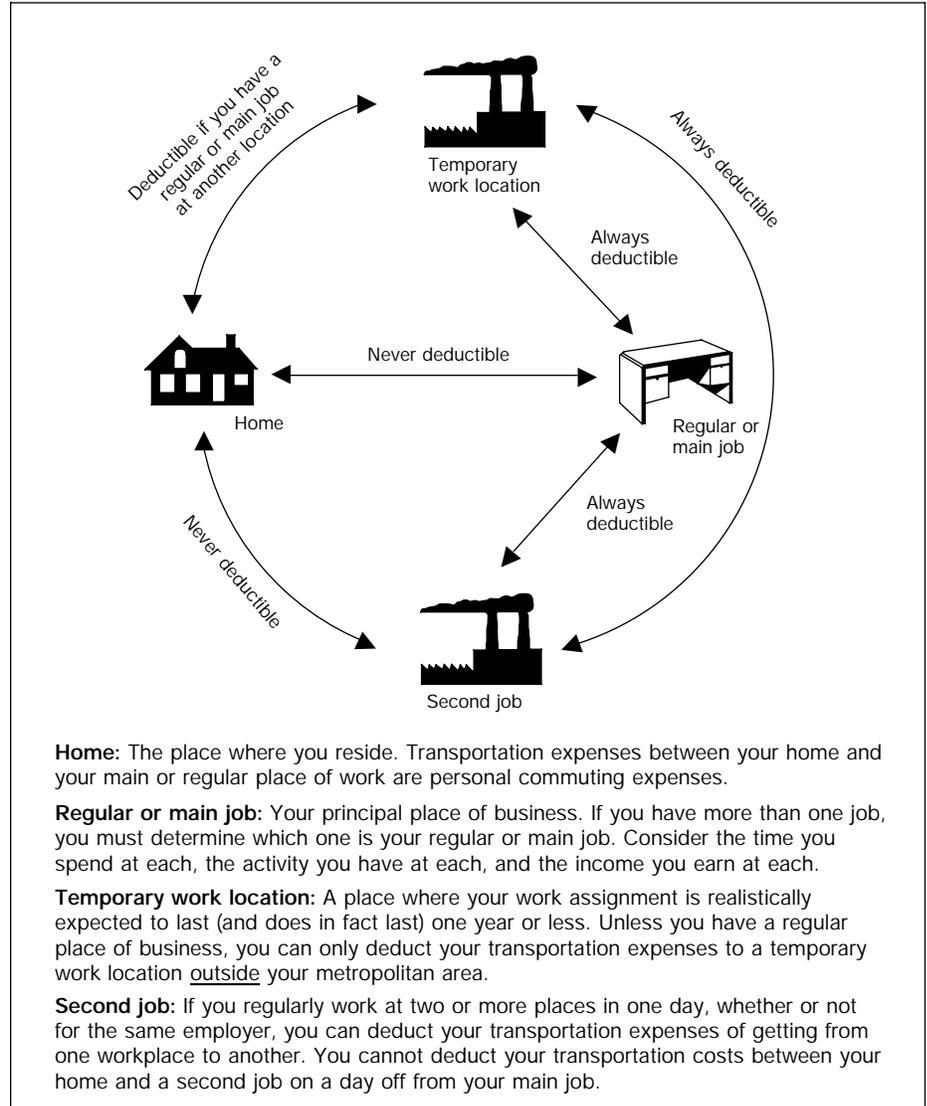
Local transportation expenses include the ordinary and necessary costs of all of the following.

- Getting from one workplace to another in the course of your business or profession when you are traveling within the city or general area that is your tax home. Tax home is defined in chapter 1.
- Visiting clients or customers.
- Going to a business meeting away from your regular workplace.
- Getting from your home to a temporary workplace when you have one or more regular places of work. These temporary workplaces can be either within the area of your tax home or outside that area.

Local business transportation does **not** include expenses you have while traveling away from home overnight. Those expenses are deductible as travel expenses which are discussed in chapter 1. However, if you use your car while traveling away from home overnight, use the rules in this chapter to fig-

## Figure B. When Are Local Transportation Expenses Deductible?

All employees and self-employed persons can use this chart.  
(Do not use this chart if your home is your principal place of business.  
See *Office in the home*.)



ure your car expense deduction. See *Car Expenses*, later.

**Illustration of local transportation.** Figure B illustrates the rules for when you can deduct local transportation expenses when you have a regular or main job away from your home. You may want to refer to it when deciding whether you can deduct your local business transportation expenses.

**Temporary work location.** If you have one or more regular places of business away from your home and you commute to a temporary work location in the same trade or business, you can deduct the expenses of the daily round-trip transportation between your home and the temporary location.

If your employment at a work location is realistically expected to last (and does in fact last) for 1 year or less, the employment is temporary unless there are facts and circumstances that would indicate otherwise. If your employment at a work location is realistically expected to last for more than 1 year or if there is no realistic expectation that the em-

ployment will last for 1 year or less, the employment is not temporary, regardless of whether it actually lasts for more than 1 year. If employment at a work location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to last more than 1 year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until your expectation changes. It will not be treated as temporary after the date you determine it will last more than 1 year.



**CAUTION** Temporary employment was formerly defined as employment on an irregular or short-term basis (generally a matter of days or weeks).



**TIP** You can file an amended return on Form 1040X, Amended U.S. Individual Income Tax Return, for any year that is affected by this change. However, you generally must file the amended return within three years from the time you filed the original return or within two years from the time you paid the tax, whichever is later.

If the temporary work location is beyond the general area of your regular place of work and you stay overnight, you are traveling away from home. You may have deductible travel expenses as discussed in chapter 1.

**No regular place of work.** If you have no regular place of work but ordinarily work in the metropolitan area where you live, you can deduct daily transportation costs between home and a temporary work site **outside** that metropolitan area. Generally, a metropolitan area includes the area within the city limits and the suburbs that are considered part of that metropolitan area. You cannot deduct daily transportation costs between your home and temporary work sites **within** your metropolitan area. These are nondeductible commuting costs.

**Two places of work.** If you work at two places in one day, whether or not for the same employer, you can deduct the expense of getting from one workplace to the other. However, if for some personal reason you do not go directly from one location to the other, you cannot deduct more than the amount it would have cost you to go directly from the first location to the second. Transportation expenses you have in going between home and a part-time job on a day off from your main job are commuting expenses. You cannot deduct them.

**Armed Forces reservists.** A meeting of an Armed Forces reserve unit is a second place of business if the meeting is held on a day on which you work at your regular job. You can deduct the expense of getting from one workplace to the other as just discussed under *Two places of work*.

You usually cannot deduct the expense if the reserve meeting is held on a day on which you do not work at your regular job. In this case, your transportation generally is a nondeductible commuting cost. However, you can deduct your transportation expenses if the location of the meeting is temporary and you have one or more regular places of work.

If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your transportation expenses.

If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. These expenses are discussed in chapter 1.

**Commuting expenses.** You cannot deduct the costs of taking a bus, trolley, subway, or taxi, or of driving a car between your home and your main or regular place of work. These costs are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is from your regular place of work. You cannot deduct commuting expenses even if you work during the commuting trip.

**Example.** You had a telephone installed in your car. You sometimes use that telephone to make business calls while commuting to and from work. Sometimes business associates ride with you to and from work, and you have a business discussion in the car. These activities do not change the trip from personal to business. You cannot deduct your commuting expenses.

**Parking fees.** Fees you pay to park your car at your place of business are nondeductible commuting expenses. You can, however, deduct business-related parking fees when visiting a customer or client.

**Advertising display on car.** Putting display material that advertises your business on your car does not change the use of your car from personal use to business use. If you use this car for commuting or other personal uses, you still cannot deduct your expenses for those uses.

**Car pools.** You cannot deduct the cost of using your car in a nonprofit car pool. Do not include payments you receive from the passengers in your income. These payments are considered reimbursements of your expenses. However, if you operate a car pool for a profit, you must include payments from passengers in your income. You can then deduct your car expenses (using the rules in this publication).

**Hauling tools or instruments.** Hauling tools or instruments in your car while commuting to and from work does not make your car expenses deductible. However, you can deduct any additional costs you have for hauling tools or instruments (such as for renting a trailer you tow with your car).

**Union members' trips from a union hall.** If you get your work assignments at a union hall and then go to your place of work, the costs of getting from the union hall to your place of work are nondeductible commuting expenses. Although you need the union to get your work assignments, you are employed where you work, not where the union hall is located.

**Office in the home.** If you have an office in your home that qualifies as a **principal place of business**, you can deduct your daily transportation costs between your home and another work location in the same trade or business. (See Publication 587, *Business Use of Your Home*, for information on determining if your home office qualifies as a principal place of business.)

If your home office does not qualify as a principal place of business, follow the general rules explained earlier in this chapter. Also, see *Example 1* and *Example 3*, next.

**Examples of deductible local transportation.** The following examples show when you can deduct local transportation expenses based on the location of your work and your home.

**Example 1.** You regularly work in an office in the city where you live. Your employer sends you to a one-week training session at a different office in the same city. You travel directly from your home to the training location and return each day. You can deduct the cost of your daily round-trip transportation between your home and the training location.

**Example 2.** Your principal place of business is in your home. You can deduct the cost of round-trip transportation between your qualifying home office and your client's or customer's place of business.

**Example 3.** You have no regular office, and you do not have an office in your home. In this case, the location of your first business contact is considered your office. Transportation expenses between your home and this first contact are nondeductible commuting expenses. Transportation expenses between

your last business contact and your home are also nondeductible commuting expenses. Although you cannot deduct the costs of these trips, you can deduct the costs of going from one client or customer to another.

## Car Expenses

If you use your car for business purposes, you may be able to deduct car expenses. You generally can use one of two methods to figure your expenses: actual expenses or the standard mileage rate. In this publication, "car" includes a van, pickup, or panel truck. For the definition of "car" for depreciation purposes, see *Car defined*, under *Actual Car Expenses*, later.

**TIP** You may be entitled to a tax credit for an electric vehicle or a deduction from gross income for a part of the cost of a clean-fuel vehicle that you place in service during the year. The vehicle must meet certain requirements, and you do not have to use it in your business to qualify for the credit or the deduction. However, you must reduce your basis for depreciation of the electric vehicle or clean-fuel vehicle property by the amount of the credit or deduction you claim. See Depreciation Deduction, later, under Actual Car Expenses. For more information on electric or clean-fuel vehicles, see chapter 12 of Publication 535.

**Rural mail carriers.** If you are a rural mail carrier, you may be able to treat the amount of qualified reimbursement you received as the amount of your allowable expense. Because the qualified reimbursement is treated as paid under an accountable plan, your employer should not include the amount of reimbursement in your income. And, since the reimbursement equals the expense, you have no deduction to report on your tax return.

A "qualified reimbursement" is the amount of reimbursement you receive that meets both of the following conditions.

- 1) It is given as an equipment maintenance allowance (EMA) to employees of the U.S. Postal Service.
- 2) It is at the rate contained in the 1991 collective bargaining agreement. Any later agreement cannot increase the qualified reimbursement amount by more than the rate of inflation.

See your employer for information on your reimbursement.

**CAUTION** If you are a rural mail carrier and received a qualified reimbursement, you cannot use the standard mileage rate.

## Standard Mileage Rate

You may be able to use the standard mileage rate to figure the deductible costs of operating your car for business purposes. For 2000, the standard mileage rate is **32½ cents a mile** for all business miles. This rate is adjusted periodically.

**CAUTION** If you use the standard mileage rate for a year, you cannot deduct your actual car expenses for that year. These expenses include depreciation or lease payments, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, and vehicle registration fees. See Choosing the

standard mileage rate and Standard mileage rate not allowed, later.

You generally can use the standard mileage rate whether or not you are reimbursed and whether or not any reimbursement is more or less than the amount figured using the standard mileage rate. See chapter 6 for more information on reimbursements.

**Choosing the standard mileage rate.** If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. Then in later years, you can choose to use either the standard mileage rate or actual expenses.

If you want to use the standard mileage rate for a car you lease, you must use it for the entire lease period. For leases that began on or before December 31, 1997, the standard mileage rate must be used for the entire portion of the lease period (including renewals) that is after that date.

If you choose to use the standard mileage rate, you are considered to have chosen not to use the depreciation methods discussed later. This is because the standard mileage rate includes an allowance for depreciation that is not expressed in terms of years. If you change to the actual expenses method in a later year, but before your car is fully depreciated, you have to estimate the remaining useful life of the car and use straight line depreciation. For more information about depreciation included in the standard mileage rate, see *Exception under Methods of depreciation under Depreciation Deduction*, later.

**Standard mileage rate not allowed.** You cannot use the standard mileage rate if you:

- 1) Use the car for hire (such as a taxi),
- 2) Operate two or more cars at the same time (as in fleet operations),
- 3) Claimed a depreciation deduction using ACRS or MACRS (discussed later) in an earlier year,
- 4) Claimed a section 179 deduction (discussed later) on the car,
- 5) Claimed actual car expenses after 1997 for a car you leased, or
- 6) Are a rural mail carrier who received a qualified reimbursement. (See *Rural mail carriers*, earlier.)

**Two or more cars.** If you own two or more cars that are used for business at the same time, you cannot use the standard mileage rate for the business use of any car. However, you may be able to deduct your actual expenses for operating each of the cars in your business. See *Actual Car Expenses* for information on how to figure your deduction.

You are **not** using two or more cars for business at the same time if you alternate using (use at different times) the cars for business.

The following examples illustrate the rules for when you can and cannot use the standard mileage rate for two or more cars.

**Example 1.** Marcia, a salesperson, owns a car and a van that she alternates using for calling on her customers. She can use the standard mileage rate for the business mileage of the car and the van.

**Example 2.** Tony uses his own pickup truck in his landscaping business. During the year, he traded in his old truck for a newer one. Tony can use the standard mileage rate for the business mileage of both the old and the new trucks.

**Example 3.** Chris owns a repair shop and an insurance business. He uses his pickup truck for the repair shop and his car for the insurance business. No one else uses either the truck or the car for business purposes. Chris can use the standard mileage rate for the business use of the truck and the car.

**Example 4.** Maureen owns a car and a van that are both used in her housecleaning business. Her employees use the van and she uses the car to travel to the various customers. Maureen cannot use the standard mileage rate for the car or the van. This is because both vehicles are used in Maureen's business at the same time. She must use actual expenses for both vehicles.

**Interest.** If you are an employee, you cannot deduct any interest paid on a car loan. This applies even if you use the car 100% for business as an employee.

However, if you are self-employed and use your car in your business, you can deduct that part of the interest expense that represents your business use of the car. For example, if you use your car 60% for business, you can deduct 60% of the interest on Schedule C (Form 1040). You cannot deduct the rest of the interest expense.

**TIP** If you use a home equity loan to purchase your car, you may be able to deduct the interest. See Publication 936, Home Mortgage Interest Deduction, for more information.

**Personal property taxes.** If you itemize your deductions on Schedule A (Form 1040), you can deduct on line 7 state and local personal property taxes on motor vehicles. You can take this deduction even if you use the standard mileage rate or if you do not use the car for business.

If you are self-employed and use your car in your business, you can deduct the business part of state and local personal property taxes on motor vehicles on Schedule C, Schedule C-EZ, or Schedule F (Form 1040). If you itemize your deductions, you can include the remainder of your state and local personal property taxes on the car on Schedule A (Form 1040).

**Parking fees and tolls.** In addition to using the standard mileage rate, you can deduct any business-related parking fees and tolls. (Parking fees that you pay to park your car at your place of work are nondeductible commuting expenses.)

**Sale, trade-in, or other disposition.** If you sell, trade in, or otherwise dispose of your car, you may have a gain or loss on the transaction or an adjustment to the basis of your new car. See *Disposition of a Car*, later.

## Actual Car Expenses

If you do not choose to use the standard mileage rate, you may be able to deduct your actual car expenses.

**TIP** If you qualify to use both methods, before choosing a method, you may want to figure your deduction both ways to see which gives you a larger deduction.

Actual car expenses include the costs of:

Depreciation	Lease payments	Registration fees
Licenses	Insurance	Repairs
Gas	Oil	Tires
Garage rent	Parking fees	Tolls

If you have fully depreciated a car that you still use in your business, you can continue to claim your other actual car expenses. Continue to keep records, as explained later in chapter 5.

**Business and personal use.** If you use your car for both business and personal purposes, you must divide your expenses between business and personal use. You can divide based on the miles driven for each purpose.

**Example.** You are a sales representative for a clothing firm and drive your car 20,000 miles during the year: 12,000 miles for business and 8,000 miles for personal use. You can claim only 60% (12,000 ÷ 20,000) of the cost of operating your car as a business expense.

**Employer-provided vehicle.** If you use a vehicle provided by your employer for business purposes, you can deduct your actual unreimbursed car expenses. You cannot use the standard mileage rate. See *Vehicle Provided by Your Employer* in chapter 6.

**Interest on car loans.** If you are an employee, you cannot deduct any interest paid on a car loan. This interest is treated as personal interest and is not deductible. If you are self-employed and use your car in that business, see *Interest*, earlier, under *Standard Mileage Rate*.

**Taxes paid on your car.** If you are an employee, you can deduct personal property taxes paid on your car if you itemize deductions. Enter the amount paid on line 7 of Schedule A (Form 1040).

You cannot deduct luxury or sales taxes, even if you use your car 100% for business. Luxury and sales taxes are part of your car's basis and may be recovered through depreciation. See *Depreciation Deduction*, later.

**Fines and collateral.** You cannot deduct fines and collateral you pay for traffic violations.

**Casualty and theft losses.** If your car is damaged, destroyed, or stolen, you may be able to deduct part of the loss that is not covered by insurance. See Publication 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness)*, for information on deducting a loss on your car.

**Depreciation and section 179 deductions.** Generally, the cost of a car, plus sales tax, luxury tax, and improvements, is a capital expense. Because the benefits last longer than one year, you generally cannot deduct a capital expense. However, you can recover this cost by claiming a section 179 deduction (the deduction allowed by section 179 of the Internal Revenue Code) and/or a depreciation deduction. By using depreciation, you recover the cost over more than one year by deduct-

ing part of it each year. The section 179 deduction and the depreciation deduction are discussed later.

Generally, there are limits on both of these deductions. Special rules apply if you use your car 50% or less in your work or business.

You can claim a section 179 deduction and use a depreciation method other than straight line only if you do not use the standard mileage rate to figure your business-related car expenses in the year you first place a car in service. If you claim either a section 179 deduction or depreciation using a method other than straight line for its estimated useful life in the year you first place a car in service, you cannot use the standard mileage rate on that car in any future year.

**Car defined.** For depreciation purposes, a car is any four-wheeled vehicle (including a truck or van) that is made primarily for use on public streets, roads, and highways. Its unloaded gross vehicle weight (gross vehicle weight in the case of a truck or van) must not be more than 6,000 pounds. A car includes any part, component, or other item that is physically attached to it or is usually included in the purchase price.

A car does not include:

- 1) An ambulance, hearse, or combination ambulance-hearse used directly in a business, or
- 2) A vehicle used directly in the business of transporting persons or property for pay or hire.

See Publication 946 for more information on how to depreciate your vehicle.

## Section 179 Deduction

The section 179 deduction allows you to choose to treat part or all of the business cost of a car as a current expense rather than taking depreciation deductions over a specified recovery period.

**TIP** *Even though you may be able to claim a section 179 deduction, the limit on total section 179 and depreciation deductions (discussed later) may reduce or eliminate any benefit from claiming it.*

You can claim the section 179 deduction only in the year you place the car in service. For this purpose, a car is **placed in service** when it is ready and available for a specific use, whether in trade or business, the production of income, a tax-exempt activity, or a personal activity. Even if you are not using the property, it is in service when it is ready and available for its specific use. A car first used for personal purposes cannot qualify for the deduction in a later year when its use changes to business.

**Example.** In 1999 you bought a new car and placed it in service for personal purposes. This year, you began to use it for business. Changing its use to business use does not qualify the cost of your car for a section 179 deduction this year. However, you can claim a depreciation deduction for the business use of the car. See *Depreciation Deduction*, later.

**Limits.** There are limits on:

- 1) The total cost of property qualifying for a section 179 deduction, and
- 2) The total amount of the section 179 deduction **plus** the depreciation deduction (discussed later).

### Limit on cost of qualifying property.

Generally, you can choose to treat up to \$20,000 of the cost of qualifying property as a section 179 deduction in 2000. (The amount increases each year up to 2003.) The yearly limit, however, depends on the percentage of business use, and you must use the property **more than 50%** for business to claim any section 179 deduction.

**Example.** Peter purchased a car this year for \$14,500 and he used it 60% for business. The total cost of Peter's car that qualifies for the section 179 deduction is \$8,700 (\$14,500 cost × 60% business use). But see *Limit on total section 179 and depreciation deductions*, discussed next.

### Limit on total section 179 and depreciation deductions.

Generally, the total amount of section 179 and depreciation deductions that you can claim for a car that you place in service in 2000 cannot be more than \$3,060. The limit is reduced if your business use of the car is less than 100%. See *Depreciation Limits*, later, for more information.

**Example.** Peter, in the previous example, had a car with a qualifying cost of \$8,700 for his section 179 deduction. However, Peter is limited to a total section 179 deduction plus depreciation deduction of \$1,836 (\$3,060 limit × 60% business use).

**Cost of car.** For purposes of the section 179 deduction, the cost of the car does not include any amount figured by reference to any other property held by you at any time. For example, if you buy (for cash and a trade-in) a new car to use in your business, your cost for purposes of the section 179 deduction does not include your adjusted basis in the car you trade in for the new car.

**Basis of car.** The amount of the section 179 deduction reduces your basis in your car. If you choose the section 179 deduction, you must reduce your basis in your car before you figure your depreciation deduction.

Choosing a section 179 deduction can give you a larger total deduction (depreciation plus section 179 deduction) in the first year. Not choosing it can give you a larger depreciation deduction in later years.

**Example.** On January 2, 2000, Stella bought a car for \$12,000, including sales tax, to use exclusively in her delivery business. She paid \$9,000 cash and received \$3,000 in trade for her old car (also used in her business). Her adjusted basis in her old car was \$3,000.

Only the \$9,000 cash Stella paid qualifies for the section 179 deduction. If she does not choose section 179, her basis for depreciation is \$12,000. The total of her section 179 and depreciation deductions is limited to \$3,060, the first year maximum. If she does not choose section 179, her depreciation deduction, using the MACRS method (discussed later), is \$2,400 [\$12,000 basis × 20% (double declining balance rate)] from *Table 3*, explained later.

**When to choose.** If you want to take the section 179 deduction, you must make the choice in the tax year you both purchase the car **and** place it in service for business or work. Employees use Form 2106 to make this choice and report the section 179 deduction. All others use Form 4562. Make your choice by taking the deduction on the appropriate

form and file it with your original tax return. If you timely filed your return for the year without making the election, you can still make the election by filing an amended return within six months of the due date of the return (**excluding** extensions). You cannot make the choice on an amended tax return filed after the due date of your return (**including** extensions). If you make the election on an amended return, attach the appropriate election form (2106 or 4562) to it and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address you filed the original return. Once made, the choice can be changed only with the consent of the Internal Revenue Service (IRS).

**Reduction in business use.** To be eligible to claim the section 179 deduction, you must use your car more than 50% for business or work in the year you acquired it. If your business use of the car is 50% or less in a later tax year during the recovery period, you have to include in income in that later year any excess depreciation. Any section 179 deduction claimed on the car is included in calculating the excess depreciation. For information on this calculation, see *Excess depreciation* later in this chapter under *Car Used 50% or Less for Business*.

**Dispositions.** If you dispose of a car on which you had claimed the section 179 deduction, the amount of that deduction is treated as a depreciation deduction for recapture purposes. You treat any gain on the disposition of the property as ordinary income up to the amount of the section 179 deduction and any depreciation you claimed. For information on the disposition of depreciable property, see chapter 3 of Publication 544, *Sales and Other Dispositions of Assets*.

## Depreciation Deduction

If you use a car you own in your business, you can claim a depreciation deduction: that is, you can deduct a certain amount each year as a recovery of your cost or other basis in the car. You cannot use the standard mileage rate if you decide to take a depreciation deduction in the year you first place the car in service.

You generally need to know the following three things about the car you intend to depreciate.

- 1) Your basis in the car.
- 2) The date you place the car in service.
- 3) The method of depreciation, recovery period, and convention you will use.

**Basis.** Your basis in the car for figuring depreciation is generally its cost. This includes any amount you borrow or pay in cash, in other property, or in services. Additional rules concerning basis are discussed later in this chapter under *Unadjusted basis*.

**Placed in service.** You generally place a car in service when it is available for use in your work or business, in the production of income, or in a personal activity. Depreciation begins when the car is ready for use in your work or business or for the production of income.

For purposes of computing depreciation, if you first start using the car only for personal use and later convert it to business use, you place the car in service on the date of con-

version. Your basis is the lesser of the fair market value or your adjusted basis in the car on the date of conversion.

**Car placed in service and disposed of in the same year.** If you place a car in service and dispose of it in the same tax year, you cannot claim any depreciation deduction for that car.

**Methods of depreciation.** Generally, one depreciation system is available for cars: the Modified Accelerated Cost Recovery System (MACRS). MACRS rules for cars are discussed later in this chapter.

**Exception.** If you used the standard mileage rate in the first year of business use and change to the actual expenses method in a later year, you cannot depreciate your car under the MACRS rules. You must use straight line depreciation over the estimated remaining useful life of the car.

To figure depreciation under the straight line method, you must reduce your basis in the car (but not below zero) by a set rate per mile for all miles for which you used the standard mileage rate. The rate per mile varies depending on the year(s) you used the standard mileage rate. For the rate(s) to use, see *Depreciation adjustment when you used the standard mileage rate under Disposition of a Car*, later.

This reduction of basis is in addition to those basis adjustments described later under *Unadjusted basis*. You must use your adjusted basis in your car to figure your depreciation deduction. For additional information on the straight line method of depreciation, see Publication 534, *Depreciating Property Placed in Service Before 1987*.

**Percentage of business use.** Generally, you must use your car more than 50% for qualified business use (defined next) to qualify for the section 179 deduction and MACRS deduction. If your business use is 50% or less, you must use the straight line method to depreciate your car. This is explained later under *Car Used 50% or Less for Business*.

**Qualified business use.** A qualified business use is any use in your trade or business. It does not include use for the production of income (investment use). However, you do combine your business and investment use to compute your depreciation deduction for the tax year.

**Use of your car by another person.** Do not treat any use of your car by another person as use in your trade or business unless that use meets one of the following three conditions.

- 1) It is directly connected with your business.
- 2) It is properly reported by you as income to the other person (and, if you have to, you withhold tax on the income).
- 3) It results in a payment of fair market rent. This includes any payment to you for the use of your car.

**Business use changes.** If you used your car more than 50% in qualified business use in the year you placed it in service, but 50% or less in a later year (including the year of disposition), you have to change to the straight line method of depreciation. See *Business use drops to 50% or less in a later year under Car Used 50% or Less for Business*, later.

**More-than-50%-use test.** You meet this test for any tax year if you use your car more than 50% in qualified business use. You must meet this test each year of the recovery period (6 years under MACRS) for your car.

If you use your car for more than one purpose during the tax year, you must allocate the use to the various purposes. You do this on the basis of mileage. Figure the percentage of qualified business use by dividing the number of miles you drive your car for business purposes during the year by the total number of miles you drive the car during the year for any purpose.



*Property does not cease to be used more than 50% in qualified business use by reason of a transfer at death.*

**Change from personal to business use.** If you change the use of a car from 100% personal use to business use during the tax year, you may not have mileage records for the time before the change to business use. In this case, you figure the percentage of business use for the year as follows.

- 1) Determine the percentage of business use for the period following the change. Do this by dividing business miles by total miles driven during that period.
- 2) Multiply the percentage in (1) by a fraction. The numerator (top number) is the number of months the car is used for business and the denominator (bottom number) is 12.

**Example.** You use a car only for personal purposes during the first 6 months of the year. During the last 6 months of the year, you drive the car a total of 15,000 miles of which 12,000 miles are for business. This gives you a business use percentage of 80% ( $12,000 \div 15,000$ ) for that period. Your business use for the year is 40% ( $80\% \times \frac{6}{12}$ ).

**Limits.** The amount you can claim for section 179 and depreciation deductions may be limited. Maximum limits apply depending on the year in which you placed your car in service. You have to adjust the limits if you did not use the car exclusively for business. See *Depreciation Limits*, later.

**Unadjusted basis.** You use your unadjusted basis to figure your depreciation using the MACRS depreciation chart explained later under *Modified Accelerated Cost Recovery System (MACRS)*. Your unadjusted basis for figuring depreciation is your original basis increased or decreased by certain amounts.

To figure your unadjusted basis, begin with your original basis in your car, which generally is its cost. Cost includes sales and luxury taxes, destination charges, and dealer preparation. Increase your basis by any substantial improvements you make to your car, such as adding air conditioning or a new engine. Decrease your basis by any deductible casualty loss, section 179 deduction, diesel fuel tax credit, gas guzzler tax, clean-fuel vehicle deduction, and qualified electric vehicle credit. See Publication 535 for more information on the clean-fuel vehicle deduction, and the qualified electric vehicle credit.



*If your business use later falls to 50% or less, you may have to include in your income any excess depreciation. See Car Used 50% or Less for Business, later, for more information.*

If you acquired the car by gift or inheritance, see Publication 551, *Basis of Assets*, for information on your basis in the car.

**Improvements.** A major improvement to a car is treated as a new item of 5-year recovery property. It is treated as placed in service in the year the improvement is made. It does not matter how old the car is when the improvement is added. Follow the same steps for depreciating the improvement as you would for depreciating the original cost of the car. However, you must treat the improvement and the car as a whole when applying the limits on the depreciation deductions. Your car's depreciation deduction for the year (plus the depreciation on any improvements) cannot be more than the depreciation limit that applies for that year. See *Depreciation Limits*, later.

**Effect of trade-in on basis.** When you trade an old car for a new one, your original basis in the new car is generally your adjusted basis in the old car plus any additional payment you make.

**Traded car used only for business.** If you trade in a car that you used only in your business for another car that will be used only in your business, your original basis in the new car is your adjusted basis in the old car, plus any additional amount you pay for the new car.

**Example 1.** Paul trades in a car that has an adjusted basis of \$3,000 for a new car. In addition, he pays cash of \$7,000 for the new car. His original basis of the new car is \$10,000 (his \$3,000 adjusted basis in the old car plus the \$7,000 cash paid). Paul's unadjusted basis would be the same unless he claims the section 179 deduction or has other increases or decreases to his original basis.

**Example 2.** In July 1997, Marcia purchased a car for \$26,000 and placed it in service for 100% use in her business. She did not claim a section 179 deduction. Marcia's unadjusted basis for the car was \$26,000. For 1997 through 1999, Marcia figured her depreciation deduction using the MACRS chart for those years.

In September 2000, Marcia traded that car in and paid \$14,200 cash for a new car to be used 100% in her business. Marcia is allowed one-half of the regular depreciation amount for 2000 for her old car. (See *Disposition of a Car*, later.)

Marcia figures her original basis in the new car, \$27,792, as follows.

Cost of old car	\$26,000
Less: Total depreciation allowed from 1997 through 2000	— 12,408
Adjusted basis of old car	\$13,592
Plus: Additional cost for new car	+ 14,200
Basis of new car	<u>\$27,792</u>

**Traded car used partly in business.** If you trade in a car that you used partly in your business for a new car that you will use in your business, you must make a "trade-in" adjustment for the personal use of the old car. This adjustment has the effect of reducing your basis in your old car, but not below zero, for purposes of figuring your depreciation deduction for the new car. (This adjustment is not used, however, when you determine the gain or loss on the later disposition of the new car. See Publication 544 for information on how to report the disposition of your car.)

To figure the unadjusted basis of your new car for depreciation, first add to your adjusted basis in the old car any additional amount you pay for the new car. Then subtract from that total the excess, if any, of:

- 1) The total of the amounts that would have been allowable as depreciation during the tax years before the trade if 100% of the use of the car had been business and investment use, over
- 2) The total of the amounts actually allowable as depreciation during those years.

For information about figuring depreciation, see *Modified Accelerated Cost Recovery System (MACRS)*, which follows *Example 2*, later.

**Example 1.** In March, Mark traded his 1996 van (placed in service in 1996) for a new 2000 model. He used the old van 75% for business and he used the new van 75% for business in 2000. Mark claimed actual expenses (including \$8,494 depreciation expense) for the business use of the old van since 1996. He did not claim a section 179 deduction for the old or the new van.

Mark paid \$12,800 for the 1996 van in June 1996. He paid an additional \$9,800 when he acquired the 2000 van. Mark was allowed 1/2 of the depreciation deduction amount (which is included in the \$8,494 depreciation expense total) for his old van for 2000, the year of disposition, as explained later under *Disposition of a Car*.

Mark figures the unadjusted basis for depreciating his new van as shown next.

Cost of old van	\$12,800
Less: Total depreciation allowed on the business cost of old van, \$9,600 (\$12,800 × 75%), from 1996–2000	<u>– 8,494</u>
Adjusted basis of old van	\$ 4,306
Plus: Add'l cost for new van	<u>+ 9,800</u>
Basis of new van before trade-in adjustment	\$14,106
<b>Trade-in adjustment:</b>	
Depreciation at 100% business use:	
2000—(\$12,800 × .1152) × 1/2 yr (Limit: \$1,775)	\$ 737
1999—12,800 × .1152 (Limit: \$1,775)	1,475
1998—12,800 × .192 (Limit: \$2,950)	2,458
1997—12,800 × .32 (Limit: \$4,900)	4,096
1996—12,800 × .20 (Limit: \$3,060)	<u>– 2,560</u>
Total	\$11,326
Less: Actual depreciation allowed	<u>– 8,494</u>
Excess of 100% over actual	\$ 2,832
Less: Lesser of Excess amount (\$2,832) or Adjusted basis of old van (\$4,306)	<u>– 2,832</u>
<b>Unadjusted basis of new van for depreciation</b>	<b><u>\$11,274</u></b>

**Example 2.** Rob paid \$15,000 for a new car that he placed in service in 1997. He used it partly for business in 1997 (9,000 business miles of 15,000 total miles), 1998 (12,000 business miles of 16,000 total miles), and 1999 (14,400 miles of 18,000 total miles). He used the standard mileage rate in those years to claim the business use of his car. (See *Depreciation adjustment when you used the standard mileage rate under Disposition of a Car*, later.)

On January 2, 2000, Rob traded in this car and paid an additional \$6,000 for his new car. Rob figures the unadjusted basis for his new car as shown next.

Cost of old car	\$15,000
Less: Total depreciation allowed:	
1999—14,400 mi. × .12	\$1,728
1998—12,000 mi. × .12	1,440
1997— 9,000 mi. × .12	<u>1,080</u>
Adjusted basis of old car	\$10,752
Plus: Additional cost for new car	<u>+ 6,000</u>
Basis of new car before trade-in adjustment	\$16,752
<b>Trade-in adjustment:</b>	
Depreciation at 100% business use:	
1999—18,000 mi. × .12	\$2,160
1998—16,000 mi. × .12	1,920
1997—15,000 mi. × .12	<u>1,800</u>
Total	\$5,880
Less: Actual depreciation allowed	<u>4,248</u>
Excess of 100% over actual	\$1,632
Less: Lesser of Excess amount (\$1,632) or Adjusted basis of old car (\$10,752)	<u>– 1,632</u>
<b>Unadjusted basis of new car for depreciation</b>	<b><u>\$15,120</u></b>

**Modified Accelerated Cost Recovery System (MACRS).** The Modified Accelerated Cost Recovery System (MACRS) is the name given to the tax rules for getting back (recovering) through depreciation deductions the cost of property used in a trade or business or to produce income.

The maximum amount you can deduct is limited, depending on the year you placed your car in service. See *Depreciation Limits*, later.

**Recovery period.** Under MACRS, cars are classified as 5-year property. You actually depreciate the cost of a car, truck, or van over a period of 6 calendar years. This is because your car is generally treated as placed in service in the middle of the year and you claim depreciation for one-half of both the first year and the sixth year.

**Depreciation deduction for certain Indian reservation property.** Shorter recovery periods are provided under MACRS for qualified Indian reservation property placed in service on Indian reservations after 1993 and before 2004. The recovery period that applies for a business-use car is 3 years instead of 5 years. However, the depreciation limits, discussed later, will still apply.

For more information on the qualifications for this shorter recovery period and the percentages to use in figuring the depreciation deduction, see chapter 3 of Publication 946.

**Depreciation methods.** You can use one of the following three methods to depreciate your car.

- 1) The 200% declining balance method (200% DB) over a 5-year recovery period that switches to the straight line method when that method provides a greater deduction.
- 2) The 150% declining balance method (150% DB) over a 5-year recovery period that switches to the straight line method when that method provides a greater deduction.
- 3) The straight line method (SL) over a 5-year recovery period.

**TIP** If you use Table 3 (discussed later under MACRS depreciation chart) to determine your depreciation rate for 2000, you do not need to determine in what year your deduction is greater using the straight line method. This is because the chart has the switch to the straight line method built into its rates.

Before choosing a method, you may wish to consider the following facts.

- 1) Using the straight line method provides equal yearly deductions throughout the recovery period.
- 2) Using the declining balance methods provides greater deductions during the earlier recovery years with the deductions generally getting smaller each year.

**MACRS depreciation chart.** A 2000 MACRS Depreciation Chart and instructions are included in this chapter as *Table 3*. Using this table will make it easy for you to figure the 2000 depreciation deduction for your car. A similar chart appears in the *Instructions for Form 2106*.



You may have to use the tables in Publication 946 instead of using this MACRS Depreciation Chart.

You must use the *Depreciation Tables* in Publication 946 rather than the *2000 MACRS Depreciation Chart* in this publication if any one of the following three conditions applies to you.

- 1) You file your return on a fiscal year basis.
- 2) You file your return for a short tax year (less than 12 months).
- 3) During the year, all of the following conditions apply to you.
  - a) You placed some property in service from January through September.
  - b) You placed some property in service from October through December.
  - c) Your basis in the property you placed in service from October through December was more than 40% of your total bases in all property you placed in service during the year.

**Depreciation in future years.** If you use the percentages from the chart, you must continue to use them for the entire recovery period of your car. However, you cannot continue to use the chart if your basis in your car is adjusted because of a casualty. In that case, for the year of adjustment and the remaining recovery period, figure the depreciation without the chart using your adjusted basis in the car at the end of the year of adjustment and over the remaining recovery period. See *How To Figure the Deduction Without Using the Tables* in chapter 3 of Publication 946.



In future years, do not use the chart from this publication. Instead, use the chart in the publication or the form instructions for those future years.

**Disposition of car during recovery period.** If you dispose of the car before the end of the recovery period, you are generally allowed a half year of depreciation in the year of disposition unless you purchased the car during the last quarter of a year. See *Depreciation deduction for the year of disposition under Disposition of a Car*, later, for informa-

tion on how to figure the depreciation allowed in the year of disposition.

**How to use the 2000 chart.** To figure your depreciation deduction for 2000, find the percentage in the column of the chart 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 Publication 946.



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

**Example.** Phil bought a used truck in February 1999 to use exclusively in his landscape business. He paid \$6,200 for the truck with no trade-in. Phil did not claim any section 179 deduction and he chose to use the 200% DB method to get the largest depreciation deduction in the early years.

Phil used the MACRS depreciation chart in 1999 to find his percentage. The unadjusted basis of his truck equals its cost because Phil used it exclusively for business. He multiplied the unadjusted basis of his truck, \$6,200, by the percentage that applied, 20%, to figure his 1999 depreciation deduction of \$1,240.

In 2000, Phil used the truck for personal purposes when he repaired his father's cabin. His records show that the business use of his truck was 90% in 2000. Phil used *Table 3* to find his percentage. Reading down the first column for the date placed in service and across to the 200% DB column, he locates his percentage, 32%. He multiplies the unadjusted basis of his truck, \$5,580 (\$6,200 cost  $\times$  90% business use), by 32% to figure his 2000 depreciation deduction of \$1,786.

## Depreciation Limits

There are limits on the amount you can deduct for depreciation of your car. (The section 179 deduction is treated as depreciation for purposes of the limits.) 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 table.

### Maximum Depreciation Limits for Cars

Year Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2000	\$3,060	\$4,900	\$2,950	\$1,775
1999	3,060	5,000	2,950	1,775
1998	3,160	5,000	2,950	1,775
1997	3,160	5,000	3,050	1,775
1995-1996	3,060	4,900	2,950	1,775
1994	2,960	4,700	2,850	1,675

**Exceptions for clean-fuel cars.** There are two exceptions to the depreciation limits for cars. They are effective after August 5, 1997, for cars that run on clean fuel. Clean-fuel cars are discussed in chapter 12 of Publication 535. The exceptions follow.

- Amounts you pay for retrofit parts and components to modify a car to run on clean fuel are not subject to the depreciation limit on cars. Only the cost of the car before modification is subject to the limit.
- If you place a car in service after August 5, 1997, that was produced to run on electricity, your depreciation limit is in-

creased. The amounts are shown in the following table.

### Maximum Depreciation Limits For Electric Cars Placed in Service After August 5, 1997

Year Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2000	\$9,280	\$14,800	\$8,850	\$5,325
1999	9,280	14,900	8,950	5,325
1998	9,380	15,000	8,950	5,425
1997	9,480	15,100	9,050	5,425



The examples throughout this chapter illustrate gas-fueled cars.

**Car used less than full year.** The depreciation limits are not reduced if you use a car for less than a full year. This means that you do not 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 do not use the car exclusively for business and investment purposes. See *Reduction for personal use*, later.

**Example.** Marie purchased a car in June 2000 for \$16,000 to use exclusively in her business. She does not claim the section 179 deduction and she chooses the 200% DB method of depreciation.

Marie's depreciation (using the rate from *Table 3*) is \$3,200 (\$16,000  $\times$  20%). However, the maximum amount she can deduct for depreciation (from the *Maximum Depreciation Limits for Cars* table) is \$3,060. (See *Deductions in years after the recovery period*, later.)

**Reduction for personal use.** The depreciation limits are further 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.

**Example.** In June 2000, Karl, an outside dental supply salesman, purchased a car for \$25,400 to make sales calls in a territory that extends 200 miles around his home base. He uses his car 85% for his business. Karl does not claim the section 179 deduction and he chooses the 200% DB method to figure his depreciation deduction.

In 2000, Karl computes his MACRS deduction to be \$4,318 [(\$25,400  $\times$  85%)  $\times$  20%]. However, Karl's deduction is limited to \$2,601. This is the depreciation limit (\$3,060) multiplied by the business use percentage (85%).

Karl continues to use his car 85% for business. Depreciation in the next four years continues to be subject to deduction limits. Karl computes his depreciation limits for those years as follows.

Year	Limit $\times$ Business Use	Depreciation
2001	\$ 4,900 $\times$ 85%	\$ 4,165
2002	2,950 $\times$ 85%	2,508
2003, 2004	1,775 $\times$ 85%	1,509

In 2005, using the rate from *Table 3*, Karl's MACRS deduction is \$1,244 [(\$25,400  $\times$  85%)  $\times$  5.76%]. Since that amount is less than the depreciation limit of \$1,509 (\$1,775  $\times$  85%), Karl's depreciation deduction for 2005 is \$1,244.

If Karl continues to use his car for business after 2005, he can continue to claim a

depreciation deduction for his unrecovered basis. However, he cannot deduct more than \$1,775 multiplied by his business use percentage. See *Deductions in years after the recovery period*, later.

**Section 179 deduction.** The section 179 deduction is treated as a depreciation deduction. If you place a car in service in 2000, use it only for business, and choose the section 179 deduction, the combined section 179 and depreciation deduction for that car for 2000 is limited to \$3,060.

**Example.** On September 4, 2000, Jack bought a used car for \$10,000 and placed it in service. He used it 80% for his business and he chooses to take a section 179 deduction for the car.

Before applying the limit, Jack figures his maximum section 179 deduction to be \$8,000. This is the cost of his qualifying property (up to the maximum \$20,000 amount) multiplied by his business use (\$10,000  $\times$  80%).

Jack then figures that his section 179 deduction for 2000 is limited to \$2,448 (80% of \$3,060). He then has an unadjusted basis of \$5,552 [(\$10,000  $\times$  80%) - \$2,448] for determining his depreciation deduction. Since he has already reached the maximum limit for 2000, Jack will use the unadjusted basis to figure his depreciation deduction for 2001.

**Deductions in years after the recovery period.** If the depreciation limits apply to your car, you may 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 after the recovery period ends.

**Unrecovered basis.** This is your cost or other basis in the car reduced by any clean-fuel vehicle deduction, electric vehicle credit, and depreciation 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.

Your recovery period is the same whether you use MACRS, declining balance, or straight line depreciation. Under MACRS, 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 for that business use in each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct 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 May 1994, Bob bought and placed in service a car that he used exclusively in his business. The car cost \$28,600. Bob did not claim a section 179 deduction for the car. He continued to use the car 100% in his business throughout the recovery period (1994 through 1999). For those years, Bob used *Table 3* and the *Maximum Depreciation Limits for Cars* table (as explained earlier) to

**Table 3. 2000 MACRS Depreciation Chart**  
(Use to Figure Depreciation for 2000.)

If you claim actual expenses for your car, use the chart below to find the depreciation method and percentage to use for your 2000 return. If your car was placed in service before 1987, see the depreciation chart in the Form 2106 instructions.

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

For cars placed in service before 2000, 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. (See *Car Used 50% or Less for Business*.)

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 2000. (Also see *Depreciation Limits*.)



*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 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 is not more than 40% of the basis of all property placed in service for the entire year, use the percentage for Jan. 1—Sept. 30 for figuring depreciation for your car. See *Conventions* in chapter 3 of Publication 946 for more details.

*Example.* You buy machinery (basis of \$22,000) in May 2000 and a new van (basis of \$14,000) in October 2000, both used 100% in your business. You use the percentage for Jan. 1—Sept. 30, 2000, to figure the depreciation for your van. This is because the \$14,000 basis of the property (van) placed in service after September is not more than 40% of the basis of all property placed in service during the year [40% × (\$22,000 + 14,000) = \$14,400].

Date Placed In Service	(a)		(b)		(c)	
	200% Declining Balance (200% DB) <sup>1</sup>		150% Declining Balancing (150% DB) <sup>1</sup>		Straight Line (SL)	
Oct. 1 — Dec. 31, 2000	200 DB	5.0%	150 DB	3.75%	SL	2.5%
Jan. 1 — Sept. 30, 2000	200 DB	20.0	150 DB	15.0	SL	10.0
Oct. 1 — Dec. 31, 1999	200 DB	38.0	150 DB	28.88	SL	20.0
Jan. 1 — Sept. 30, 1999	200 DB	32.0	150 DB	25.5	SL	20.0
Oct. 1 — Dec. 31, 1998	200 DB	22.8	150 DB	20.21	SL	20.0
Jan. 1 — Sept. 30, 1998	200 DB	19.2	150 DB	17.85	SL	20.0
Oct. 1 — Dec. 31, 1997	200 DB	13.68	150 DB	16.4	SL	20.0
Jan. 1 — Sept. 30, 1997	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1 — Dec. 31, 1996	200 DB	10.94	150 DB	16.41	SL	20.0
Jan. 1 — Sept. 30, 1996	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1 — Dec. 31, 1995	200 DB	9.58	150 DB	14.35	SL	17.5
Jan. 1 — Sept. 30, 1995	200 DB	5.76	150 DB	8.33	SL	10.0
Prior to 1995 <sup>2</sup>						

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

<sup>2</sup>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*.

compute his depreciation deductions as shown in the following table.

Year	MACRS %	MACRS Amount	Maximum Limit	Deprec. Allowed
'94	20.00	\$5,720	\$2,960	\$2,960
'95	32.00	9,152	4,700	4,700
'96	19.20	5,491	2,850	2,850
'97	11.52	3,295	1,675	1,675
'98	11.52	3,295	1,675	1,675
'99	5.76	1,647	1,675	1,647
<b>Total</b>			<b>\$15,535</b>	<b>\$15,507</b>

At the end of 1999, Bob had an unrecovered basis in the car of \$13,093. This was the \$28,600 original basis of his car less the \$15,507 depreciation deductions allowed during the recovery period.

Bob continued to use the car 100% for business in 2000. He can claim a depreci-

ation deduction of \$1,675 (the maximum allowed for each subsequent year) for the year. If he continues to use the car 100% for business in 2001 and later years, Bob can deduct the lesser of \$1,675 or his remaining unrecovered basis in each of those years until his deductions total the \$11,418 unrecovered basis (\$13,093 – \$1,675 claimed in 2000).

If Bob's business use of the car was less than 100% during any year, his depreciation deduction would be less than the maximum amount allowable for that year. However, in determining his unrecovered basis in the car, he would still reduce his original basis by the maximum amount allowable. Bob's unrecovered basis at the beginning of 2000 would be \$13,065 (\$28,600 – \$15,535) in this example. This is true even if his actual depreci-

ation deduction for any year was less than the maximum amount shown.

### Car Used 50% or Less for Business

If you use your car 50% or less in qualified business use (defined earlier under *Depreciation Deduction*), the following two special rules apply. (For this purpose, "car" was defined earlier under *Actual Car Expenses*.)

- 1) You cannot take the section 179 deduction.
- 2) 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 3* to find the percentage to use.

**Example.** On May 22, 2000, Dan bought a car for \$15,000. He used it 40% for his consulting business. Because he did not use the car more than 50% for business, Dan cannot take any section 179 deduction, and he must use the straight line method over a 5-year recovery period to recover the cost of his car.

Dan deducts \$600 in 2000. This is the lesser of:

- 1) \$600 [(\$15,000 cost × 40% business use) × 10% recovery percentage (from column (c), *Table 3*)], or
- 2) \$1,224 (\$3,060 maximum limit × 40% business use).

**Business use drops to 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 determine and include in your gross income any excess depreciation (discussed later).

**Example.** In June 1997, 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 (1997 through 1999) but failed to meet it in the fourth year (2000). You determine your depreciation for 2000 using 20% (from column (c) of *Table 3*). You also will have to determine and include in your gross income any excess depreciation, discussed next.

**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 do not use the car more than 50% in qualified business use. Use **Form 4797, Sales of Business Property**, to 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) 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 **had not** 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.** On June 25, 1997, you bought a car for \$11,000 and placed it in service. You did not claim the section 179 deduction. You used the car exclusively in qualified business use for 1997, 1998, and 1999. For those

years, you used the appropriate *MACRS Depreciation Chart* to figure depreciation deductions totaling \$7,832 (\$2,200 for 1997, \$3,520 for 1998, and \$2,112 for 1999) under the 200% DB method.

During 2000, you used the car 50% for business and 50% for personal purposes. Since you did not meet the more-than-50%-use test, you must include in gross income for 2000 your excess depreciation determined as follows.

Total depreciation claimed:	\$7,832
(MACRS 200% DB method)	
Total depreciation allowable:	
(Straight line method)	
1997—10% of \$11,000 .....	\$1,100
1998—20% of \$11,000 .....	2,200
1999—20% of \$11,000 .....	2,200
<b>Excess depreciation</b>	<b><u>\$2,332</u></b>

In 2000, you must include \$2,332 in your gross income using Form 4797. Your adjusted basis in the car is also increased by \$2,332. Your 2000 depreciation deduction is \$1,100 [\$11,000 (unadjusted basis) × 50% (business use percentage) × 20% (from column (c) of *Table 3* on the line for Jan. 1—Sept. 30, 1997)].

## 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 or clean-fuel vehicle deduction) 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, theft, or trade-in.

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

**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 do not recognize any gain. Your basis in the replacement property is its cost minus any gain that is not recognized. See Publication 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 Publication 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 chart that follows. You must reduce your basis in your car (but not below zero) by the amount of this depreciation.



**TIP** These rates do not apply for any year in which the actual expenses method was used.

Year(s)	Depreciation Rate per Mile
2000	\$ .14
1994 – 1999	.12
1992 – 1993	.11½
1989 – 1991	.11
1988	.10½
1987	.10
1986	.09
1983 – 1985	.08
1982	.07½
1980 – 1981	.07

For tax years after 1989, the depreciation rates apply to all business miles. For tax years before 1990, the depreciation rates apply to the first 15,000 miles.

**Example.** In 1995, you bought a car for exclusive use in your business. The car cost \$14,000. From 1995 through 2000, you used the standard mileage rate to figure your car expense deduction. You drove your car 14,100 miles in 1995, 16,300 miles in 1996, 15,600 miles in 1997, 16,700 miles in 1998, 15,100 miles in 1999, and 14,900 miles in 2000. Your depreciation is figured as follows.

Year	Miles x Rate	Depreciation
1995	14,100 × .12	\$ 1,692
1996	16,300 × .12	1,956
1997	15,600 × .12	1,872
1998	16,700 × .12	2,004
1999	15,100 × .12	1,812
2000	14,900 × .14	2,086
<b>Total depreciation</b>		<b><u>\$11,422</u></b>

At the end of 2000, your adjusted basis in the car is \$2,578 (\$14,000 – \$11,422).

**Depreciation deduction for the year of disposition.** If you deduct actual car expenses and you dispose of your car before the end of its recovery period, you are allowed a reduced depreciation deduction for the year of disposition.

To figure the reduced depreciation deduction for a car disposed of in 2000, first determine the depreciation deduction for the full year using *Table 3*.

If you used a *Date Placed in Service* line for *Jan. 1—Sept. 30*, you can deduct one-half of the regular depreciation amount for the year of disposition. Figure your depreciation deduction for the full year using the rules explained in this chapter and deduct 50% of that amount with your other actual car expenses.

If you used a *Date Placed in Service* line for *Oct. 1—Dec. 31*, you can deduct a percentage of the regular depreciation amount. The percentage you use is determined by the month you disposed of the car. Figure your depreciation deduction for the full year using the rules explained in this chapter and multiply the result by the percentage from the following table for the month that you disposed of the car.

Month	Percentage
Jan., Feb., March .....	12.5%
April, May, June .....	37.5%
July, Aug., Sept. ....	62.5%
Oct., Nov., Dec. ....	87.5%



Do not use this table if you are a fiscal year filer. See Dispositions in chapter 3 of Publication 946.

## Leasing a Car

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

**Deductible payments.** You can deduct the part of each lease payment that is for the use of the car in your business. You cannot deduct any part of a lease payment that is for personal use of the car, such as commuting.

You must spread any advance payments over the entire lease period. You cannot deduct any payments you make to buy a car, even if the payments are called lease payments.

If you lease a car for 30 days or more, you may have to reduce your lease payment deduction by an "inclusion amount."

## Inclusion Amounts

If you lease a car 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 car. To do this, you do not 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 car if you owned it.)

The inclusion amount is a percentage of part of the fair market value of the leased car multiplied by the percentage of business and investment use of the car 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 car if the fair market value (defined next) of the car when the lease began was more than the amounts shown in the following table.

Year Lease Began	Fair Market Value*
1999–2000	\$ 15,500
1997–1998	15,800
1995–1996	15,500
1994	14,600
1993	14,300
1992	13,700
1991	13,400
1987–1990	12,800

\*These amounts are higher for electric cars.

**Fair market value.** Fair market value is the price at which the property would change hands between a buyer and a 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 are listed in *Appendix B* and, for electric cars leased after August 5, 1997, in *Appendix C*. If the fair market value of the car is \$100,000 or less, use the appropriate appendix (depending on the year you first placed the car 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 the appendices for the inclusion amount. Revenue Procedures are available at most IRS offices and many local libraries.

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 (1)(b) 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, 1998, 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 \$32,250 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 B-3* to arrive at the following inclusion amounts for each year of the lease:

Tax year	Dollar amount	Proration	Business use	Inclusion amount
1998	\$137	349/365	75%	\$ 98
1999	301	365/365	75%	226
2000	446	366/366	75%	335
2001	536	16/365	75%	18

For each year of the lease that you deduct lease payments, you must reduce your deduction by the inclusion amount computed 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, 1999, Will leased an electric car with a fair market value of \$58,600 for 3 years. He used the car exclusively in his own data processing business. On November 5, 2000, Will closed his business and went to work for a company where he is not required to use a car for business. Using *Appendix C-2*, Will computed his inclusion amount for 1999 and 2000 as shown in the following table and reduced his deductions for lease payments by those amounts.

Tax year	Dollar amount	Proration	Business use	Inclusion amount
1999	\$ 95	138/365	100%	\$ 36
2000	95	309/366	100%	80

**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 1998, Janice leased a car for 4 years for personal use. On June 1, 2000, she started working as a self-employed advertising consultant and started using the leased car for business purposes. Her records show that her business use for June 1 through December 31 was 60%. To figure her inclusion amount for 2000, Janice obtained an appraisal from an independent car leasing company that showed the fair market value of her 1998 car on June 1, 2000, was \$18,650. Using *Appendix B-1*, Janice computed her inclusion amount for 2000 as shown in the following table.

Tax year	Dollar amount	Proration	Business use	Inclusion amount
2000	\$ 22	214/366	60%	\$ 8

**Reporting inclusion amounts.** For information on reporting inclusion amounts, employees should see *Car rentals* under *Completing Forms 2106 and 2106-EZ* 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).

## 5.

# Recordkeeping

If you deduct travel, entertainment, business gift, or local 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 4* 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 cannot 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 in a computer memory device with the aid of a logging program, it is considered an adequate record.

Table 4. 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 and Business Relationship
<b>Travel</b>	Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, daily meals for traveler, 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
<b>Entertainment</b>	Cost of each separate expense. Incidental expenses such as taxis, telephones, etc., may be totaled on a daily basis.	Date of entertainment. (Also see <i>Business Purpose</i> .)	Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see <i>Business Purpose</i> .)	<u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion: the date, place, nature, and duration of the business discussion, and the identities of the persons who took part in both the business discussion and the entertainment activity.  <u>Relationship:</u> Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you. For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal.
<b>Gifts</b>	Cost of the gift.	Date of the gift.	Description of the gift.	<u>Purpose:</u> Business purpose for the expense.  <u>Relationship:</u> N/A
<b>Transportation (Car)</b>	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 (name of city, town, or other designation).	<u>Purpose:</u> Business purpose for the expense.  <u>Relationship:</u> N/A

### Adequate Records

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

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

**Exception.** Documentary evidence is not needed if any of the following conditions apply.

- 1) 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.)
- 2) Your expense, other than lodging, is less than \$75.
- 3) You have a transportation expense for which a receipt is not readily available.

**Adequate evidence.** Documentary evidence ordinarily will 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.

- 1) The name and location of the hotel.
- 2) The dates you stayed there.
- 3) 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.

- 1) The name and location of the restaurant.
- 2) The number of people served.
- 3) 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 does not prove a business expense without other evidence to show that it was for a business purpose.

**Duplicate information.** You do not 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 do not 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 generally there is a lack of accurate recall.

You do not 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, statement of expense, 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 do not need to give a written explanation.

**Example.** If you are a sales representative who calls on customers on an established sales route, you do not 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 do not 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.

## Incomplete Records

If you do not have complete records to prove an element of an expense, then you must prove the element by:

- 1) Your own written or oral statement containing specific information about the element, and
- 2) 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 for local business transportation to visit the offices of clients, meet with suppliers and other sub-contractors, 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 cannot get a receipt. This applies if *all* the following are true.

- 1) You were unable to obtain evidence for an element of the expense or use that completely satisfies the requirements explained earlier under *Adequate Records*.
- 2) You are unable to obtain evidence for an element that completely satisfies the two rules listed earlier under *Incomplete Records*.
- 3) You have presented other evidence for the element that is the best proof possible under the circumstances.

**Destroyed records.** If you cannot 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 casualty.

## Additional Rules

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.

**Season or series tickets.** If you buy season or series tickets for business use, you must treat each ticket in the series as a separate item. To determine the cost of individual tickets, divide the total cost (but not more than face value) by the number of games or performances in the series. You must keep records to show whether you use each ticket as a gift or entertainment. Also, you must be able to prove the cost of nonluxury box seat tickets if you rent a skybox or other private luxury box for more than one event. See *Entertainment tickets* in chapter 2.

**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. 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. For example, if during entertainment at a cocktail lounge, you pay separately for each serving of refreshments, the total expense for the refreshments is treated as 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, is not 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 do not always have to record the name of each recipient of a business gift. A general listing will be enough if it is evident that you are not 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 cannot prove how much it cost 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.

An allocation would be needed, for example, if you did not have a business relationship with all of your guests. See *Allocating between business and nonbusiness* in chapter 2.

**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, get Publication 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 do not have to keep copies of this information. However, you may have to prove your expenses if any of the following conditions apply.

- 1) You claim deductions for expenses that are more than reimbursements.
- 2) Your expenses are reimbursed under a nonaccountable plan.

- 3) Your employer does not use adequate accounting procedures to verify expense accounts.
- 4) You are related to your employer as defined under *Standard Meal Allowance* in chapter 1.

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

## Examples of Records

Examples of records that show the information you need to keep for different types of expenses are included in this publication as *Table 6* and *Table 7*. They are part of the illustrated examples shown at the end of chapter 6.

# 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, and certain disabled employees. The chapter ends with illustrations of how to report travel, entertainment, gift, and car expenses on Forms 2106 and 2106-EZ.

## 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 or C-EZ (Form 1040) if you are a sole proprietor, or on Schedule F (Form 1040) if you are a farmer. You do not use Form 2106 or 2106-EZ.

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, Schedule C-EZ, or Form 4562.

If you file Schedule C:

- 1) Report your travel expenses, except meals, on line 24a,
- 2) Report your meals (actual cost or standard meal allowance) and entertainment on line 24b (The 50% limit is figured on line 24c.),
- 3) Report your business gift expenses and local business transportation expenses, other than car expenses, on line 27, and
- 4) Report your business car expenses on line 10. Complete Part IV of the form unless you have to file Form 4562 for depreciation or amortization.

If you file Schedule C-EZ, report the total of all business expenses on line 2. You can

only include 50% of your business meals and entertainment in that total. If you include business car expenses, you must also complete Part III of the form.

If you file Schedule F:

- 1) Report your business car expenses on line 12. Attach Form 4562 and provide information on the use of your car in Part V of Form 4562.
- 2) Report all other business expenses discussed in this publication on line 34. You can only include 50% of your business meals and entertainment on that line.

See your forms 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, C-EZ, or F (Form 1040), as discussed earlier. Report your business expenses for your work as an employee on Form 2106 or 2106-EZ, as discussed next.

**Employees.** If you are an employee, you generally must complete Form 2106 to deduct your travel, transportation, and entertainment expenses. However, you can use the shorter Form 2106-EZ instead of Form 2106 if you meet both of the following conditions.

- 1) You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 are not considered reimbursements).
- 2) If you claim car expenses, you use the standard mileage rate.

For more information on how to report your expenses on Forms 2106 and 2106-EZ, see *Completing Forms 2106 and 2106-EZ*, later.

**Gifts.** If you did not receive any reimbursements (amounts included in box 1 of your Form W-2 are not considered reimbursements), the only business expense you are claiming is for business gifts, and the *Special Rules* discussed later do not apply to you, do not complete Form 2106 or 2106-EZ. Instead, claim the amount of your deductible business gifts directly on line 20 of Schedule A (Form 1040).

**Statutory employees.** If you received a Form W-2 and the "Statutory employee" box in box 15 was checked, report your income and expenses related to that income on Schedule C or C-EZ (Form 1040). Do not complete Form 2106 or 2106-EZ.

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 do not claim it, you cannot claim a deduction for the expenses to which that unclaimed reimbursement applies.*

**Reimbursement for personal expenses.** If your employer reimburses you for non-deductible 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 cannot 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, *Supplemental Income and Loss*. See Publication 527, *Residential Rental Property*, for more information on the rental of real estate. If you have deductible investment-related transportation expenses, report them on line 22 of Schedule A (Form 1040).

## 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 **cannot** use the standard mileage rate.

**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 in your Form W-2, ask your employer.

**Full value included in your income.** You can 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 2000 Form W-2, the amount of the value will be included in box 1, *Wages, tips, other compensation*, and box 12, *Benefits included in box 1*.

To claim your expenses, complete Part II, Sections A and C, of Form 2106. 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. Do not enter this value on your Form 2106; it is not deductible.

If you paid any actual costs (that your employer did not 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 Part II, Sections A and C, of Form 2106. 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 de-

depends on whether the reimbursement was paid to 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 are not 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 do not have to read this section on reimbursements. Instead, see *Completing Forms 2106 and 2106-EZ*, later, for information on completing your tax return.

**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, meals, and incidental expenses 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, are not reported as pay. Reimbursements treated as paid under nonaccountable plans, as explained later, are reported as pay. See Publication 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 three 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.

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.

- 1) You receive an advance within 30 days of the time you have an expense.
- 2) You adequately account for your expenses within 60 days after they were paid or incurred.
- 3) You return any excess reimbursement within 120 days after the expense was paid or incurred.
- 4) 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 should not include any reimbursements in your income in box 1 of your Form W-2. If your expenses equal your reimbursement, you do not complete Form 2106. You have no deduction since your expenses and reimbursement are equal.



*If your employer included reimbursements in box 1 of your Form W-2 and you meet all three 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. Those expenses that fail to meet all three rules for accountable plans are treated as having been reimbursed under a nonaccountable plan (discussed 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 are deductible as employee business expenses and some of which are not deductible. The reimbursements you receive for the nondeductible expenses do not 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 are not 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 cannot 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 three 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 4* in chapter 5 for details you need to enter in your record and documents you need to prove certain expenses.)

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 do not 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 four of the following conditions apply.

- 1) Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
- 2) The allowance is similar in form to and not more than the federal rate (defined later).
- 3) You prove the time (dates), place, and business purpose of your expenses to your employer (as explained in *Table 4*) within a reasonable period of time.
- 4) You are not related to your employer (as defined under *Standard Meal Allowance* in chapter 1). 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 will not be considered to have accounted to your employer. In this case, you must be able to prove your expenses to the IRS.

**The federal rate.** The federal rate can be figured using any one of the following methods.

- 1) For per diem amounts:
  - a) The regular federal per diem rate.
  - b) The standard meal allowance.
  - c) The high-low rate.
- 2) For car expenses:

- a) The standard mileage rate.
- b) A fixed and variable rate (FAVR).



For per diem amounts, use the rate in effect for the area where you stop for sleep or rest.

**Regular federal per diem rate.** The regular federal per diem rate is the highest amount that the federal government will pay to its employees for lodging, meals, and incidental expenses (or meals and incidental expenses only) while they are traveling away from home in a particular area. The rates are different for different locations. Your employer should have these rates available. (Employers can get Publication 1542, which gives the rates in the continental United States for the current year.)

**The standard meal allowance.** The standard meal allowance (discussed in chapter 1) is the federal rate for meals and incidental expenses (M&IE). The rate for most small localities in the United States is \$30. Most major cities and many other localities qualify for higher rates. The rates for all localities within the continental United States are listed in Publication 1542.

You receive an allowance only for meals and incidental expenses when your employer does one of the following.

- 1) Provides you with lodging (furnishes it in kind).
- 2) Reimburses you, based on your receipts, for the actual cost of your lodging.
- 3) Pays the hotel, motel, etc., directly for your lodging.
- 4) Does not have a reasonable belief that you had (or will have) lodging expenses, such as when you stay with friends or relatives or sleep in the cab of your truck.
- 5) Computes the allowance on a basis similar to that used in computing your compensation, such as number of hours worked or miles traveled.

**High-low rate.** This is a simplified method of computing the federal per diem rate for travel within the continental United States. It eliminates the need to keep a current list of the per diem rate for each city.

Under the high-low method, the per diem amount for travel during 2000 is \$201 (including \$42 for M&IE) for certain high-cost locations. All other areas have a per diem amount of \$124 (including \$34 for M&IE). (Employers can get Publication 1542, which gives the areas eligible for the \$201 per diem amount under the high-low method for all or part of the year.)

**Prorating the standard meal allowance on partial days of travel.** The standard meal allowance is for a full 24-hour day of travel. If you travel for part of a day, such as on the days you depart and return, you must prorate the full-day M&IE rate. This rule also applies if your employer uses the regular federal per diem rate or the high-low rate.

You can use either of the following methods to figure the federal M&IE for that day.

- 1) **Method 1:**
  - a) For the day you depart, add  $\frac{3}{4}$  of the standard meal allowance amount for that day.

- b) For the day you return, add  $\frac{3}{4}$  of the standard meal allowance amount for the preceding day.
- 2) **Method 2:** Prorate the standard meal allowance using any method that you consistently apply and that is in accordance with reasonable business practice. For example, an employer can treat 2 full days of per diem (that includes M&IE) paid for travel away from home from 9 a.m. of one day to 5 p.m. of the next day as being no more than the federal rate. This is true even though a federal employee would be limited to a reimbursement of M&IE for only  $1\frac{1}{2}$  days of the federal M&IE rate.

**The standard mileage rate.** This is a set rate per mile that you can use to compute your deductible car expenses. For 2000, the standard mileage rate is  $32\frac{1}{2}$  cents a mile for all business miles. This rate is adjusted periodically.

**Fixed and variable rate (FAVR).** This is an allowance your employer may use to reimburse your car expenses. Under this method, your employer pays an allowance that includes a combination of payments covering fixed and variable costs, such as a cents-per-mile rate to cover your variable operating costs (such as gas, oil, etc.) plus a flat amount to cover your fixed costs (such as depreciation (or lease payments), insurance, etc.). If your employer chooses to use this method, your employer will request the necessary records from you.

**Reporting your expenses with a per diem or car allowance.** If your reimbursement is in the form of an allowance received under an accountable plan, the following two facts affect your reporting.

- 1) The federal rate.
- 2) Whether the allowance or your actual expenses were more than the federal rate.

The following discussions explain where to report your expenses depending upon how the amount of your allowance compares to the federal rate.

**Allowance LESS than or EQUAL to the federal rate.** If your allowance is less than or equal to the federal rate, the allowance will not be included in box 1 of your Form W-2. You do not need to report the related expenses or the allowance on your return if your expenses are equal to or less than the allowance.

However, if your actual expenses are more than your allowance, you can complete Form 2106 and deduct the excess amount on Schedule A (Form 1040). If you are using actual expenses, you must be able to prove to the IRS the total amount of your expenses and reimbursements for the entire year. If you are using the standard meal allowance or the standard mileage rate, you do not have to prove that amount.

**Example 1.** In April, Jeremy takes a 2-day business trip to Denver. The federal rate for Denver is \$125 per day. As required by his employer's accountable plan, he accounts for the time (dates), place, and business purpose of the trip. His employer reimburses him \$125 a day (\$250 total) for living expenses. Jeremy's living expenses in Denver are not more than \$125 a day.

Jeremy's employer does not include any of the reimbursement on his Form W-2 and Jeremy does not deduct the expenses on his return.

**Example 2.** In June, Matt takes a 2-day business trip to Boston. Matt's employer uses the high-low method to reimburse employees. Since Boston is a high-cost area, Matt is given an advance of \$180 a day (\$360 total) for his lodging, meals, and incidental expenses. Matt's actual expenses totaled \$490.

Since Matt's \$490 of expenses are more than his \$360 advance, he includes the excess expenses when he itemizes his deductions. Matt completes Form 2106 (showing **all** of his expenses and reimbursements). He must also allocate his reimbursement between his meals and other expenses as discussed later under *Completing Forms 2106 and 2106-EZ*.

**Example 3.** Nicole drives 10,000 miles a year for business. Under her employer's accountable plan, she accounts for the time (dates), place, and business purpose of each trip. Her employer pays her a mileage allowance of 20 cents a mile.

Since Nicole's \$3,250 expenses computed under the standard mileage rate (10,000 miles  $\times$   $32\frac{1}{2}$  cents) are more than her \$2,000 reimbursement (10,000 miles  $\times$  20 cents), she itemizes her deductions to claim the excess expenses. Nicole completes Form 2106 (showing **all** of her expenses and reimbursements) and enters \$1,250 (\$3,250 - \$2,000) as an itemized deduction.

**Allowance MORE than the federal rate.** If your allowance is more than the federal rate, your employer must include the allowance amount up to the federal rate in box 13 of your Form W-2. This amount is not taxable. However, the excess allowance will be included in box 1 of your Form W-2. You must report this part of your allowance as if it were wage income.

If your actual expenses are less than or equal to the federal rate, you do not complete Form 2106 or claim any of your expenses on your return.

However, if your actual expenses are more than the federal rate, you can complete Form 2106 and deduct those excess expenses. You must report on Form 2106 your reimbursements up to the federal rate (as shown in box 13 of your Form W-2) and all your expenses. You should be able to prove these amounts to the IRS.

**Example 1.** Laura lives and works in Austin. Her employer sent her to Albuquerque for 2 days on business. Laura's employer paid the hotel directly for her lodging and reimbursed Laura \$40 a day (\$80 total) for meals and incidental expenses. Laura's actual meal expenses were not more than the federal rate for Albuquerque, which is \$38 per day.

Her employer included the \$4 that was more than the federal rate [ $(\$40 - \$38) \times 2$ ] in box 1 of Laura's Form W-2. Her employer shows \$76 ( $\$38 \text{ a day} \times 2$ ) in box 13 of her Form W-2. This amount is not included in Laura's income. Laura does not have to complete Form 2106; however, she must include the \$4 in her gross income as wages (by reporting the total amount shown in box 1 of her Form W-2).

**Example 2.** Joe also lives in Austin and works for the same employer as Laura. In May the employer sent Joe to San Diego for

Table 5. Reporting Travel, Entertainment, Gift, and Car Expenses and Reimbursements

IF the type of reimbursement (or other expense allowance) arrangement is under:	THEN the employer reports on Form W-2:	AND the employee reports on Form 2106: *
<b>An accountable plan with:</b>		
<i>Actual expense reimbursement:</i> Adequate accounting made <u>and</u> excess returned	No amount.	No amount.
<i>Actual expense reimbursement:</i> Adequate accounting and return of excess both required <u>but</u> excess not returned	The excess amount as wages in box 1.	No amount.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting made <u>and</u> excess returned	No amount.	All expenses and reimbursements only if excess expenses are claimed. Otherwise, form is not filed.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting and return of excess both required <u>but</u> excess not returned	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 13—it is not reported in box 1.	No amount.
<i>Per diem or mileage allowance exceeds the federal rate:</i> Adequate accounting up to the federal rate only <u>and</u> excess not returned	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 13—it is not reported in box 1.	All expenses (and reimbursements reported on Form W-2, box 13) only if expenses in excess of the federal rate are claimed. Otherwise, form is not filed.
<b>A nonaccountable plan with:</b>		
Either adequate accounting or return of excess, or both, not required by plan	The entire amount as wages in box 1.	All expenses.
<b>No reimbursement plan:</b>	The entire amount as wages in box 1.	All expenses.

\* You may be able to use Form 2106-EZ. See *Completing Forms 2106 and 2106-EZ* in chapter 6.

4 days and paid the hotel directly for Joe's hotel bill. The employer reimbursed Joe \$50 a day for his meals and incidental expenses. The federal rate for San Diego is \$46 a day.

Joe can prove that his actual meal expenses totaled \$290. His employer's accountable plan will not pay more than \$50 a day for travel to San Diego, so Joe does not give his employer the records that prove that he actually spent \$290. However, he does account for the time, place, and business purpose of the trip. This is Joe's only business trip this year.

Joe was reimbursed \$200 ( $\$50 \times 4$  days), which is \$16 more than the federal rate of \$184 ( $\$46 \times 4$  days). The employer includes the \$16 as income on Joe's Form W-2 in box 1. The employer also enters \$184 in box 13 of Joe's Form W-2.

Joe completes Form 2106 to figure his deductible expenses. He enters the total of his actual expenses for the year (\$290) on Form 2106. He also enters the reimbursements that were not included in his income (\$184). His total deductible expense, before the 50% limit, is \$106. After he figures the

50% limit on his unreimbursed meals and entertainment, he will include the balance, \$53, as an itemized deduction.

**Example 3.** Debbie drives 10,000 miles for business. Under her employer's accountable plan, she gets reimbursed 35 cents a mile, which is 2½ cents a mile more than the standard mileage rate.

Debbie's employer must include the reimbursement amount up to the standard mileage rate, \$3,250 (10,000 miles  $\times$  32½ cents), in box 13 of her Form W-2. That amount is not taxable. Her employer must also include \$250 (10,000 miles  $\times$  2½ cents) in box 1 of her Form W-2. This is the reimbursement that is more than the standard mileage rate.

If Debbie's expenses are equal to or less than the standard mileage rate, she would not complete Form 2106. If her expenses are more than the standard mileage rate, she would complete Form 2106 and report her total expenses and reimbursement (shown in box 13 of her Form W-2). She would then claim the excess expenses as an itemized deduction.

## Returning Excess Reimbursements

Under an accountable plan, you are required to return any excess reimbursement or other expense allowances for your business expenses to the person paying the reimbursement or allowance. **Excess reimbursement** means any amount for which you did not adequately account within a reasonable period of time. For example, if you received a travel advance and you did not spend all the money on business-related expenses, or you do not have proof of all your expenses, you have an excess reimbursement.

"Adequate accounting" and "reasonable period of time" were discussed earlier in this chapter.

**Travel advance.** You receive a travel advance if your employer provides you with an expense allowance before you actually have the expense, and the allowance is reasonably expected to be no more than your expense. Under an accountable plan, you are required to adequately account to your employer for this advance and to return any excess within a reasonable period of time.

If you do not adequately account for or do not return any excess advance within a reasonable period of time, the amount you do not account for or return will be treated as having been paid under a nonaccountable plan (discussed later).

**Unproved amounts.** If you do not prove that you actually traveled on each day for which you received a per diem or car allowance (proving the elements described in *Table 4*), you must return this unproved amount of the travel advance within a reasonable period of time. If you do not do this, the unproved amount will be considered paid under a nonaccountable plan (discussed later).

**Per diem allowance MORE than federal rate.** If your employer's accountable plan pays you an allowance that is higher than the federal rate, you do not have to return the difference between the two rates for the period you can prove business-related travel expenses. However, the difference will be reported as wages on your Form W-2. This excess amount is considered paid under a nonaccountable plan (discussed later).

**Example.** Your employer sends you on a 5-day business trip to Phoenix and gives you a \$225 ( $\$45 \times 5$  days) advance to cover your meals and incidental expenses. The federal per diem for meals and incidental expenses for Phoenix is \$42. Your trip lasts only 3 days. Under your employer's accountable plan, you must return the \$90 ( $\$45 \times 2$  days) advance for the 2 days you did not travel. You do not have to return the \$9 difference between the allowance you received and the federal rate for Phoenix [ $(\$45 - \$42) \times 3$  days]. However, the \$9 will be reported on your Form W-2 as wages.

## Nonaccountable Plans

A nonaccountable plan is a reimbursement or expense allowance arrangement that does not meet one or more of the three rules listed earlier under *Accountable Plans*.

In addition, even if your employer has an accountable plan, the following payments will be treated as being paid under a nonaccountable plan:

- 1) Excess reimbursements you fail to return to your employer, and

- 2) Reimbursement of nondeductible expenses related to your employer's business. See *Reimbursement of nondeductible expenses*, earlier, under *Accountable Plans*.

An arrangement that repays you for business expenses by reducing the amount reported as your wages, salary, or other pay will be treated as a nonaccountable plan. This is because you are entitled to receive the full amount of your pay whether or not you have any business expenses.

If you are not sure if the reimbursement or expense allowance arrangement is an accountable or nonaccountable plan, ask your employer.

**Reporting your expenses under a nonaccountable plan.** Your employer will combine the amount of any reimbursement or other expense allowance paid to you under a nonaccountable plan with your wages, salary, or other pay. Your employer will report the total in box 1 of your Form W-2.

You must complete Form 2106 or 2106-EZ and itemize your deductions to deduct your expenses for travel, transportation, meals, or entertainment. Your meal and entertainment expenses will be subject to the 50% limit discussed in chapter 2. Also, your total expenses will be subject to the 2%-of-adjusted-gross-income limit that applies to most miscellaneous itemized deductions.

**Example 1.** Kim's employer gives her \$500 a month (\$6,000 total for the year) for her business expenses. Kim does not have to provide any proof of her expenses to her employer, and Kim can keep any funds that she does not spend.

Kim is being reimbursed under a nonaccountable plan. Her employer will include the \$6,000 on Kim's Form W-2 as if it were wages. If Kim wants to deduct her business expenses, she must complete Form 2106 or 2106-EZ and itemize her deductions.

**Example 2.** Kevin is paid \$2,000 a month by his employer. On days that he travels away from home on business, his employer designates \$50 a day of his salary as paid to reimburse his travel expenses. Because his employer would pay Kevin his monthly salary whether or not he was traveling away from home, the arrangement is a nonaccountable plan. No part of the \$50 a day designated by his employer is treated as paid under an accountable plan.

## Rules for Independent Contractors and Clients

This section provides rules for independent contractors who incur expenses on behalf of a client or customer. The rules cover the reporting and substantiation of certain expenses discussed in this publication, and they affect both independent contractors and their clients or customers.

You are considered an independent contractor if you are self-employed and you perform services for a customer or client.

### Accounting to Your Client

If you received a reimbursement or an allowance for travel, entertainment, or gift expenses that you incurred on behalf of a client, you should provide an adequate accounting

of these expenses to your client. If you do not account to your client for these expenses, you must include any reimbursements or allowances in income. You must keep adequate records of these expenses whether or not you account to your client for these expenses.

If you do not separately account for and seek reimbursement for meals and entertainment in connection with providing services for a client, you are subject to the 50% limit on those expenses. See *50% Limit* in chapter 2.

**Adequate accounting.** As a self-employed person, you adequately account by reporting your actual expenses. You should follow the recordkeeping rules in chapter 5.

**How to report.** For information on how to report expenses on your tax return, see *Self-employed* at the beginning of this chapter.

### Required Records for Clients or Customers

If you are a client or customer, you generally do not have to keep records to prove the reimbursements or allowances you give, in the course of your business, to an independent contractor for travel or gift expenses incurred on your behalf. However, you must keep records if:

- 1) You reimburse the contractor for entertainment expenses incurred on your behalf, **and**
- 2) The contractor adequately accounts to you for these expenses.

**Contractor adequately accounts.** If the contractor adequately accounts to you for entertainment expenses, you (the client or customer) must keep records documenting each element of the expense, as explained in chapter 5. Use your records as proof for a deduction on your tax return. If entertainment expenses are accounted for separately, you are subject to the 50% limit on entertainment. If the contractor adequately accounts to you for reimbursed amounts, you do not have to report the amounts on an information return.

**Contractor does not adequately account.** If the contractor does not adequately account to you for allowances or reimbursements of entertainment expenses, you do not have to keep records of these items. You are not subject to the 50% limit on entertainment in this case. You can deduct the reimbursements or allowances as payment for services if they are ordinary and necessary business expenses. However, you must file Form 1099-MISC, *Miscellaneous Income*, to report amounts paid to the independent contractor if the total of the reimbursements and any other fees is \$600 or more during the calendar year.

## Completing Forms 2106 and 2106-EZ

This section briefly describes how employees complete Forms 2106 and 2106-EZ. *Table 5* explains what the employer reports on Form W-2 and what the employee reports on Form 2106. The instructions for the forms have more information on completing them.



If you are self-employed, do not file Form 2106 or 2106-EZ. Report your expenses on Schedule C, C-EZ, or F (Form 1040). See the instructions for the form that you must file.

**Form 2106-EZ.** You may be able to use the shorter Form 2106-EZ to claim your employee business expenses. You can use this form if you meet both of the following conditions.

- 1) You were not reimbursed for your expenses or, if you were reimbursed, the reimbursement was included in your income (box 1 of your Form W-2).
- 2) If you claim car expenses, you use the standard mileage rate.

**Car expenses.** If you used a car to perform your job as an employee, you may be able to deduct certain car expenses. These are generally figured in Part II of Form 2106, and then claimed on line 1, Column A, of Part I of Form 2106. Car expenses using the standard mileage rate can also be figured on Form 2106-EZ by completing Part II and line 1 of Part I.

**Information on use of cars.** If you claim any deduction for the business use of a car, you must answer certain questions and provide information about the use of the car. The information relates to the following items.

- Mileage (total, business, commuting, and other personal mileage).
- Percentage of business use.
- Date placed in service.
- Use of other vehicles.
- After-work use.
- Whether you have evidence to support the deduction.
- Whether or not the evidence is written.

Employees must complete Section A, Part II, Form 2106, or Part II, Form 2106-EZ, to provide this information.

**Standard mileage rate.** If you claim a deduction based on the standard mileage rate instead of your actual expenses, you must complete Section B, Part II, Form 2106. The amount on line 22 (Section B) is carried to line 1, Part I, Form 2106. In addition, on line 2, Part I, Form 2106, you can deduct parking fees and tolls that apply to the business use of the car. If you file Form 2106-EZ, complete line 1, Part I, for the standard mileage rate and line 2 for parking fees and tolls. See *Standard Mileage Rate* in chapter 4 for information on using this rate.

**Actual expenses.** If you claim a deduction based on actual expenses, you cannot use Form 2106-EZ. You must complete Section C, Part II, Form 2106. In addition, unless you lease your car, you must complete Section D to show your depreciation deduction and any section 179 deduction you can claim.

If you are still using a car that is fully depreciated, continue to complete Section C. Since you have no depreciation deduction, enter zero on line 28. In this case, do not complete Section D.

**Car rentals.** If you claim car rental expenses on line 24a of Form 2106, you may have to reduce that expense by an inclusion amount as described in chapter 4. If so, you

can show your car expenses and any inclusion amount as follows.

- 1) Compute the inclusion amount **without** taking into account your business use percentage for the tax year.
- 2) Report the inclusion amount from (1) on line 24b, Part II, Form 2106.
- 3) Report on line 24c the **net** amount of car rental expenses [total car rental expenses minus the inclusion amount computed in (1)].

The net amount of car rental expenses will be adjusted on line 27, Part II, of Form 2106, to reflect the percentage of business use for the tax year.

**Local transportation expenses.** Show your local business transportation expenses that did not involve overnight travel on line 2, Column A, of Form 2106 or on line 2, Part I, of Form 2106-EZ. Also include on this line business expenses you have for parking fees and tolls. Do not include expenses of operating your car or expenses of commuting between your home and work.

**Employee business expenses other than meals and entertainment.** Show your other employee business expenses on lines 3 and 4, Column A, of Form 2106 or on lines 3 and 4 of Form 2106-EZ. Do not include expenses for meals and entertainment on those lines. Line 4 is for expenses such as business gifts, educational expenses (tuition and books), office-in-the-home expenses, and trade and professional publications.

**TIP** *If line 4 expenses are the only ones you are claiming, you received no reimbursements (or the reimbursements were all included in box 1 of your Form W-2), and the Special Rules discussed later do not apply to you, do not complete Form 2106 or 2106-EZ. Claim these amounts directly on line 20 of Schedule A (Form 1040). List the type and amount of each expense on the dotted lines and include the total on line 20.*

**Meal and entertainment expenses.** Show the full amount of your expenses for business-related meals and entertainment on line 5, Column B, of Form 2106. Include meals while away from your tax home overnight and other business meals and entertainment. Enter 50% of the line 8, Column B, meal and entertainment expenses on line 9, Column B, of Form 2106.

If you file Form 2106-EZ, enter the full amount of your meals and entertainment on the line to the left of line 5 and multiply the total by 50%. Enter the result on line 5.

**Hours of service limits.** If you are subject to the Department of Transportation's "hours of service" limits (as explained earlier under *Individuals subject to "hours of service" limits* in chapter 2), use 60% instead of 50%.

**Reimbursements.** Enter on line 7 of Form 2106 (You cannot use Form 2106-EZ.) the amounts your employer (or third party) reimbursed you that were **not** reported to you in box 1 of your Form W-2. This includes any amount reported under code L in box 13 of Form W-2.

**Allocating your reimbursement.** If you were reimbursed under an accountable plan and want to deduct excess expenses that

were not reimbursed, you may have to allocate your reimbursement. This is necessary when your employer pays your reimbursement in the following manner:

- 1) Pays you a single amount that covers meals and/or entertainment, as well as other business expenses, and
- 2) Does not clearly identify how much is for deductible meals and/or entertainment.

You must allocate that single payment so that you know how much to enter in Column A and Column B of line 7 of Form 2106.

**Example.** Rob's employer paid him an expense allowance of \$5,000 this year under an accountable plan. The \$5,000 payment consisted of \$2,000 for airfare and \$3,000 for entertainment and car expenses. The employer did not clearly show how much of the \$3,000 was for the cost of deductible entertainment. Rob actually spent \$6,500 during the year (\$2,000 for airfare, \$2,000 for entertainment, and \$2,500 for car expenses).

Since the airfare allowance was clearly identified, Rob knows that \$2,000 of the payment goes in Column A, line 7, of Form 2106. To allocate the remaining \$3,000, Rob uses the worksheet from the instructions for Form 2106. His completed worksheet follows.

1. Enter the total amount of reimbursements your employer gave you that <b>were not</b> reported to you in box 1 of Form W-2 ...	3,000
2. Enter the total amount of your expenses for the periods covered by this reimbursement .....	4,500
3. Of the amount on line 2, enter your total expense for meals and entertainment .....	2,000
4. Divide line 3 by line 2. Enter the result as a decimal (rounded to at least three places) .....	.444
5. Multiply line 1 by line 4. Enter the result here and in Column B, line 7 .....	1,332
6. Subtract line 5 from line 1. Enter the result here and in Column A, line 7 .....	1,668

On line 7 of Form 2106, Rob enters \$3,668 (\$2,000 airfare and \$1,668 of the \$3,000) in Column A and \$1,332 (of the \$3,000) in Column B.

**After you complete the form.** After you have completed your Form 2106 or 2106-EZ, follow the directions on that form to deduct your expenses on the appropriate line of your tax return. For most taxpayers, this is line 20 of Schedule A (Form 1040). However, if you are a government official paid on a fee basis, a performing artist, or a disabled employee with impairment-related work expenses, see *Special Rules*, later.

**Limits on employee business expenses.** Your employee business expenses may be subject to any of the three limits described next. They are figured in the following order on the specified form.

**1. Limit on meals and entertainment.** Certain meal and entertainment expenses are subject to a 50% limit. If you are an employee, you figure this limit on line 9 of Form 2106 or line 5 of Form 2106-EZ. (See *50% Limit* in chapter 2.)

**2. Limit on miscellaneous itemized deductions.** If you are an employee, deduct your employee business expenses (as figured on Form 2106 or 2106-EZ) on line 20 of Schedule A (Form 1040). Most miscellaneous

itemized deductions, including employee business expenses, are subject to a 2%-of-adjusted-gross-income limit. This limit is figured on line 25 of Schedule A (Form 1040).

**3. Limit on total itemized deductions.** If your adjusted gross income (line 34 of Form 1040) is more than \$128,950 (\$64,475 if you are married filing separately), the total of certain itemized deductions, including employee business expenses, may be limited. See your form instructions for information on how to figure this limit.

## Special Rules

This section discusses special rules that apply only to government officials who are paid on a fee basis, performing artists, and disabled employees with impairment-related work expenses.

### Officials Paid on a Fee Basis

Certain fee-basis officials can claim their employee business expenses whether or not they itemize their other deductions on Schedule A (Form 1040).

Fee-basis officials are persons who are employed by a state or local government and who are paid in whole or in part on a fee basis. They can deduct their business expenses in performing services in that job as an adjustment to gross income rather than as a miscellaneous itemized deduction.

If you are a fee-basis official, include your employee business expenses from line 10 of Form 2106 or line 6 of Form 2106-EZ in the total on line 32 of Form 1040. Write "FBO" and the amount of your employee business expenses in the space to the left of line 32 of Form 1040.

### Expenses of Certain Performing Artists

If you are a performing artist, you may qualify to deduct your employee business expenses as an adjustment to gross income rather than as a miscellaneous itemized deduction. To qualify, you must meet **all** of the following requirements.

- 1) During the tax year, you perform services in the performing arts for at least two employers.
- 2) You receive at least \$200 each from any two of these employers.
- 3) Your related performing-arts business expenses are more than 10% of your gross income from the performance of those services.
- 4) Your adjusted gross income is not more than \$16,000 before deducting these business expenses.

**Special rules for married persons.** If you are married, you must file a joint return unless you lived apart from your spouse at all times during the tax year. If you file a joint return, you must figure requirements (1), (2), and (3) separately for both you and your spouse. However, requirement (4) applies to your and your spouse's combined adjusted gross income.

**Where to report.** If you meet all of the above requirements, you should first complete Form 2106 or 2106-EZ. Then you include your performing-arts-related expenses from line 10

of Form 2106 or line 6 of Form 2106-EZ in the total on line 32 of Form 1040. Write "QPA" and the amount of your performing-arts-related expenses in the space to the left of line 32 of Form 1040.

If you do not meet all of the requirements, you do not qualify to deduct your expenses as an adjustment to gross income. Instead, you must complete Form 2106 or 2106-EZ and deduct your employee business expenses as an itemized deduction on line 20 of Schedule A (Form 1040).

### Impairment-Related Work Expenses of Disabled Employees

If you are an employee with a physical or mental disability, your impairment-related work expenses are not subject to the 2%-of-adjusted-gross-income limit that applies to most other employee business expenses. After you complete Form 2106 or 2106-EZ, enter your impairment-related work expenses from line 10 of Form 2106 or line 6 of Form 2106-EZ on line 27 of Schedule A (Form 1040), and identify the type and amount of this expense on the dotted line next to line 27. Enter your employee business expenses that are **unrelated** to your disability from line 10 of Form 2106 or line 6 of Form 2106-EZ on line 20 of Schedule A (Form 1040).

Impairment-related work expenses are your allowable expenses for attendant care at your workplace and other expenses in connection with your workplace that are necessary for you to be able to work.

You are disabled if you have:

- A physical or mental disability (for example, blindness or deafness) that functionally limits your being employed, or
- A physical or mental impairment (for example, a sight or hearing impairment) that substantially limits one or more of your major life activities, such as performing manual tasks, walking, speaking, breathing, learning, or working.

You can deduct impairment-related expenses as business expenses if they are:

- Necessary for you to do your work satisfactorily,
- For goods and services not required or used, other than incidentally, in your personal activities, and
- Not specifically covered under other income tax laws.

**Example.** You are blind. You must use a reader to do your work. You use the reader both during your regular working hours at your place of work and outside your regular working hours away from your place of work. The reader's services are only for your work. You can deduct your expenses for the reader as business expenses.

### Illustrated Examples

The following examples illustrate the reporting of travel, entertainment, gift, and transportation expenses on Forms 2106 and 2106-EZ. Business use of a car is shown using actual car expenses in *Example 1* and the standard mileage rate in *Example 2*. Sample records that prove some of the claimed expenses are also shown.

**Example 1.** David Pine purchased a car for \$18,500 (including sales tax) on January 6, 2000. In 2000, he used the car 70% for business purposes. A sample page from David's logbook is illustrated in *Table 6*. He records his business mileage (but not his personal miles) and expenses daily.

David uses **Form 2106** to claim actual car expenses. He completes Part II, Section A, as shown later on his illustrated form. He does not claim the section 179 deduction. He uses the MACRS double declining balance method (200% DB) to determine his depreciation deduction.

His depreciation deduction normally would be \$2,590 [ $\$18,500$  (unadjusted basis)  $\times$  70% (business use)  $\times$  20% (from *Table 3*)]. However, it is limited in the first year to \$2,142 [ $\$3,060$  (from the *Maximum Depreciation*

*Limits for Cars* table shown in chapter 4)  $\times$  70%]. He enters these amounts in Part II, Section D.

His other car expenses included \$3,080 for gas, oil, repairs, and insurance. He enters this amount in Part II, Section C, and multiplies it by the 70% business use. He adds this amount (\$2,156) to the depreciation deduction (\$2,142) and reports the total (\$4,298) on line 1, Part I.

His other transportation expenses for parking fees, tolls, and taxis were \$1,190. He enters this amount on line 2, Part I. David's employer reimbursed him a total of \$2,940 for his car and transportation expenses. This amount was paid from an accountable plan and was not shown on David's Form W-2. However, since he is claiming expenses that are more than his reimbursements, he must show the entire reimbursement amount on line 7, Column A, Part I. Since David had no meal or entertainment expenses, he enters his excess deductible expenses (\$2,548) on line 10, Part I. He can deduct these expenses (subject to the 2%-of-adjusted-gross-income limit) on line 20 of Schedule A (Form 1040) if he itemizes his deductions.

**Example 2.** Bill Wilson is an employee of Fashion Clothing Co. in Manhattan, NY. In a typical week, Bill leaves his home on Long Island on Monday morning and drives to Albany to exhibit the Fashion line for 3 days to prospective customers. Then he drives to Troy to show Fashion's new line of merchandise to Town Department Store, an old customer. While in Troy, he talks with Tom Brown, purchasing agent for Town Department Store, to discuss the new line. He later takes John Smith of Attire Co. out to dinner to discuss Attire Co.'s buying Fashion's new line of clothing.

Bill purchased his car on January 3, 1997. He uses the standard mileage rate for car expense purposes. He records his total mileage, business mileage, parking fees, and tolls for the year. Bill records his expenses and other pertinent information in his *Weekly Traveling Expense and Entertainment Record*, shown in *Table 7*. He obtains receipts for

**Table 6. Daily Business Mileage and Expense Log**

Name: *David Pine*

Date	Destination (City, Town, or Area)	Business Purpose	Odometer Readings			Expenses	
			Start	Stop	Miles this trip	Type (Gas, oil, tolls, etc.)	Amount
6/7/00							
6/8/00	Local (St. Louis)	Sales calls	8,097	8,188	91	Gas	\$ 18.25
6/9/00	Indianapolis	Sales calls	8,211	8,486	275	Parking	2.00
6/10/00	Louisville	See Bob Smith (Pot. Client)	8,486	8,599	113	Gas/Repair flat tire	16.50 8.00
6/11/00	Return to St. Louis		8,599	8,875	276	Gas	17.25
6/12/00	Local (St. Louis)	Sales calls	8,914	9,005	91		
6/13/00							
	<b>Weekly Total</b>		8,097	9,005	846		\$ 62.00
<b>Total Year-to-Date</b>					6,236		\$993.00

# Employee Business Expenses

Department of the Treasury  
Internal Revenue Service

▶ See separate instructions.

**2000**

Attachment  
Sequence No. **54**

▶ Attach to Form 1040.

Your name David Pine	Occupation in which you incurred expenses Sales	Social security number 559 : 00 : 9559
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**Part I** Employee Business Expenses and Reimbursements

	Column A Other Than Meals and Entertainment		Column B Meals and Entertainment	
<b>Step 1 Enter Your Expenses</b>				
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.) . . . . .	1	4,298		
2 Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work . . . . .	2	1,190		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	3			
4 Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment. . . . .	4			
5 Meals and entertainment expenses (see instructions) . . . . .	5			
6 <b>Total expenses.</b> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5 . . . . .	6	5,488		

**Note:** If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

**Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1**

7 Enter reimbursements received from your employer that were <b>not</b> reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 13 of your Form W-2 (see instructions) . . . . .	7	2,940		
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**Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)**

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 . . . . .	8	2,548		
<b>Note:</b> If <b>both columns</b> of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.				
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 60% (.60) instead of 50%. For details, see instructions.) . . . . .	9	2,548		
10 Add the amounts on line 9 of both columns and enter the total here. <b>Also, enter the total on Schedule A (Form 1040), line 20.</b> (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . . . . . ▶	10			2,548

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 11700N

Form **2106** (2000)

**Part II Vehicle Expenses**

**Section A—General Information** (You must complete this section if you are claiming vehicle expenses.)

	(a) Vehicle 1	(b) Vehicle 2
<b>11</b> Enter the date the vehicle was placed in service . . . . .	11 1 / 6 / 00	/ /
<b>12</b> Total miles the vehicle was driven during 2000 . . . . .	12 20,000 miles	miles
<b>13</b> Business miles included on line 12 . . . . .	13 14,000 miles	miles
<b>14</b> Percent of business use. Divide line 13 by line 12 . . . . .	14 70 %	%
<b>15</b> Average daily roundtrip commuting distance . . . . .	15 10 miles	miles
<b>16</b> Commuting miles included on line 12 . . . . .	16 2,400 miles	miles
<b>17</b> Other miles. Add lines 13 and 16 and subtract the total from line 12 . . . . .	17 3,600 miles	miles
<b>18</b> Do you (or your spouse) have another vehicle available for personal use? . . . . .	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>19</b> If your employer provided you with a vehicle, is personal use during off-duty hours permitted? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Not applicable
<b>20</b> Do you have evidence to support your deduction? . . . . .	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
<b>21</b> If "Yes," is the evidence written? . . . . .	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

**Section B—Standard Mileage Rate** (See the instructions for Part II to find out whether to complete this section or Section C.)

<b>22</b> Multiply line 13 by 32½¢ (.325) . . . . .	<b>22</b>
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**Section C—Actual Expenses**

	(a) Vehicle 1	(b) Vehicle 2
<b>23</b> Gasoline, oil, repairs, vehicle insurance, etc. . . . .	23 3,080	
<b>24a</b> Vehicle rentals . . . . .	24a	
<b>b</b> Inclusion amount (see instructions)	24b	
<b>c</b> Subtract line 24b from line 24a	24c	
<b>25</b> Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25	
<b>26</b> Add lines 23, 24c, and 25 . . . . .	26 3,080	
<b>27</b> Multiply line 26 by the percentage on line 14 . . . . .	27 2,156	
<b>28</b> Depreciation. Enter amount from line 38 below . . . . .	28 2,142	
<b>29</b> Add lines 27 and 28. Enter total here and on line 1 . . . . .	29 4,298	

**Section D—Depreciation of Vehicles** (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

	(a) Vehicle 1	(b) Vehicle 2
<b>30</b> Enter cost or other basis (see instructions) . . . . .	30 18,500	
<b>31</b> Enter amount of section 179 deduction (see instructions) . . . . .	31	
<b>32</b> Multiply line 30 by line 14 (see instructions if you elected the section 179 deduction) . . . . .	32 12,950	
<b>33</b> Enter depreciation method and percentage (see instructions) . . . . .	33 200DB 20%	
<b>34</b> Multiply line 32 by the percentage on line 33 (see instructions) . . . . .	34 2,590	
<b>35</b> Add lines 31 and 34 . . . . .	35 2,590	
<b>36</b> Enter the limit from the table in the line 36 instructions . . . . .	36 3,060	
<b>37</b> Multiply line 36 by the percentage on line 14 . . . . .	37 2,142	
<b>38</b> Enter the <b>smaller</b> of line 35 or line 37. Also enter this amount on line 28 above . . . . .	38 2,142	

**THIS IS NOT AN OFFICIAL INTERNAL REVENUE FORM**

**Table 7. Weekly Traveling Expense and Entertainment Record**

From: August 2, 2000

To: August 8, 2000

Name: Bill Wilson

Expenses	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
<b>1. Travel Expenses:</b>								
Airlines								
Excess baggage								
Bus - Train								
Cab and Limousine								
Tips								
Porter								
<b>2. Meals and Lodging:</b>								
Breakfast			6 75	6 00	5 25	7 00		25 00
Lunch		9 75	10 00	9 25	8 25	8 50		45 75
Dinner		22 00	18 25	17 50				57 75
Hotel and Motel (Detail in Schedule B)		50 00	50 00	50 00	45 00			195 00
<b>3. Entertainment</b> (Detail in Schedule C)					50 00			50 00
<b>4. Other Expenses:</b>								
Postage								
Telephone & Telegraph		1 50				1 00		2 50
Stationery & Printing								
Stenographer								
Sample Room			15 00	15 00				30 00
Advertising								
Assistant(s) & Model(s)			20 00	20 00				40 00
Trade Shows								
<b>5. Car Expenses:</b> (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.)								
Gas, oil, lube, wash								
Repairs, parts								
Tires, supplies								
Parking fees, tolls		4 00			3 00	3 00		10 00
<b>6. Other (Identify)</b>								
<b>Total</b>		87 25	120 00	117 75	111 50	19 50		456 00

**Note:** Attach receipted bills for (1) ALL lodging and (2) any other expenses of \$75.00 or more.

**Schedule A - Car**

<b>Mileage: End</b>		57,600	57,620	57,650	57,660	57,840	
<b>Start</b>		57,445	57,600	57,620	57,650	57,660	
<b>Total</b>		155	20	30	10	180	395
<b>Business Mileage</b>		155	20	30	10	170	385

**Schedule B - Lodging**

Hotel or Motel	Name		Bay Hotel	Bay Hotel	Bay Hotel	Modern Hotel	
	City		Albany	Albany	Albany	Troy	

**Schedule C - Entertainment**

Date	Item	Place	Amount	Business Purpose	Business Relationship
August 6, 2000	Bar	John's Steak House	15 00	Discuss purchases	Smith-Attire Co.
	Dinner	Troy	35 00		

WEEKLY REIMBURSEMENTS:

Travel and transportation expenses . . . . . N/A  
 Other reimbursements . . . . . \_\_\_\_\_  
 TOTAL . . . . . \_\_\_\_\_

# Unreimbursed Employee Business Expenses

Department of the Treasury  
Internal Revenue Service

▶ **Attach to Form 1040.**

Your name <p style="text-align: center;">Bill Wilson</p>	Occupation in which you incurred expenses <p style="text-align: center;">Sales</p>	Social security number <p style="text-align: center;">555 : 00 : 5555</p>
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**You May Use This Form Only if All of the Following Apply.**

- You are an employee deducting expenses attributable to your job.
- You **do not** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2000.

**Caution:** You can use the standard mileage rate for 2000 **only if:** (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service **or** (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

**Part I Figure Your Expenses**

1 Vehicle expense using the standard mileage rate. Complete Part II and multiply line 8a by 32½¢ (.325) . . . . .	<b>1</b>	6,500	
2 Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work . . . . .	<b>2</b>	325	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	<b>3</b>	8,975	
4 Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment	<b>4</b>	430	
5 Meals and entertainment expenses: \$ <u>4,502</u> x 50% (.50) (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 60% (.60) instead of 50%. For details, see instructions.) . . . . .	<b>5</b>	2,251	
6 <b>Total expenses.</b> Add lines 1 through 5. Enter here and <b>on line 20 of Schedule A (Form 1040)</b> . (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.) . . . . .	<b>6</b>	18,481	

**Part II Information on Your Vehicle.** Complete this part **only** if you are claiming vehicle expense on line 1.

7 When did you place your vehicle in service for business use? (month, day, year) ▶ 1 / 3 / 97

8 Of the total number of miles you drove your vehicle during 2000, enter the number of miles you used your vehicle for:  
a Business 20,000      b Commuting 2,600      c Other 2,400

9 Do you (or your spouse) have another vehicle available for personal use? . . . . .  **Yes**    **No**

10 Was your vehicle available for use during off-duty hours? . . . . .  **Yes**    **No**

11a Do you have evidence to support your deduction? . . . . .  **Yes**    **No**  
b If "Yes," is the evidence written? . . . . .  **Yes**    **No**

**General Instructions**

*Section references are to the Internal Revenue Code.*

**A Change To Note**

The standard mileage rate has been increased to 32½ cents for each mile of business use in 2000.

**Purpose of Form**

You may use Form 2106-EZ instead of Form 2106 to claim your unreimbursed employee business expenses if you meet all the requirements listed above Part I.

**Recordkeeping**

You cannot deduct expenses for travel (including meals, unless you used the standard meal allowance), entertainment, gifts, or use of a car or other listed property, unless you keep records to prove the time, place, business purpose, business relationship (for entertainment and gifts), and amounts of these expenses. Generally, you must also have receipts for all lodging expenses (regardless of the amount) and any other expense of \$75 or more.

**Additional Information**

For more details about employee business expenses, see:  
**Pub. 463**, Travel, Entertainment, Gift, and Car Expenses  
**Pub. 529**, Miscellaneous Deductions  
**Pub. 587**, Business Use of Your Home (Including Use by Day-Care Providers)  
**Pub. 946**, How To Depreciate Property

his expenses for lodging and for any other expenses of \$75 or more.

During the year, Bill drove a total of 25,000 miles of which 20,000 miles were for business. Following the instructions for Part II of Form 2106, he answers all the questions and figures his car expense to be \$6,500 (20,000 business miles  $\times$  32½ cents standard mileage rate).

His total employee business expenses are shown in the following table.

Type of Expense	Amount
Parking fees and tolls .....	\$ 325
Car expenses .....	6,500
Meals .....	2,632
Lodging, laundry, dry cleaning .....	8,975
Entertainment .....	1,870
Gifts, education, etc. ....	430
<b>Total</b>	<b>\$20,732</b>

Bill received an allowance of \$3,600 (\$300 per month) to help offset his expenses. Bill did not have to account to his employer for the reimbursement and the \$3,600 was included as income in box 1 of his Form W-2.

Because Bill's reimbursement was included in his income and he is using the standard mileage rate for his car expenses, he files **Form 2106-EZ** with his tax return.

## 7. How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.
- Call the IRS at **1-800-829-1040**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

**Free tax services.** To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax

publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Personal computer.** With your personal computer and modem, you can access the IRS on the Internet at [www.irs.gov](http://www.irs.gov). While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed*) to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs*) to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)*).
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business*) to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business*) to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at [ftp.irs.gov](http://ftp.irs.gov).



**TaxFax Service.** Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person

only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.

- We sometimes record telephone calls to evaluate IRS assistants objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



**Walk-in.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



**Mail.** You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**  
Western Area Distribution Center  
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**  
Central Area Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**  
Eastern Area Distribution Center  
P.O. Box 85074  
Richmond, VA 23261-5074



**CD-ROM.** You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at [www.irs.gov/cdorders](http://www.irs.gov/cdorders). The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *The Business Resource Guide*, is an interactive CD-ROM that contains information important to small busi-

nesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676**.

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## Appendices

There are two appendices at the end of this publication.

Appendices A-1 through A-8 show the lease inclusion amounts that you may need

to report if you lease a car for 30 days or more.

Appendices B-1 through B-4 show the lease inclusion amounts for electric cars first leased after August 5, 1997. If any of these apply to you, use the appendix for the year you first leased the car. (See chapter 4.)

Appendix A-1. Inclusion Amounts for Cars (Other Than Electric Cars) First Leased in 2000

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,500	\$ 15,800	\$ 3	\$ 6	\$ 9	\$ 10	\$ 12
15,800	16,100	5	12	17	20	23
16,100	16,400	8	17	25	30	34
16,400	16,700	10	23	33	40	45
16,700	17,000	13	28	42	49	57
17,000	17,500	16	36	52	62	72
17,500	18,000	20	45	66	78	91
18,000	18,500	25	54	79	95	109
18,500	19,000	29	63	93	111	128
19,000	19,500	33	72	107	127	147
19,500	20,000	37	81	121	143	166
20,000	20,500	41	91	133	160	185
20,500	21,000	45	100	147	176	204
21,000	21,500	50	109	160	193	222
21,500	22,000	54	118	174	209	241
22,000	23,000	60	132	194	234	269
23,000	24,000	68	150	222	266	306
24,000	25,000	77	168	249	298	345
25,000	26,000	85	187	276	331	381
26,000	27,000	93	205	303	364	419
27,000	28,000	102	223	330	396	457
28,000	29,000	110	241	358	429	494
29,000	30,000	119	259	385	461	532
30,000	31,000	127	278	412	493	570
31,000	32,000	135	296	439	527	607
32,000	33,000	144	314	467	558	645
33,000	34,000	152	333	493	591	683
34,000	35,000	160	351	521	623	720
35,000	36,000	169	369	548	656	757
36,000	37,000	177	388	574	689	795
37,000	38,000	185	406	602	721	833
38,000	39,000	194	424	629	754	870
39,000	40,000	202	443	656	786	908
40,000	41,000	210	461	683	819	946
41,000	42,000	219	479	710	852	983
42,000	43,000	227	497	738	884	1,021
43,000	44,000	235	516	765	916	1,058
44,000	45,000	244	534	792	949	1,095
45,000	46,000	252	552	819	982	1,133
46,000	47,000	260	571	846	1,014	1,171
47,000	48,000	269	589	873	1,047	1,208
48,000	49,000	277	607	901	1,079	1,246
49,000	50,000	285	626	927	1,112	1,284
50,000	51,000	294	644	954	1,145	1,321
51,000	52,000	302	662	982	1,177	1,359
52,000	53,000	311	680	1,009	1,210	1,396
53,000	54,000	319	699	1,036	1,242	1,433
54,000	55,000	327	717	1,063	1,275	1,471
55,000	56,000	336	735	1,090	1,308	1,508
56,000	57,000	344	754	1,117	1,340	1,546
57,000	58,000	352	772	1,145	1,372	1,584
58,000	59,000	361	790	1,172	1,405	1,621
59,000	60,000	369	808	1,199	1,438	1,659
60,000	62,000	381	836	1,240	1,486	1,715
62,000	64,000	398	873	1,294	1,551	1,790
64,000	66,000	415	909	1,348	1,617	1,865
66,000	68,000	432	945	1,403	1,681	1,941
68,000	70,000	448	982	1,457	1,747	2,016
70,000	72,000	465	1,019	1,511	1,811	2,092
72,000	74,000	482	1,055	1,566	1,876	2,166
74,000	76,000	498	1,092	1,620	1,942	2,241
76,000	78,000	515	1,129	1,673	2,007	2,317
78,000	80,000	532	1,165	1,728	2,072	2,392
80,000	85,000	561	1,229	1,823	2,186	2,523
85,000	90,000	603	1,320	1,959	2,349	2,711
90,000	95,000	644	1,412	2,095	2,511	2,899
95,000	100,000	686	1,504	2,230	2,674	3,087

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 2000-18 (2000-9 I.R.B. 274).

Appendix A-2. Inclusion Amounts for Cars (Other Than Electric Cars) First Leased in 1999

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,500	\$ 15,800	\$ 2	\$ 3	\$ 4	\$ 4	\$ 6
15,800	16,100	4	7	10	13	14
16,100	16,400	6	11	17	20	23
16,400	16,700	8	15	23	28	32
16,700	17,000	10	20	29	35	41
17,000	17,500	13	25	38	45	53
17,500	18,000	16	32	48	58	68
18,000	18,500	19	39	59	71	82
18,500	19,000	22	47	69	83	96
19,000	19,500	26	53	80	96	111
19,500	20,000	29	61	90	108	126
20,000	20,500	32	68	101	121	140
20,500	21,000	35	75	111	134	155
21,000	21,500	39	82	122	146	169
21,500	22,000	42	89	132	160	183
22,000	23,000	47	100	148	178	206
23,000	24,000	53	114	169	204	235
24,000	25,000	60	128	190	229	264
25,000	26,000	66	142	212	254	293
26,000	27,000	73	156	233	279	322
27,000	28,000	79	171	253	305	351
28,000	29,000	85	185	275	330	380
29,000	30,000	92	199	296	355	410
30,000	31,000	98	214	316	381	439
31,000	32,000	105	227	338	406	468
32,000	33,000	111	242	359	431	497
33,000	34,000	118	256	380	456	527
34,000	35,000	124	270	402	481	556
35,000	36,000	131	284	423	506	585
36,000	37,000	137	299	443	532	614
37,000	38,000	144	313	464	557	643
38,000	39,000	150	327	486	582	672
39,000	40,000	157	341	507	607	702
40,000	41,000	163	355	528	633	731
41,000	42,000	170	369	549	658	760
42,000	43,000	176	384	570	683	789
43,000	44,000	183	398	591	708	819
44,000	45,000	189	412	612	734	848
45,000	46,000	196	426	633	759	877
46,000	47,000	202	441	654	784	906
47,000	48,000	208	455	675	810	935
48,000	49,000	215	469	696	835	964
49,000	50,000	221	483	718	860	993
50,000	51,000	228	497	739	885	1,023
51,000	52,000	234	512	759	911	1,052
52,000	53,000	241	526	780	936	1,081
53,000	54,000	247	540	802	961	1,110
54,000	55,000	254	554	823	986	1,140
55,000	56,000	260	569	843	1,012	1,169
56,000	57,000	267	582	865	1,037	1,198
57,000	58,000	273	597	886	1,062	1,227
58,000	59,000	280	611	907	1,087	1,256
59,000	60,000	286	625	928	1,113	1,285
60,000	62,000	296	646	960	1,151	1,329
62,000	64,000	309	675	1,002	1,201	1,387
64,000	66,000	322	703	1,044	1,252	1,446
66,000	68,000	335	732	1,086	1,302	1,504
68,000	70,000	348	760	1,128	1,353	1,563
70,000	72,000	361	788	1,171	1,403	1,621
72,000	74,000	374	817	1,212	1,454	1,679
74,000	76,000	387	845	1,255	1,504	1,738
76,000	78,000	399	874	1,297	1,555	1,796
78,000	80,000	412	902	1,339	1,606	1,854
80,000	85,000	435	952	1,413	1,694	1,956
85,000	90,000	467	1,023	1,518	1,821	2,102
90,000	95,000	500	1,094	1,623	1,947	2,248
95,000	100,000 <sup>2</sup>	532	1,165	1,729	2,073	2,394

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 99-14 (1999-5 IRB 56).

Appendix A-3. Inclusion Amounts for Cars (Other Than Electric Cars) First Leased in 1998

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,800	\$ 16,100	\$ 1	\$ 5	\$ 8	\$ 12	\$ 14
16,100	16,400	4	10	16	22	25
16,400	16,700	6	15	25	31	36
16,700	17,000	9	20	33	41	47
17,000	17,500	12	28	43	53	62
17,500	18,000	16	37	56	70	80
18,000	18,500	20	46	70	85	99
18,500	19,000	24	55	83	101	117
19,000	19,500	28	64	96	117	136
19,500	20,000	32	73	110	133	154
20,000	20,500	36	82	123	149	173
20,500	21,000	40	91	136	165	191
21,000	21,500	45	99	150	181	209
21,500	22,000	49	108	163	197	228
22,000	23,000	55	122	183	221	255
23,000	24,000	63	140	210	252	292
24,000	25,000	71	158	236	285	329
25,000	26,000	79	176	263	316	366
26,000	27,000	88	193	290	348	403
27,000	28,000	96	211	317	380	439
28,000	29,000	104	229	343	412	477
29,000	30,000	112	247	370	444	513
30,000	31,000	120	265	396	476	550
31,000	32,000	128	283	423	508	587
32,000	33,000	137	301	449	540	624
33,000	34,000	145	319	476	571	661
34,000	35,000	153	337	502	604	697
35,000	36,000	161	355	529	635	735
36,000	37,000	169	373	556	667	771
37,000	38,000	178	391	582	699	808
38,000	39,000	186	409	608	731	845
39,000	40,000	194	427	635	763	882
40,000	41,000	202	445	662	794	919
41,000	42,000	210	463	688	827	955
42,000	43,000	218	481	715	859	992
43,000	44,000	227	498	742	891	1,028
44,000	45,000	235	516	769	922	1,066
45,000	46,000	243	534	795	955	1,102
46,000	47,000	251	552	822	986	1,140
47,000	48,000	259	570	849	1,018	1,176
48,000	49,000	268	588	875	1,050	1,213
49,000	50,000	276	606	901	1,082	1,250
50,000	51,000	284	624	928	1,114	1,286
51,000	52,000	292	642	955	1,145	1,324
52,000	53,000	300	660	981	1,178	1,360
53,000	54,000	308	678	1,008	1,209	1,398
54,000	55,000	317	695	1,035	1,241	1,434
55,000	56,000	325	713	1,062	1,273	1,471
56,000	57,000	333	732	1,087	1,305	1,508
57,000	58,000	341	750	1,114	1,337	1,544
58,000	59,000	349	768	1,140	1,369	1,582
59,000	60,000	358	785	1,168	1,400	1,619
60,000	62,000	370	812	1,207	1,449	1,674
62,000	64,000	386	848	1,261	1,512	1,747
64,000	66,000	403	884	1,313	1,577	1,821
66,000	68,000	419	920	1,367	1,640	1,894
68,000	70,000	435	956	1,420	1,704	1,968
70,000	72,000	452	991	1,474	1,767	2,042
72,000	74,000	468	1,027	1,527	1,832	2,115
74,000	76,000	484	1,063	1,580	1,896	2,189
76,000	78,000	501	1,099	1,633	1,959	2,263
78,000	80,000	517	1,135	1,686	2,023	2,337
80,000	85,000	546	1,198	1,779	2,134	2,466
85,000	90,000	587	1,287	1,913	2,294	2,649
90,000	95,000	627	1,377	2,046	2,453	2,834
95,000	100,000 <sup>2</sup>	668	1,467	2,178	2,613	3,018

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 98-30 (1998-17 IRB 6).

Appendix A-4. Inclusion Amounts for Cars First Leased in 1997<sup>3</sup>

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,800	\$ 16,100	\$ 1	\$ 5	\$ 5	\$ 8	\$ 10
16,100	16,400	4	10	13	18	21
16,400	16,700	6	15	22	27	32
16,700	17,000	9	20	30	36	44
17,000	17,500	12	28	40	49	58
17,500	18,000	16	37	53	65	77
18,000	18,500	20	46	66	82	95
18,500	19,000	24	55	80	97	114
19,000	19,500	28	64	93	113	132
19,500	20,000	32	73	106	129	151
20,000	20,500	36	82	120	145	169
20,500	21,000	40	91	133	161	187
21,000	21,500	45	99	147	177	205
21,500	22,000	49	108	160	193	224
22,000	23,000	55	122	180	216	252
23,000	24,000	63	140	206	249	288
24,000	25,000	71	158	233	280	326
25,000	26,000	79	176	259	313	362
26,000	27,000	88	193	287	344	399
27,000	28,000	96	211	313	377	435
28,000	29,000	104	229	340	408	473
29,000	30,000	112	247	366	441	509
30,000	31,000	120	265	393	472	546
31,000	32,000	128	283	420	504	583
32,000	33,000	137	301	446	536	620
33,000	34,000	145	319	472	568	657
34,000	35,000	153	337	499	600	693
35,000	36,000	161	355	526	631	731
36,000	37,000	169	373	552	664	767
37,000	38,000	178	391	578	696	804
38,000	39,000	186	409	605	727	841
39,000	40,000	194	427	632	759	878
40,000	41,000	202	445	658	791	915
41,000	42,000	210	463	685	823	951
42,000	43,000	218	481	712	854	989
43,000	44,000	227	498	739	886	1,026
44,000	45,000	235	516	765	919	1,062
45,000	46,000	243	534	792	951	1,098
46,000	47,000	251	552	819	982	1,136
47,000	48,000	259	570	845	1,015	1,172
48,000	49,000	268	588	871	1,047	1,209
49,000	50,000	276	606	898	1,078	1,246
50,000	51,000	284	624	925	1,110	1,282
51,000	52,000	292	642	951	1,142	1,320
52,000	53,000	300	660	978	1,174	1,356
53,000	54,000	308	678	1,004	1,206	1,394
54,000	55,000	317	695	1,032	1,237	1,430
55,000	56,000	325	713	1,058	1,270	1,467
56,000	57,000	333	732	1,084	1,301	1,504
57,000	58,000	341	750	1,110	1,334	1,540
58,000	59,000	349	768	1,137	1,365	1,578
59,000	60,000	358	785	1,164	1,397	1,615
60,000	62,000	370	812	1,204	1,445	1,670
62,000	64,000	386	848	1,257	1,509	1,743
64,000	66,000	403	884	1,310	1,573	1,817
66,000	68,000	419	920	1,363	1,637	1,890
68,000	70,000	435	956	1,417	1,700	1,964
70,000	72,000	452	991	1,470	1,764	2,038
72,000	74,000	468	1,027	1,524	1,827	2,112
74,000	76,000	484	1,063	1,577	1,891	2,186
76,000	78,000	501	1,099	1,630	1,955	2,259
78,000	80,000	517	1,135	1,683	2,019	2,333
80,000	85,000	546	1,198	1,776	2,130	2,462
85,000	90,000	587	1,287	1,909	2,291	2,645
90,000	95,000	627	1,377	2,042	2,450	2,830
95,000	100,000 <sup>2</sup>	668	1,467	2,175	2,609	3,014

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 97-20 (1997-1 CB 647).

<sup>3</sup>If you leased an electric car after August 5, 1997, use Appendix B-1.

Appendix A-5. Inclusion Amounts for Cars First Leased in 1996

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,500	\$ 15,800	\$ 3	\$ 6	\$ 8	\$ 10	\$ 10
15,800	16,100	5	11	16	19	21
16,100	16,400	7	16	24	27	32
16,400	16,700	10	21	31	37	42
16,700	17,000	12	26	39	46	53
17,000	17,500	15	33	49	58	67
17,500	18,000	19	42	61	73	84
18,000	18,500	23	50	74	88	102
18,500	19,000	27	59	86	104	119
19,000	19,500	31	67	99	119	136
19,500	20,000	35	75	112	134	154
20,000	20,500	38	84	125	149	171
20,500	21,000	42	93	137	164	189
21,000	21,500	46	101	150	179	207
21,500	22,000	50	110	162	194	225
22,000	23,000	56	122	182	217	250
23,000	24,000	64	139	207	247	286
24,000	25,000	71	157	232	277	320
25,000	26,000	79	174	257	308	355
26,000	27,000	87	191	282	338	390
27,000	28,000	95	207	308	369	425
28,000	29,000	103	224	333	399	460
29,000	30,000	110	242	358	429	495
30,000	31,000	118	259	383	459	531
31,000	32,000	126	276	408	490	565
32,000	33,000	134	293	433	520	600
33,000	34,000	141	310	459	550	635
34,000	35,000	149	327	484	581	670
35,000	36,000	157	344	509	611	705
36,000	37,000	165	361	535	641	740
37,000	38,000	172	378	560	672	775
38,000	39,000	180	395	585	702	810
39,000	40,000	188	412	611	732	844
40,000	41,000	196	429	636	762	880
41,000	42,000	203	446	661	793	915
42,000	43,000	211	463	687	822	950
43,000	44,000	219	480	712	853	985
44,000	45,000	227	497	737	883	1,020
45,000	46,000	235	514	762	914	1,054
46,000	47,000	242	531	788	944	1,089
47,000	48,000	250	548	813	974	1,125
48,000	49,000	258	565	838	1,005	1,159
49,000	50,000	266	582	863	1,035	1,195
50,000	51,000	273	599	889	1,065	1,230
51,000	52,000	281	616	914	1,096	1,264
52,000	53,000	289	633	939	1,126	1,299
53,000	54,000	297	650	964	1,157	1,334
54,000	55,000	304	668	989	1,186	1,370
55,000	56,000	312	684	1,015	1,217	1,404
56,000	57,000	320	701	1,040	1,247	1,440
57,000	58,000	328	718	1,066	1,277	1,474
58,000	59,000	336	735	1,091	1,307	1,509
59,000	60,000	343	753	1,115	1,338	1,544
60,000	62,000	355	778	1,154	1,383	1,597
62,000	64,000	370	812	1,205	1,443	1,667
64,000	66,000	386	846	1,255	1,504	1,737
66,000	68,000	402	880	1,305	1,565	1,807
68,000	70,000	417	914	1,356	1,626	1,876
70,000	72,000	433	948	1,406	1,686	1,947
72,000	74,000	448	982	1,457	1,747	2,016
74,000	76,000	464	1,016	1,508	1,807	2,086
76,000	78,000	479	1,050	1,558	1,868	2,156
78,000	80,000	495	1,084	1,609	1,928	2,226
80,000	85,000	522	1,144	1,697	2,034	2,349
85,000	90,000	561	1,229	1,823	2,186	2,523
90,000	95,000	600	1,314	1,950	2,337	2,698
95,000	100,000 <sup>2</sup>	638	1,400	2,075	2,489	2,873

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 96-25 (1996-1 CB 681).

Appendix A-6. Inclusion Amounts for Cars First Leased in 1995

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 15,500	\$ 15,800	\$ 4	\$ 8	\$ 11	\$ 13	\$ 14
15,800	16,100	7	15	21	25	28
16,100	16,400	10	22	31	37	43
16,400	16,700	13	28	42	50	56
16,700	17,000	16	35	52	62	71
17,000	17,500	20	45	65	78	89
17,500	18,000	26	56	82	98	113
18,000	18,500	31	67	99	119	136
18,500	19,000	36	79	116	139	159
19,000	19,500	41	90	133	159	184
19,500	20,000	46	102	150	179	207
20,000	20,500	52	113	167	200	230
20,500	21,000	57	124	184	220	254
21,000	21,500	62	136	201	240	277
21,500	22,000	67	147	218	261	301
22,000	23,000	75	164	244	291	336
23,000	24,000	86	187	277	332	383
24,000	25,000	96	210	311	373	429
25,000	26,000	106	233	345	413	477
26,000	27,000	117	256	378	454	524
27,000	28,000	127	279	412	495	570
28,000	29,000	138	301	447	535	617
29,000	30,000	148	324	481	575	665
30,000	31,000	159	347	514	616	711
31,000	32,000	169	370	548	657	758
32,000	33,000	179	393	582	698	804
33,000	34,000	190	416	616	738	851
34,000	35,000	200	439	650	778	899
35,000	36,000	211	461	684	819	946
36,000	37,000	221	484	718	860	992
37,000	38,000	232	507	751	901	1,039
38,000	39,000	242	530	785	942	1,086
39,000	40,000	253	552	820	982	1,133
40,000	41,000	263	576	853	1,022	1,180
41,000	42,000	273	599	887	1,063	1,227
42,000	43,000	284	621	921	1,104	1,274
43,000	44,000	294	644	955	1,145	1,320
44,000	45,000	305	667	989	1,185	1,367
45,000	46,000	315	690	1,022	1,226	1,415
46,000	47,000	326	712	1,057	1,266	1,462
47,000	48,000	336	735	1,091	1,307	1,508
48,000	49,000	346	759	1,124	1,347	1,556
49,000	50,000	357	781	1,158	1,388	1,603
50,000	51,000	367	804	1,192	1,429	1,649
51,000	52,000	378	827	1,226	1,469	1,696
52,000	53,000	388	850	1,260	1,510	1,743
53,000	54,000	399	872	1,294	1,551	1,790
54,000	55,000	409	895	1,328	1,591	1,837
55,000	56,000	419	919	1,361	1,632	1,884
56,000	57,000	430	941	1,395	1,673	1,931
57,000	58,000	440	964	1,429	1,714	1,977
58,000	59,000	451	987	1,463	1,754	2,024
59,000	60,000	461	1,010	1,497	1,794	2,072
60,000	62,000	477	1,044	1,548	1,855	2,142
62,000	64,000	498	1,089	1,616	1,937	2,235
64,000	66,000	519	1,135	1,683	2,018	2,330
66,000	68,000	539	1,181	1,751	2,100	2,423
68,000	70,000	560	1,227	1,819	2,180	2,517
70,000	72,000	581	1,272	1,887	2,262	2,611
72,000	74,000	602	1,318	1,955	2,343	2,704
74,000	76,000	623	1,364	2,022	2,424	2,799
76,000	78,000	644	1,409	2,090	2,506	2,892
78,000	80,000	665	1,455	2,158	2,586	2,986
80,000	85,000	701	1,535	2,277	2,729	3,150
85,000	90,000	753	1,650	2,445	2,932	3,385
90,000	95,000	806	1,763	2,616	3,135	3,619
95,000	100,000 <sup>2</sup>	858	1,878	2,784	3,339	3,853

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 95-9 (1995-1 CB 498).

Appendix A-7. Inclusion Amounts for Cars First Leased in 1994

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 14,600	\$ 14,900	\$ 0	\$ 1	\$ 1	\$ 2	\$ 2
14,900	15,200	2	5	6	9	11
15,200	15,500	4	9	14	17	20
15,500	15,800	6	14	21	25	30
15,800	16,100	8	19	27	34	39
16,100	16,400	10	24	34	42	49
16,400	16,700	12	28	41	51	58
16,700	17,000	14	33	48	59	68
17,000	17,500	17	39	57	70	81
17,500	18,000	21	47	68	84	97
18,000	18,500	24	55	80	97	113
18,500	19,000	28	62	92	111	129
19,000	19,500	31	70	104	124	145
19,500	20,000	35	78	115	138	161
20,000	20,500	39	85	127	152	176
20,500	21,000	42	93	138	166	193
21,000	21,500	46	101	149	180	208
21,500	22,000	49	109	161	193	225
22,000	23,000	54	121	178	214	248
23,000	24,000	62	136	201	242	280
24,000	25,000	69	151	224	270	312
25,000	26,000	76	167	247	297	344
26,000	27,000	83	182	270	325	376
27,000	28,000	90	198	293	352	408
28,000	29,000	97	213	317	379	440
29,000	30,000	104	229	339	408	471
30,000	31,000	111	244	363	435	503
31,000	32,000	118	260	385	463	535
32,000	33,000	125	276	408	490	567
33,000	34,000	132	291	431	518	599
34,000	35,000	139	307	454	545	631
35,000	36,000	146	322	478	573	662
36,000	37,000	153	338	500	601	694
37,000	38,000	161	353	523	628	726
38,000	39,000	168	368	547	656	757
39,000	40,000	175	384	569	684	790
40,000	41,000	182	399	593	711	822
41,000	42,000	189	415	615	739	854
42,000	43,000	196	431	638	766	886
43,000	44,000	203	446	661	794	918
44,000	45,000	210	462	684	821	950
45,000	46,000	217	477	708	849	981
46,000	47,000	224	493	730	877	1,013
47,000	48,000	231	508	754	904	1,045
48,000	49,000	238	524	776	932	1,077
49,000	50,000	245	539	800	959	1,109
50,000	51,000	252	555	822	987	1,141
51,000	52,000	260	570	845	1,015	1,172
52,000	53,000	267	585	869	1,042	1,204
53,000	54,000	274	601	892	1,069	1,236
54,000	55,000	281	617	914	1,097	1,268
55,000	56,000	288	632	938	1,125	1,299
56,000	57,000	295	648	960	1,153	1,331
57,000	58,000	302	663	984	1,180	1,363
58,000	59,000	309	679	1,006	1,208	1,395
59,000	60,000	316	694	1,030	1,235	1,427
60,000	62,000	327	717	1,065	1,276	1,475
62,000	64,000	341	748	1,111	1,332	1,538
64,000	66,000	355	780	1,156	1,387	1,602
66,000	68,000	369	811	1,202	1,442	1,666
68,000	70,000	383	842	1,248	1,497	1,730
70,000	72,000	397	873	1,294	1,553	1,793
72,000	74,000	412	903	1,341	1,608	1,857
74,000	76,000	426	935	1,386	1,663	1,921
76,000	78,000	440	966	1,432	1,718	1,985
78,000	80,000	454	997	1,478	1,774	2,048
80,000	85,000	479	1,051	1,559	1,870	2,160
85,000	90,000	514	1,129	1,674	2,008	2,319
90,000	95,000	550	1,206	1,789	2,146	2,478
95,000	100,000 <sup>2</sup>	585	1,284	1,904	2,284	2,637

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 94-53 (1994-2 CB 712).

Appendix A-8. Inclusion Amounts for Cars First Leased in 1987 through 1993

Fair Market Value		Tax Year of Lease <sup>1</sup>				
		For Lease Term Beginning in 1987 or 1988	For Lease Term Beginning in 1989 or 1990	For Lease Term Beginning in 1991	For Lease Term Beginning in 1992	For Lease Term Beginning in 1993
Over	Not Over	5th and Later	5th and Later	5th and Later	5th and Later	5th and Later
\$ 12,800	\$ 13,100	\$ 9	\$ 2	\$ 0	\$ 0	\$ 0
13,100	13,400	28	9	0	0	0
13,400	13,700	47	26	6	0	0
13,700	14,000	65	45	18	4	0
14,000	14,300	84	64	32	15	0
14,300	14,600	103	83	45	26	3
14,600	14,900	122	101	58	38	9
14,900	15,200	140	120	71	49	17
15,200	15,500	159	139	85	61	25
15,500	15,800	178	158	98	72	32
15,800	16,100	196	176	112	84	40
16,100	16,400	215	195	124	95	48
16,400	16,700	234	213	138	106	55
16,700	17,000	253	232	151	118	63
17,000	17,500	277	258	169	133	73
17,500	18,000	309	289	191	152	87
18,000	18,500	340	319	213	171	99
18,500	19,000	371	351	235	190	112
19,000	19,500	402	382	257	209	125
19,500	20,000	433	413	279	228	137
20,000	20,500	465	445	301	247	150
20,500	21,000	496	476	323	267	163
21,000	21,500	527	507	345	285	175
21,500	22,000	558	538	368	305	189
22,000	23,000	605	585	401	333	207
23,000	24,000	667	647	445	371	233
24,000	25,000	729	709	489	409	259
25,000	26,000	792	772	534	447	285
26,000	27,000	854	834	578	485	310
27,000	28,000	917	897	622	523	335
28,000	29,000	979	959	666	561	362
29,000	30,000	1,041	1,021	710	600	387
30,000	31,000	1,104	1,084	755	637	412
31,000	32,000	1,166	1,146	799	676	438
32,000	33,000	1,228	1,209	843	713	464
33,000	34,000	1,291	1,270	888	752	490
34,000	35,000	1,353	1,333	931	789	515
35,000	36,000	1,415	1,396	976	828	540
36,000	37,000	1,478	1,458	1,020	865	566
37,000	38,000	1,540	1,520	1,064	904	591
38,000	39,000	1,602	1,583	1,109	942	617
39,000	40,000	1,665	1,664	1,153	980	643
40,000	41,000	1,727	1,707	1,197	1,018	669
41,000	42,000	1,789	1,770	1,241	1,056	695
42,000	43,000	1,852	1,832	1,285	1,094	720
43,000	44,000	1,914	1,894	1,330	1,132	746
44,000	45,000	1,976	1,956	1,374	1,171	771
45,000	46,000	2,039	2,019	1,418	1,208	796
46,000	47,000	2,101	2,081	1,462	1,247	822
47,000	48,000	2,164	2,144	1,506	1,284	847
48,000	49,000	2,226	2,205	1,551	1,323	874
49,000	50,000	2,288	2,268	1,595	1,360	899
50,000	51,000	2,351	2,331	1,639	1,399	925
51,000	52,000	2,413	2,393	1,684	1,436	950
52,000	53,000	2,475	2,455	1,727	1,475	975

Appendix A-8. (Continued)

Fair Market Value		Tax Year of Lease <sup>1</sup>				
		For Lease Term Beginning in 1987 or 1988	For Lease Term Beginning in 1989 or 1990	For Lease Term Beginning in 1991	For Lease Term Beginning in 1992	For Lease Term Beginning in 1993
Over	Not Over	5th and Later	5th and Later	5th and Later	5th and Later	5th and Later
\$ 53,000	\$ 54,000	\$ 2,538	\$ 2,517	\$ 1,772	\$ 1,513	\$ 1,002
54,000	55,000	2,600	2,580	1,816	1,551	1,027
55,000	56,000	2,662	2,643	1,860	1,589	1,052
56,000	57,000	2,725	2,705	1,905	1,627	1,078
57,000	58,000	2,787	2,767	1,949	1,666	1,104
58,000	59,000	2,849	2,829	1,993	1,703	1,130
59,000	60,000	2,912	2,892	2,037	1,741	1,155
60,000	62,000	3,005	2,985	2,103	1,799	1,194
62,000	64,000	3,130	3,110	2,192	1,875	1,245
64,000	66,000	3,255	3,235	2,280	1,951	1,295
66,000	68,000	3,379	3,360	2,369	2,027	1,347
68,000	70,000	3,504	3,484	2,457	2,103	1,398
70,000	72,000	3,629	3,609	2,546	2,179	1,450
72,000	74,000	3,753	3,733	2,634	2,255	1,500
74,000	76,000	3,878	3,858	2,723	2,331	1,551
76,000	78,000	4,003	3,983	2,811	2,407	1,603
78,000	80,000	4,128	4,107	2,900	2,484	1,654
80,000	85,000	4,346	4,325	3,054	2,617	1,744
85,000	90,000	4,658	4,638	3,276	2,807	1,871
90,000	95,000	4,969	4,949	3,497	2,998	1,999
95,000	100,000 <sup>2</sup>	5,281	5,261	3,718	3,188	2,128

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see the document listed for the first year of the lease.

For 1993, Revenue Procedure 93-35 (1993-2 CB 472)

For 1992, Revenue Procedure 92-43 (1992-1 CB 873)

For 1991, Revenue Procedure 91-30 (1991-1 CB 563)

For 1990, Revenue Procedure 90-22 (1990-1 CB 504)

For 1989, Revenue Procedure 89-64 (1989-2 CB 783)

For 1987 or 1988, I.T. Regulation 1.280F-7(a)

Appendix B-1. Inclusion Amounts for Electric Cars First Leased in 1997<sup>1</sup>

Fair Market Value		Tax Year of Lease <sup>2</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	\$ 48,000	\$ 1	\$ 4	\$ 7	\$ 9	\$ 11
48,000	49,000	9	22	33	41	48
49,000	50,000	17	40	60	73	84
50,000	51,000	25	58	87	104	122
51,000	52,000	34	75	114	136	159
52,000	53,000	42	93	140	169	195
53,000	54,000	50	111	167	200	232
54,000	55,000	58	129	194	232	269
55,000	56,000	66	147	220	264	306
56,000	57,000	74	165	247	296	342
57,000	58,000	83	183	273	328	379
58,000	59,000	91	201	300	359	417
59,000	60,000	99	219	326	392	453
60,000	62,000	111	246	366	440	508
62,000	64,000	128	282	419	503	582
64,000	66,000	144	318	472	567	656
66,000	68,000	160	354	525	631	730
68,000	70,000	177	389	579	695	803
70,000	72,000	193	425	632	759	876
72,000	74,000	209	461	686	822	950
74,000	76,000	226	497	738	887	1,023
76,000	78,000	242	533	792	950	1,097
78,000	80,000	259	568	845	1,014	1,171
80,000	85,000	287	632	938	1,125	1,300
85,000	90,000	328	721	1,071	1,285	1,484
90,000	95,000	369	811	1,204	1,444	1,669
95,000	100,000 <sup>3</sup>	410	900	1,337	1,604	1,853

Appendix B-2. Inclusion Amounts for Electric Cars First Leased in 1998

Fair Market Value		Tax Year of Lease <sup>2</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	\$ 48,000	\$ 5	\$ 11	\$ 18	\$ 21	\$ 23
48,000	49,000	13	29	45	52	60
49,000	50,000	21	47	71	85	96
50,000	51,000	29	65	98	116	134
51,000	52,000	38	83	124	148	171
52,000	53,000	46	101	151	180	207
53,000	54,000	54	119	177	212	244
54,000	55,000	62	137	204	244	281
55,000	56,000	70	155	231	275	318
56,000	57,000	79	172	258	307	355
57,000	58,000	87	190	284	340	391
58,000	59,000	95	208	311	372	428
59,000	60,000	103	226	338	403	465
60,000	62,000	115	253	378	451	520
62,000	64,000	132	289	430	515	594
64,000	66,000	148	325	484	578	668
66,000	68,000	164	361	537	643	741
68,000	70,000	181	396	591	706	815
70,000	72,000	197	432	644	770	888
72,000	74,000	214	468	697	834	962
74,000	76,000	230	504	750	898	1,035
76,000	78,000	246	540	803	962	1,109
78,000	80,000	263	576	856	1,025	1,183
80,000	85,000	291	639	949	1,137	1,312
85,000	90,000	332	728	1,083	1,296	1,496
90,000	95,000	373	818	1,215	1,456	1,681
95,000	100,000 <sup>4</sup>	414	908	1,348	1,615	1,865

<sup>1</sup>This table only applies to lease terms beginning after August 5, 1997.

<sup>2</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>3</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 98-24 (1998-10 IRB 31).

<sup>4</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 98-30 (1998-17 IRB 6).

Appendix B-3. Inclusion Amounts for Electric Cars First Leased in 1999

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	\$ 48,000	\$ 7	\$ 14	\$ 21	\$ 26	\$ 30
48,000	49,000	14	28	42	51	59
49,000	50,000	20	43	62	77	88
50,000	51,000	27	57	83	102	118
51,000	52,000	33	71	105	127	147
52,000	53,000	39	86	126	151	177
53,000	54,000	46	100	147	177	205
54,000	55,000	52	114	168	202	235
55,000	56,000	59	128	189	228	264
56,000	57,000	65	142	211	253	292
57,000	58,000	72	156	232	278	322
58,000	59,000	78	171	252	304	351
59,000	60,000	85	185	273	329	380
60,000	62,000	95	206	305	367	424
62,000	64,000	107	235	347	417	483
64,000	66,000	120	263	389	468	541
66,000	68,000	133	291	432	518	600
68,000	70,000	146	320	473	569	658
70,000	72,000	159	348	516	619	716
72,000	74,000	172	377	558	669	775
74,000	76,000	185	405	600	720	833
76,000	78,000	198	433	643	771	891
78,000	80,000	211	462	684	822	949
80,000	85,000	234	511	758	910	1,052
85,000	90,000	266	582	864	1,036	1,198
90,000	95,000	298	654	968	1,163	1,343
95,000	100,000 <sup>2</sup>	331	724	1,075	1,289	1,489

Appendix B-4. Inclusion Amounts for Electric Cars First Leased in 2000

Fair Market Value		Tax Year of Lease <sup>1</sup>				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	\$ 48,000	\$ 7	\$ 17	\$ 26	\$ 32	\$ 36
48,000	49,000	14	31	47	57	66
49,000	50,000	20	45	69	82	95
50,000	51,000	27	59	90	107	124
51,000	52,000	33	74	110	133	153
52,000	53,000	39	88	132	157	183
53,000	54,000	46	102	153	183	211
54,000	55,000	52	116	174	209	240
55,000	56,000	59	130	195	234	270
56,000	57,000	65	145	216	259	299
57,000	58,000	72	159	237	284	328
58,000	59,000	78	173	258	310	357
59,000	60,000	85	187	279	335	387
60,000	62,000	95	208	311	373	430
62,000	64,000	107	237	353	423	489
64,000	66,000	120	266	394	474	547
66,000	68,000	133	294	437	524	606
68,000	70,000	146	322	480	574	664
70,000	72,000	159	351	521	625	723
72,000	74,000	172	379	564	675	781
74,000	76,000	185	407	606	727	838
76,000	78,000	198	436	648	777	897
78,000	80,000	211	464	690	828	955
80,000	85,000	234	514	763	916	1,058
85,000	90,000	266	585	869	1,042	1,204
90,000	95,000	298	656	975	1,168	1,350
95,000	100,000 <sup>3</sup>	331	727	1,080	1,295	1,495

<sup>1</sup>For the last tax year of the lease, use the dollar amount for the preceding year.

<sup>2</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 99-14 (1999-5 IRB 56).

<sup>3</sup>If the fair market value of the car is more than \$100,000, see Revenue Procedure 2000-18 (2000-9 IRB 726).



## Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

### General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509 Tax Calendars for 2001
- 553 Highlights of 2000 Tax Changes
- 910 Guide to Free Tax Services

### Specialized Publications

- 3 Armed Forces' Tax Guide
- 225 Farmer's Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Tax Benefits for Work-Related Education
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions
- 530 Tax Information for First-Time Homeowners

- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 575 Pension and Annuity Income
- 584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 The IRS Collection Process
- 595 Tax Highlights for Commercial Fishermen
- 596 Earned Income Credit (EIC)
- 721 Tax Guide to U.S. Civil Service Retirement Benefits

- 901 U.S. Tax Treaties
- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 How Do I Adjust My Tax Withholding?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 970 Tax Benefits for Higher Education
- 971 Innocent Spouse Relief
- 972 Child Tax Credit
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Taxpayer Advocate Service of the IRS

### Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

## Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch D-1 Continuation Sheet for Schedule D	10424	3903 Moving Expenses	12490
Sch E Supplemental Income and Loss	11344	4562 Depreciation and Amortization	12906
Sch EIC Earned Income Credit	13339	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch F Profit or Loss From Farming	11346	4952 Investment Interest Expense Deduction	13177
Sch H Household Employment Taxes	12187	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs	13329
Sch J Farm Income Averaging	25513	6251 Alternative Minimum Tax—Individuals	13600
Sch R Credit for the Elderly or the Disabled	11359	8283 Noncash Charitable Contributions	62299
Sch SE Self-Employment Tax	11358	8582 Passive Activity Loss Limitations	63704
1040A U.S. Individual Income Tax Return	11327	8606 Nondeductible IRAs	63966
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8812 Additional Child Tax Credit	10644
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8822 Change of Address	12081
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8829 Expenses for Business Use of Your Home	13232
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8863 Education Credits	25379
1040-ES Estimated Tax for Individuals	11340		
1040X Amended U.S. Individual Income Tax Return	11360		