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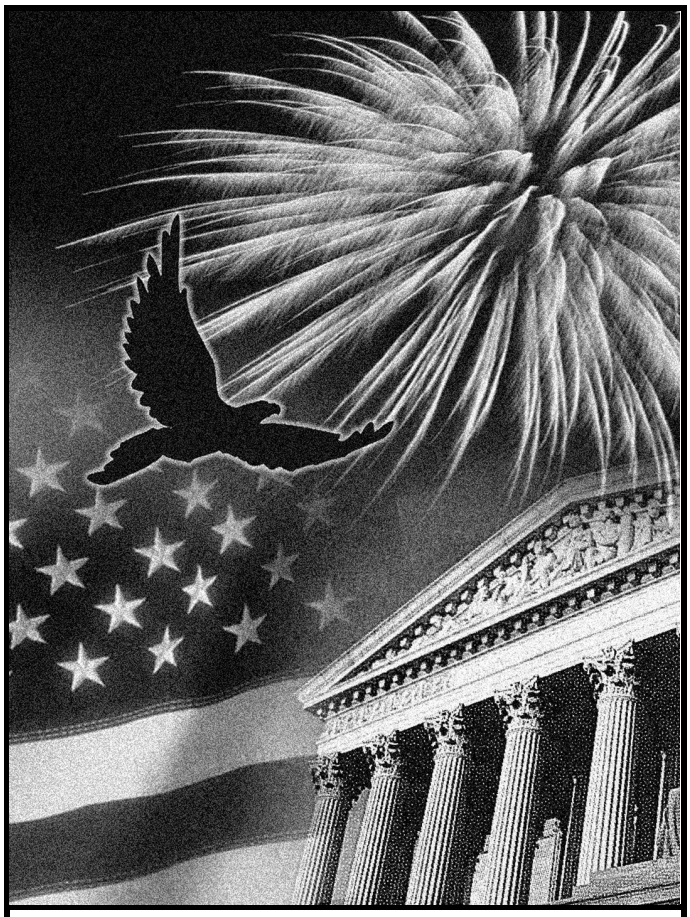
Travel, Entertainment, Gift, and Car Expenses

For use in preparing

2009 Returns



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Jan 21, 2010

What's New

Standard mileage rate. For 2009, the standard mileage rate for the cost of operating your car for business use is 55 cents per mile.

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

Depreciation limits on cars, trucks, and vans. For 2009, the first-year limit on the total section 179 deduction, special depreciation allowance, and depreciation deduction for most cars remains $10,960 ($2,960 if you elect not to claim the special depreciation allowance). For trucks and vans, the first-year limit has decreased to $11,060 ($3,060 if you elect not to claim the special depreciation allowance). *Depreciation limits* are explained in chapter 4.

Reminder

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.

Introduction

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

- Travel,
- Entertainment,
- Gifts, or
- Transportation.

An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required 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 business-related travel, entertainment, gift, or transportation expenses.

Users of employer-provided vehicles. If an employer-provided vehicle was available for your use, you received a fringe benefit. Generally, your employer must include the value of the use or availability in your income. 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).

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. See *Qualified nonpersonal use vehicles* under *Actual Car Expenses* in chapter 4.

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.

Who does not need to use this publication. Partnerships, corporations, trusts, and employers who reimburse their employees for business expenses should refer to their tax form instructions and chapter 11 of Publication 535, Business Expenses, for information on deducting travel, meals, and entertainment expenses.

If you are an employee, you will not need to read this publication if all of the following are true.

- You fully accounted to your employer for your work-related expenses.
- You received full reimbursement for your expenses.
- Your employer required you to return any excess reimbursement and you did so.
- There is no amount shown with a code "L" in box 12 of your Form W-2, Wage and Tax Statement.

If you meet all of these 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.

TIP *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.*

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.

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

You can write to us at the following address:

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1111 Constitution Ave. NW, IR-6526
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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.

You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question, check the information available on *www.irs.gov* or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

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

If you temporarily travel away from your tax home, you can use this chapter to determine if you have deductible travel expenses.

This chapter discusses:

- Traveling away from home,
- Temporary assignment or job, and

- What travel expenses are deductible.

It also discusses the standard meal allowance, 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.

An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

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

Traveling Away From Home

You are traveling away from home if:

- 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
- You need to 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.

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, you are not traveling away from home.

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, Moving Expenses.

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

Tax Home

To determine whether you are traveling away from home, 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 or main place of business or post of duty and there is no place where you regularly live, you are considered an itinerant (a transient) and your tax home is wherever you work. As an itinerant, you cannot claim a travel expense deduction because you are never considered to be traveling away from home.

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

- The total time you ordinarily spend in each place.
- The level of your business activity in each place.
- Whether your income from each place is significant or insignificant.

Example. You live in Cincinnati where you have a seasonal job for 8 months each year and earn $40,000. You work the other 4 months in Miami, also at a seasonal job, and earn $15,000. 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 determine where your tax home is.

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 historical place of lodging and your claimed 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. 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 an itinerant; 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 main home, you kept your community contacts, and you frequently returned to live in your apartment. You have a tax home in Boston.

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 an itinerant and have no tax home.

Tax Home Different From Family Home

If you (and your family) do not live at your tax home (defined earlier), 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 roundtrip 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 at your tax home and also work at another location. It may not be practical to return to your tax home from this other location at the end of each work day.

Temporary assignment vs. indefinite assignment. 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. You can deduct your travel expenses if they otherwise qualify for deduction. Generally, a temporary assignment in a single location is one that is realistically expected to last (and does in fact last) for 1 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 1 year, whether or not it actually lasts for more than 1 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 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 1-year rule. This means you may be able to deduct travel expenses even if you are away from your tax home for more than 1 year provided you meet the other requirements for deductibility.

For you to qualify, the Attorney General (or his or her designee) must certify that you are traveling:

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

Determining temporary or indefinite. You must determine whether your assignment is temporary or indefinite when you start work. If you expect an assignment or job to last for 1 year or less, it is temporary unless there are facts and circumstances that indicate otherwise. An assignment or job 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 whether an assignment or job is temporary or indefinite.

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 8 months. The job actually lasted 10 months.

You realistically expected the job in Fresno to last 8 months. The job actually did last less than 1 year. The job is temporary and your tax home is still in Los Angeles.

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 1 year, even though it actually lasted less than 1 year. You cannot deduct any travel expenses you had in Fresno because Fresno became your tax home.

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 1 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 because Fresno became your tax home when the job became indefinite.

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 between your temporary place of work and your tax home. You can claim these expenses up to the amount it would have cost you to stay 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.

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.

You can deduct 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 1-1 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.

RECORDS

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 5-1 (see chapter 5).

Separating costs. If you have one expense that includes the costs 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 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.

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 of someone who goes with you if that person:

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 deduct the 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.

Table 1-1. **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 cost of...
transportation	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 *Luxury Water Travel* and *Cruise Ships* (under *Conventions*) for additional rules and limits.
taxi, commuter bus, and airport limousine	fares for these and other types of transportation that take you between: • The airport or station and your hotel, and • The hotel and the work location of your customers or clients, your business meeting place, or your temporary work location.
baggage and shipping	sending baggage and sample or display material between your regular and temporary work locations.
car	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.
lodging and meals	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 *Meals* for additional rules and limits.
cleaning	dry cleaning and laundry.
telephone	business calls while on your business trip. This includes business communication by fax machine or other communication devices.
tips	tips you pay for any expenses in this chart.
other	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.

Bona fide business purpose. A bona fide business purpose exists if you can 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 make the expenses deductible.

Example. Jerry drives to Chicago on business and takes his wife, Linda, with him. Linda is not Jerry's employee. Linda occasionally types notes, performs similar services, and accompanies Jerry to luncheons and dinners. The performance of these services does not establish that her presence on the trip is necessary to the conduct of Jerry's business. Her expenses are not deductible.

Jerry pays $199 a day for a double room. A single room costs $149 a day. He can deduct the total cost of driving his car to and from Chicago, but only $149 a day for his hotel room. If he uses public transportation, he can deduct only his fare.

Meals

You can deduct the cost of meals in either of the following situations.

- It is necessary for you to stop for substantial sleep or rest to properly perform your duties while traveling away from home on business.
- The meal is business-related entertainment.

Business-related entertainment is discussed in chapter 2. The following discussion deals only with meals that are not business-related entertainment.

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.

50% limit on meals. You can figure your meals expense using either of the following methods.

- Actual cost.
- The standard meal allowance.

Both of these methods are explained below. But, regardless of the method you use, you generally can deduct only 50% of the unreimbursed cost of your 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.

Actual Cost

You can use the actual cost of your meals to figure the amount of your expense before reimbursement and application of the 50% deduction limit. If you use this method, you must keep records of your actual cost.

Standard Meal Allowance

Generally, you can use the "standard meal allowance" method as an alternative to the actual cost method. It allows you to use a set amount for your daily meals and incidental expenses (M&IE), instead of keeping records of your actual costs. The set amount varies depending on where and when you travel. In this publication, "standard meal allowance" refers to the federal rate for M&IE, discussed later under *Amount of standard meal allowance*. 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.

Incidental expenses. The term "incidental expenses" means:

- Fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries,
- Transportation between places of lodging or business and places where meals are taken, if suitable meals can be obtained at the temporary duty site, and
- Mailing costs associated with filing travel vouchers and payment of employer-sponsored charge card billings.

Incidental expenses do not include expenses for laundry, cleaning and pressing of clothing, lodging taxes, or the costs of telegrams or telephone calls.

Incidental expenses only method. You can use an optional method (instead of actual cost) for deducting incidental expenses only. The amount of the deduction is $3 a day for the period from January 1 through September 30, 2009, and $5 a day for the period October 1, through December 31, 2009. You can use this method only if you did not pay or incur any meal expenses. You cannot use this method on any day that you use the standard meal allowance. This method is subject to the proration rules for partial days. See *Travel for days you depart and return*, later in this chapter.

CAUTION *Federal employees should refer to the Federal Travel Regulations at www.gsa.gov. Find the "Most Requested Links" on the upper left and click on "Regulations: FAR, FMR, FTR" for Federal Travel Regulation (FTR) for changes affecting claims for reimbursement.*

50% limit may apply. If you use the standard meal allowance method for meal expenses and you are not reimbursed or you are reimbursed

under a nonaccountable plan, 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 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.

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

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.

Use of the standard meal allowance for other travel. You can use the standard meal allowance to figure your meal expenses when you travel in connection with investment and other income-producing property. You can also use it to figure your meal expenses when you travel for qualifying educational purposes. You cannot use the standard meal allowance to figure the cost 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 2009, the rate for most small localities in the United States is $39 a day for the period January 1 through September 30, 2009, and $46 a day for the period October 1 through December 31, 2009.

Most major cities and many other localities in the United States are designated as high-cost areas, qualifying for higher standard meal allowances. These rates are listed in Publication 1542, which is available on the Internet at *www.irs.gov*.

You can also find this information (organized by state) on the Internet at *www.gsa.gov*. Click on "Per Diem Rates," then select "2009" for the period January 1, 2009 – September 30, 2009, and select "2010" for the period October 1, 2009 – December 31, 2009. However, you can apply the rates in effect before October 1, 2009, for expenses of all travel within the United States for 2009 instead of the updated rates. You must consistently use either the rates for the first 9 months of 2009 or the updated rates for the period of October 1, 2009, through December 31, 2009.

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.

Standard meal allowance for areas outside the continental United States. The standard meal allowance rates above do not apply to travel in Alaska, Hawaii, or any other location outside the continental United States. The Department of Defense establishes per diem rates for Alaska, Hawaii, Puerto Rico, American Samoa, Guam, Midway, the Northern Mariana Islands, the U.S. Virgin Islands, Wake Island, and other non-foreign areas outside the continental United States. The Department of State establishes per diem rates for all other foreign areas.

You can access per diem rates for non-foreign areas outside the continental United States at: *http://perdiem.hqda.pentagon.mil/perdiem/perdiemrates.html*. You can access all other foreign per diem rates at: *www.state.gov/travel/*. Click on "Travel," and click on "Foreign Per Diem Rates," to obtain the latest foreign per diem rates.

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:

- Directly involves moving people or goods by airplane, barge, bus, ship, train, or truck, and
- 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 standard meal allowance of $52 a day ($58 for travel outside the continental United States) from January 1 through September 30, 2009, and $59 a day ($65 for travel outside the continental United States) from October 1 through December 31, 2009.

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 (figure a reduced amount for each day). You can do so by one of two methods.

- Method 1: You can claim ¾ of the standard meal allowance.
- Method 2: You can prorate using 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 2½ days of the standard meal allowance for Washington, DC: ¾ 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 have to use *Method 1* and be limited to only 2½ 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 personal side trip, or had other personal 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 $2,012 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 $1,712. You can deduct $1,712 for your trip, including the cost of round-trip transportation to and from New Orleans. The deduction for 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 for travel in the United States. 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. The fact that you control the timing of your trip does not, by itself, mean that you have substantial control over arranging your trip.

You do not have substantial control over your trip if you:

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

"Related to your employer" is defined later in chapter 6 under *Per Diem and Car Allowances*.

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 7 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, and
- 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 1 day flying in each direction.

Because only 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 Primarily for Business

If you travel outside the United States primarily for business but spend some of your time on other 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 other activities to determine your deductible amount. See Travel allocation rules, later.

TIP *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 nonbusiness 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 $^{7}/_{18}$ of what it would have cost you to travel round-trip between New York and Dublin.

You paid $750 to fly from New York to Paris, $400 to fly from Paris to Dublin, and $700 to fly from Dublin back to New York. Round trip airfare from New York to Dublin would have been $1,250.

You figure the deductible part of your air travel expenses by subtracting $^{7}/_{18}$ of the round-trip fare and other expenses you would have had in traveling directly between New York and Dublin ($1,250 × $^{7}/_{18}$ = $486) from your total expenses in traveling from New York to Paris to Dublin and back to New York ($750 + $400 + $700 = $1,850).

Your deductible air travel expense is $1,364 ($1,850 – $486).

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 $^{7}/_{18}$ of the airfare and other expenses from New York to Paris and back to New York.

You can deduct $^{11}/_{18}$ of the round-trip plane fare and other travel expenses from New York to Paris, plus your meals (subject to the 50% limit), lodging, and any other business expenses you had in Paris. (Assume these expenses total $4,994). If the round-trip plane fare and other travel-related expenses (such as food during the trip) are $1,750, you can deduct travel costs of $1,069 ($^{11}/_{18}$ × $1,750), plus the full $4,994 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 other than business activities outside the United States.

Travel Primarily for Personal Reasons

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. If you spend some time attending brief professional seminars or a continuing education program, you can deduct your registration fees and 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 2009 is shown in the following table.

2009 Dates	Highest Federal Per Diem	Daily Limit on Luxury Water Travel
Jan. 1 – June 30	$349	$698
July 1 – Aug. 31	323	646
Sept. 1 – Sept. 30	424	848
Oct. 1 – Dec. 31	411	822

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 $5,200. Caroline's deduction for the cruise cannot exceed $4,188 (6 days × $698 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 $5,200. Of that amount, $2,350 was separately stated as meals and entertainment. Caroline, who is self-employed, is not reimbursed for any of her travel expenses. Caroline figures her deductible travel expenses as follows.

Meals and entertainment	$2,350	
50% limit	× .50	
Allowable meals & entertainment	$1,175	
Other travel expenses	+ 2,850	
Allowable cost before the daily limit		$4,025
Daily limit for May 2009	$ 698	
Times number of days	× 6	
Maximum luxury water travel deduction		$4,188
Amount of allowable deduction		$4,025

Caroline's deduction for her cruise is limited to $4,025, 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 daily limit on luxury water travel (discussed earlier) 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.

CAUTION *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, and
- It is 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	Jarvis Island
Antigua and Barbuda	Johnston Island
Aruba	Kingman Reef
Bahamas	Marshall Islands
Baker Island	Mexico
Barbados	Micronesia
Bermuda	Midway Islands
Canada	Netherlands Antilles
Costa Rica	Northern Mariana Islands
Dominica	
Dominican Republic	Palau
Grenada	Palmyra Atoll
Guam	Puerto Rico
Guyana	Trinidad and Tobago
Honduras	USA
Howland Island	U.S. Virgin Islands
Jamaica	Wake Island

The North American area also includes U.S. islands, cays, and reefs that are possessions of the United States and not part of the fifty states or the District of Columbia.

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

- The purpose of the meeting and the activities taking place at the meeting.
- The purposes and activities of the sponsoring organizations or groups.
- 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.
- 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. All ships that sail are considered cruise ships.

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

1. The convention, seminar, or meeting is directly related to your trade or business.
2. The cruise ship is a vessel registered in the United States.
3. All of the cruise ship's ports of call are in the United States or in possessions of the United States.
4. You attach to your return a written statement signed by you that includes information about:
   a. The total days of the trip (not including 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.
5. 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

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 2-1.

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

- Directly-related test.
- Associated test.

Both of these tests are explained later.

An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

CAUTION *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.

Directly-Related Test

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

- The main purpose of the combined business and entertainment was the active conduct of business,
- You did engage in business with the person during the entertainment period, and
- 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* under *What Entertainment Expenses Are Not Deductible?* later in this chapter.

Table 2-1. **When Are Entertainment Expenses Deductible?**

General rule	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.
Definitions	• Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation, and includes meals provided to a customer or client. • An ordinary expense is one that is common and accepted in your trade or business. • A necessary expense is one that is helpful and appropriate.
Tests to be met	Directly-related test • Entertainment took place in a clear business setting, or • Main purpose of entertainment was the active conduct of business, and You did engage in business with the person during the entertainment period, and You had more than a general expectation of getting income or some other specific business benefit.
	Associated test • Entertainment is associated with your trade or business, and • Entertainment directly before or after a substantial business discussion.
Other rules	• You cannot deduct the cost of your meal as an entertainment expense if you are claiming the meal as a travel expense. • You cannot deduct expenses that are lavish or extravagant under the circumstances. • You generally can deduct only 50% of your unreimbursed entertainment expenses (see *50% Limit*).

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.

- Entertainment in a hospitality room at a convention where business goodwill is created through the display or discussion of business products.
- 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).
- 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.

- A meeting or discussion at a nightclub, theater, or sporting event.
- A meeting or discussion during what is essentially a social gathering, such as a cocktail party.
- 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 is:

- Associated with the active conduct of your trade or business, and
- Directly before or after a substantial business discussion (defined later).

Associated with trade or business. Generally, an 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 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.

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 80% of your business-related meal and entertainment expenses. 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. **Does the 50% Limit Apply to Your Expenses?**
There are exceptions to these rules. See *Exceptions to the 50% Limit.*

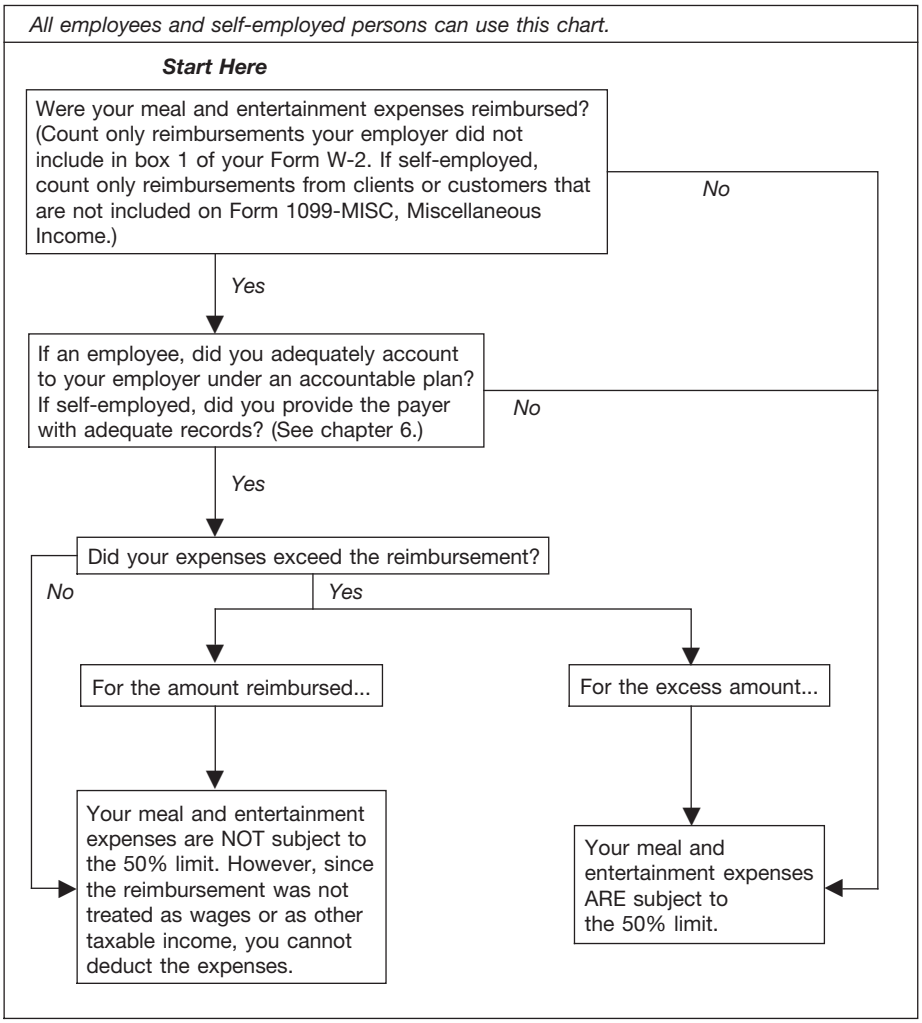


Figure A summarizes the general rules explained in this section.

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

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

Included expenses. Expenses subject to the 50% limit include:

- Taxes and tips relating to a business meal or entertainment activity,
- Cover charges for admission to a nightclub,
- Rent paid for a room in which you hold a dinner or cocktail party, and
- Amounts paid for parking at a sports arena.

However, the cost of transportation to and from a business meal or a business-related entertainment activity is not subject to the 50% limit.

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 certain meal and entertainment expenses that are not business related. 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 $200 for a business-related meal. If $110 of that amount is not allowable because it is lavish and extravagant, the remaining $90 is subject to the 50% limit. Your deduction cannot be more than $45 (50% × $90).

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 $200 for the two tickets, which had a face value of $80 each ($160 total). Your deduction cannot be more than $80 (50% × $160).

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 of the following requirements are met.

- You have these expenses as an independent contractor.
- Your customer or client reimburses you or gives you an allowance for these expenses in connection with services you perform.
- 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, neither the expense of sponsoring a television or radio show nor the expense of distributing free food and beverages to the general public is subject to the 50% limit.

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 not subject to the 50% limit.

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 *What Entertainment Expenses Are Deductible?*, later.

Individuals subject to "hours of service" limits. You can deduct a higher percentage of your meal expenses while traveling away from your tax home 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 80%.

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

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.
- Interstate truck operators and bus drivers who are under Department of Transportation regulations.
- Certain railroad employees (such as engineers, conductors, train crews, dispatchers, and control operations personnel) who are under Federal Railroad Administration regulations.
- Certain merchant mariners who are under Coast Guard regulations.

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.

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

TIP *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.

Separating costs. If you have one expense that includes the costs of entertainment, and other services (such as lodging or transportation), you must allocate that expense between the cost of entertainment and the cost of other services. You must have a reasonable basis for making this allocation. For example, you must allocate your expenses if a hotel includes entertainment in its lounge on the same bill with your room charge.

Taking turns paying for meals or entertainment. If a group of business acquaintances take turns picking up each others' meal or entertainment checks without regard to whether any business purposes are served, no member of the group can deduct any part of the expense.

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 nonbusiness. 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 $^{4}/_{11}$ 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 if the expenses of your attendance are related to your active trade or business. These organizations include business leagues, chambers of commerce, real estate boards, trade associations, and professional associations.

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.

- The event's main purpose is to benefit a qualified charitable organization.
- The entire net proceeds go to the charity.
- 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.

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:

- Family members (spouses, ancestors, and lineal descendants),
- Parties who have made a reciprocal arrangement involving the sharing of skyboxes,
- Related corporations,
- A partnership and its principal partners, and
- 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 $30 a seat. You can deduct (subject to the 50% limit) $900 ((10 seats × $30 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 reasonable. You cannot inflate the charges for food and beverages to avoid the limited deduction for skybox rentals.

What Entertainment Expenses Are Not Deductible?

This section explains different types of entertainment expenses that you generally may not be able to deduct.

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 either:

- 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 expense for the use of 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 earlier.

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. If your spouse joins the party because the customer's spouse is present, the cost of the entertainment for your spouse is also deductible.

Gift or entertainment. Any item that might be considered either a gift or entertainment generally will be considered entertainment. 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.

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 tickets as either a gift or entertainment, whichever is to your advantage.

You can change your treatment of the tickets at a later date by filing an amended return. Generally, an amended return must be filed within 3 years from the date the original return was filed or within 2 years from the time the tax was paid, whichever is later.

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 tickets as a gift.

3.

Gifts

If you give 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 the costs of gifts.

$25 limit. You can deduct no more than $25 for business gifts you give directly or indirectly to each 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 limit × 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 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.

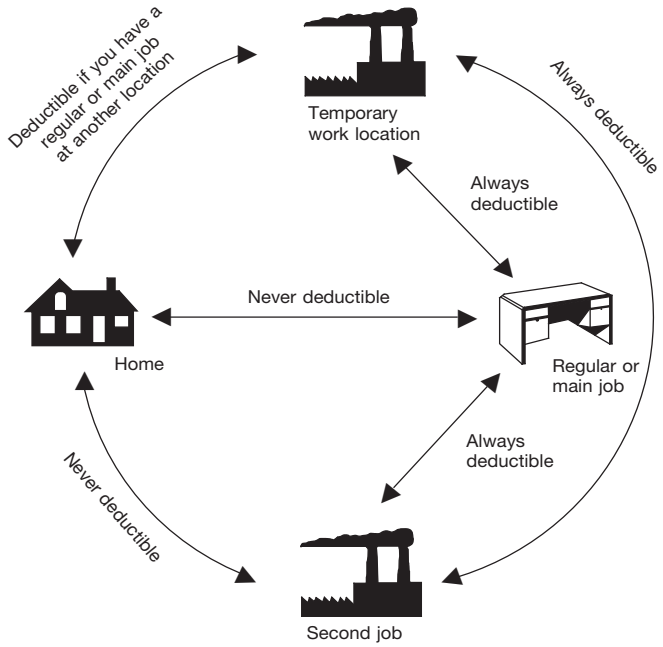
Gift or entertainment. Any item that might be considered either a gift or entertainment generally will be considered entertainment. However, if you give a customer packaged food or beverages that you intend the customer to use at a later date, treat it as a gift.

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 by filing an amended return. Generally, an amended return must be filed within 3 years from the date the original return was filed or within 2 years from the time the tax was paid, whichever is later.

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.

Figure B. **When Are Transportation Expenses Deductible?**
Most 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*.)



Home: The place where you reside. Transportation expenses between your home and your main or regular place of work are personal commuting expenses.

Regular or main job: Your principal place of business. If you have more than one job, you must determine which one is your regular or main job. Consider the time you spend at each, the activity you have at each, and the income you earn at each.

Temporary work location: A place where your work assignment is realistically expected to last (and does in fact last) one year or less. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary work location outside your metropolitan area.

Second job: If you regularly work at two or more places in one day, whether or not for the same employer, you can deduct your transportation expenses of getting from one workplace to another. If you do not go directly from your first job to your second job, you can only deduct the transportation expenses of going directly from your first job to your second job. You cannot deduct your transportation expenses between your home and a second job on a day off from your main job.

4.

Transportation

This chapter discusses expenses you can deduct for business transportation when you are not traveling away from home as defined in chapter 1. These expenses include the cost of transportation by air, rail, bus, taxi, etc., and the cost of driving and maintaining your car.

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.

Transportation expenses do not include expenses you have while traveling away from home overnight. Those expenses are 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 figure your car expense deduction. See *Car Expenses*, later.

Illustration of transportation expenses. *Figure B* illustrates the rules that apply for deducting 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 transportation expenses.

Temporary work location. If you have one or more regular work locations 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, regardless of distance.

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 employment 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.

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 expenses.

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 expense. 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.

If you travel more than 100 miles away from home in connection with your performance of services as a member of the reserves, you may be able to deduct some of your reserve-related travel costs as an adjustment to gross income rather than as an itemized deduction. For more information, see *Armed Forces Reservists Traveling More Than 100 Miles From Home* under *Special Rules*, in chapter 6.

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 sometimes use your cell phone 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.)

Examples of deductible transportation. The following examples show when you can deduct 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 1-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 ordinarily can deduct car expenses. You generally can use one of the two following methods to figure your deductible expenses.

- Standard mileage rate.
- Actual car expenses.

If you use actual expenses to figure your deduction for a car you lease, there are rules that affect the amount of your lease payments that you can deduct. See *Leasing a Car*, later.

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 alternative motor 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. However, you must reduce your basis for depreciation of the alternative motor vehicle by the amount of the credit you claim. See* Depreciation Deduction, *later, under* Actual Car Expenses.

For more information on alternative motor vehicles, see Form 8910, Alternative Motor Vehicle Credit.

Rural mail carriers. If you are a rural mail carrier, you may be able to treat the qualified reimbursement you received as your allowable expense. Because the qualified reimbursement is treated as paid under an accountable plan, your employer should not include the reimbursement in your income.

If your vehicle expenses are more than the amount of your reimbursement, you can deduct the unreimbursed expenses as an itemized deduction on Schedule A (Form 1040). You must complete Form 2106 and attach it to your Form 1040, U.S. Individual Income Tax Return.

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

- It is given as an equipment maintenance allowance (EMA) to employees of the U.S. Postal Service.
- 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 2009, the standard mileage rate for the cost of operating your car for business use is 55 cents per mile.

CAUTION *If you use the standard mileage rate for a year, you cannot deduct your actual car expenses for that year. You cannot deduct depreciation, lease payments, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, or 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 1997.

You must make the choice to use the standard mileage rate by the due date (including extensions) of your return. You cannot revoke the choice. However, in later years, you can

switch from the standard mileage rate to the actual expenses method. 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:

- Use the car for hire (such as a taxi),
- Use five or more cars at the same time (as in fleet operations),
- Claimed a depreciation deduction for the car using any method other than straight line, for example, MACRS (as discussed later under *Depreciation Deduction*),
- Claimed a section 179 deduction (discussed later) on the car,
- Claimed the special depreciation allowance on the car,
- Claimed actual car expenses after 1997 for a car you leased, or
- Are a rural mail carrier who received a qualified reimbursement. (See *Rural mail carriers*, earlier.)

Five or more cars. If you own or lease five 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*, later, for information on how to figure your deduction.

You are not using five 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 five or more cars.

Example 1. Marcia, a salesperson, owns three cars and two vans that she alternates using for calling on her customers. She can use the standard mileage rate for the business mileage of the three cars and the two vans because she does not use them at the same time.

Example 2. Tony and his employees use his four pickup trucks in his landscaping business. During the year, he traded in two of his old trucks for two newer ones. Tony can use the standard mileage rate for the business mileage of all six of the trucks he owned during the year.

Example 3. Chris owns a repair shop and an insurance business. He and his employees use his two pickup trucks and van for the repair shop. Chris alternates using his two cars for the insurance business. No one else uses the cars for business purposes. Chris can use the standard mileage rate for the business use of the pickup trucks, van, and the cars because he never has more than four vehicles used for business at the same time.

Example 4. Maureen owns a car and four vans that are used in her housecleaning business. Her employees use the vans and she uses the car to travel to various customers. Maureen cannot use the standard mileage rate for the car or the vans. This is because all five vehicles are used in Maureen's business at the same time. She must use actual expenses for all 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 part of the interest expense that represents your personal use of the car.

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 use the standard mileage rate, you may be able to deduct your actual car expenses.

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

Actual car expenses include:

Depreciation	Lease payments	Registration fees
Licenses	Insurance	Repairs
Gas	Garage rent	Tires
Oil	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 your expense 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).

Sales taxes. Generally, sales taxes on your car are part of your car's basis and are recovered through depreciation, discussed later. However, if you purchased a new motor vehicle after February 16, 2009, and to the extent the car is not used in your trade or business, you can choose to deduct the nonbusiness part of the qualified vehicle state or local sales or excise tax on Schedule A (Form 1040), line 7, or on Schedule L (Form 1040A or Form 1040), as an addition to your standard deduction if you do not itemize your deductions.

Fines and collateral. You cannot deduct fines you pay or collateral you forfeit 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, for information on deducting a loss on your car.

Depreciation and section 179 deductions. Generally, the cost of a car, plus sales tax and improvements, is a capital expense. Because the benefits last longer than 1 year, you generally cannot deduct a capital expense. However, you can recover this cost through the section 179 deduction (the deduction allowed by section 179 of the Internal Revenue Code), special depreciation allowance, and depreciation deductions. Depreciation allows you to recover the cost over more than 1 year by deducting part of it each year. The section 179 deduction, special depreciation allowance, and depreciation deductions are discussed later.

Generally, there are limits on 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 use a depreciation method other than straight line 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 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:

- An ambulance, hearse, or combination ambulance-hearse used directly in a business,
- A vehicle used directly in the business of transporting persons or property for pay or hire, or
- A truck or van that is a qualified nonpersonal use vehicle.

Qualified nonpersonal use vehicles. These are vehicles that by their nature are not likely to be used more than a minimal amount for personal purposes. They include trucks and vans that have been specially modified so that they are not likely to be used more than a minimal amount for personal purposes, such as by installation of permanent shelving and painting the vehicle to display advertising or the company's name. Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat are qualified nonpersonal use vehicles.

More information. See Depreciation Deduction, later, for more information on how to depreciate your vehicle.

Section 179 Deduction

The section 179 deduction allows you to treat a portion or all of the business cost of a car as a current expense instead of taking depreciation deductions over a number of years.

TIP *There is a limit on the total section 179 deduction, special depreciation allowance, and depreciation deduction for cars, trucks, and vans, that may reduce or eliminate any benefit from claiming the section 179 deduction. See* Depreciation Limits*, later.*

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 a trade or business, a tax-exempt activity, a personal activity, or for the production of income. 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 2008 you bought a new car and used it for personal purposes. In 2009, 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 in 2009. However, you can claim a depreciation deduction for the business use of the car starting in 2009. See Depreciation Deduction, later.

More than 50% business use requirement. You must use the property more than 50% for business to claim any section 179 deduction. If you used the property more than 50% for business, multiply the cost of the property by the percentage of business use. The result is the cost of the property that can qualify for the section 179 deduction.

Example. Peter purchased a car in April 2009 for $19,500 and he used it 60% for business. The total cost of Peter's car that qualifies for the section 179 deduction is $11,700 ($19,500 cost × 60% business use). But see Limit on total section 179, special depreciation allowance, and depreciation deduction, discussed later.

Limits. There are limits on:

- The amount of the section 179 deduction,
- The section 179 deduction for sport utility and certain other vehicles, and
- The total amount of the section 179 deduction, special depreciation allowance, and depreciation deduction (discussed later) you can claim for a qualified property.

Limit on the amount of the section 179 deduction. For 2009, the total amount you can choose to deduct under section 179 generally cannot be more than $250,000.

If the cost of your qualifying section 179 property placed in service in 2009 is over $800,000, you must reduce the $250,000 dollar limit (but not below zero) by the amount of cost over $800,000. If the cost of your section 179 property placed in service during 2009 is $1,050,000 or more, you cannot take a section 179 deduction.

The total amount you can deduct under section 179 each year after you apply the limits listed above cannot be more than the taxable income from the active conduct of any trade or business during the year.

If you are married and file a joint return, you and your spouse are treated as one taxpayer in determining any reduction to the dollar limit, regardless of which of you purchased the property or placed it in service.

If you and your spouse file separate returns, you are treated as one taxpayer for the dollar limit. You must allocate the dollar limit (after any reduction) between you.

For more information on the above section 179 deduction limits, see Publication 946.

Limit for sport utility and certain other vehicles. For sport utility and certain other vehicles placed in service in 2009, the portion of the vehicle's cost taken into account in figuring your section 179 deduction is limited to $25,000. This rule applies to any four-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, or highways, that is not subject to any of the passenger automobile limits explained under Depreciation Limits, later, and that is rated at no more than 14,000 pounds gross vehicle weight. However, the $25,000 limit does not apply to any vehicle:

- Designed to have a seating capacity of more than nine persons behind the driver's seat,
- Equipped with a cargo area of at least 6 feet in interior length that is an open area or is designed for use as an open area but is enclosed by a cap and is not readily accessible directly from the passenger compartment, or
- That has an integral enclosure, fully enclosing the driver compartment and load carrying device, does not have seating rearward of the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

Limit on total section 179, special depreciation allowance, and depreciation deduction. Generally, the total amount of section 179, special depreciation allowance, and depreciation deduction that you can claim for a qualified car that you placed in service in 2009 is $10,960. The limit is reduced if your business use of the car is less than 100%. See Depreciation Limits, later, for more information.

Example. In the earlier example under *More than 50% business use requirement,* Peter had a car with a qualifying cost (for purposes of the section 179 deduction) of $11,700. However, Peter's total section 179, special depreciation allowance, and depreciation deduction is limited to $6,576 ($10,960 limit x 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. Your cost includes only the cash you paid.

Basis of car for depreciation. The amount of the section 179 deduction reduces your basis in your car. If you choose the section 179 deduction, you must subtract the amount of the deduction from the cost of your car. The resulting amount is the basis in your car that you use to figure your depreciation deduction.

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.

How to choose. Employees use Form 2106 to make this choice and report the section 179 deduction. All others use Form 4562.

File the appropriate form with either of the following.

- Your original tax return filed for the year the property was placed in service (whether or not you file it timely).
- An amended return filed within the time prescribed by law. An election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each

such item to be taken into account. The amended return must also include any resulting adjustments to taxable income.

You must keep records that show the specific identification of each piece of qualifying section 179 property. These records must show how you acquired the property, the person you acquired it from, and when you placed it in service.

Revoking an election. An election (or any specification made in the election) to take a section 179 deduction for 2009 can be revoked without IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law. The amended return must also include any resulting adjustment to taxable income. Once made, the revocation is irrevocable.

Recapture of section 179 deduction. 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 recapture (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 allowable depreciation (unless you establish the amount actually allowed). For information on the disposition of a car, see *Disposition of a Car*, later.

Special Depreciation Allowance

You may be able to claim the special depreciation allowance for your car, truck, or van, if it is qualified property and was placed in service in 2009. The allowance is an additional depreciation deduction of 50% of the car's depreciable basis (after any section 179 deduction, but before figuring your regular depreciation deduction under MACRS). The special depreciation allowance applies only for the first year the car is placed in service. To qualify for the allowance more than 50% of the use of the car must be in a qualified business use (as defined under *Depreciation Deduction*, later.

Your combined section 179 deduction, special depreciation allowance, and regular MACRS depreciation deduction is limited to the maximum allowable depreciation deduction for cars of $10,960 ($2,960 if you elect not to claim the special depreciation allowance). For trucks and vans the limit is $11,060 ($3,060 if you elect not to claim the special depreciation allowance). See *Depreciation Limits*, later in this chapter.

Qualified car. To be a qualified car (including trucks and vans), the car must meet all of the following tests.

- You purchased the car new on or after January 1, 2008, but only if no binding written contract to acquire the car existed before January 1, 2008,
- You placed the car in service in your trade or business before January 1, 2010,
- You used the car more than 50% in a qualified business use.

Example. Dan purchased a new car for $20,500 in June 2009, and used it 100% in his business. The car is qualified property. Dan's unadjusted basis is $20,500. Dan chooses not to claim any section 179 deduction but he does choose to claim the special depreciation allowance. Dan figures his special allowance to be $10,250 ($20,500 x 50%).

Dan chooses the MACRS 200% declining balance method and figures his regular depreciation deduction under MACRS (discussed later) to be $2,050 (($20,500 – $10,250) x 20%). The total section 179, special depreciation allowance, and MACRS depreciation deduction is $12,300 ($10,250 + $2,050). However, Dan's depreciation deduction is limited to $10,960. Therefore, Dan reports $10,960 as depreciation for his car in 2009. See *Depreciation Limits*, later.

Election not to claim the special depreciation allowance. You can elect not to claim the special depreciation allowance for your car, truck, or van, that is qualified property. If you make this election, it applies to all 5-year property placed in service during the year.

To make the election, attach a statement to your timely filed return (including extensions) indicating the class of property (5-year for cars) for which you are making the election and that you are electing not to claim the special depreciation allowance for qualified property acquired after December 31, 2008.

Unless you elect not to claim the special depreciation allowance, you must reduce the car's adjusted basis by the amount of the allowance, even if the allowance was not claimed.

Depreciation Deduction

If you use actual car expenses to figure your deduction for a car you own and use 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 your car.

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

- Your basis in the car.
- The date you place the car in service.
- The method of depreciation and recovery period you will use.

Basis. Your basis in a car for figuring depreciation is generally its cost. This includes any amount you borrow or pay in cash, other property, or services.

Generally, you figure depreciation on your car, truck, or van, using your unadjusted basis (see *Unadjusted basis*, later). However, in some situations you will use your adjusted basis (your basis reduced by depreciation allowed or allowable in earlier years). For one of these situations see *Exception* under *Methods of depreciation,* later.

If you change the use of a car from personal to business, your basis for depreciation is the lesser of the fair market value or your adjusted basis in the car on the date of conversion. 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 an income-producing activity, or in a personal activity. Depreciation begins when the car is placed in service 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 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, you figure depreciation on cars using the Modified Accelerated Cost Recovery System (MACRS). MACRS is 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 946.

More-than-50%-use test. Generally, you must use your car more than 50% for qualified business use (defined next) during the year to use MACRS. You must meet this more-than-50%-use test each year of the recovery period (6 years under MACRS) for your car.

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 conditions.

- It is directly connected with your business.
- It is properly reported by you as income to the other person (and, if you have to, you withhold tax on the income).
- 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 *Qualified business use 50% or less in a later year* under *Car Used 50% or Less for Business,* later.

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

Use for more than one purpose. 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.

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 ÷ 15,000) for that period. Your business use for the year is 40% (80% × 6/12).

Limits. The amount you can claim for section 179, the special depreciation allowance, and depreciation deductions may be limited. The maximum amount you can claim depends on the year in which you placed your car in service. You have to reduce the maximum amount if you did not use the car exclusively for business. See *Depreciation Limits*, later.

Unadjusted basis. You use your unadjusted basis (often referred to as your basis or your basis for depreciation) 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 car's original basis, which generally is its cost. Cost includes sales taxes (see *Sales taxes* earlier), 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 section 179 deduction, special depreciation allowance, gas guzzler tax, clean fuel vehicle deduction, and alternative motor vehicle credit.

See Form 8910 for information on the alternative motor vehicle credit.

CAUTION *If your business use later falls to 50% or less, you may have to recapture (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 any section 179 deduction, special depreciation allowance, and depreciation on any improvements) cannot be more than the depreciation limit that applies for that year. See *Depreciation Limits*, later.

Car trade-in. If you traded one car (the "old car") in on another car (the "new car") in 2009, there are two ways you can treat the transaction.

1. You can elect to treat the transaction as a tax-free disposition of the old car and the purchase of the new car. If you make this election, you treat the old car as disposed of at the time of the trade-in. The depreciable basis of the new car is the adjusted basis of the old car (figured as if 100% of the car's use had been for business purposes) plus any additional amount you paid for the new car. You then figure your depreciation deduction for the new car beginning with the date you placed it in service. You make this election by completing Form 2106, Part II, Section D. This method is explained later, beginning at *Effect of trade-in on basis*.
2. If you do not make the election described in (1), you must figure depreciation separately for the remaining basis of the old car and for any additional amount you paid for the new car. You must apply two depreciation limits (see *Depreciation Limits*, later). The limit that applies to the remaining basis of the old car generally is the amount that would have been allowed had you not traded in the old car. The limit that applies to the additional amount you paid for the new car generally is the limit that applies for the tax year, reduced by the depreciation allowance for the remaining basis of the old car. You must use Form 4562 to compute your depreciation deduction. You cannot use Form 2106, Part II, Section D. This method is explained in Publication 946.

If you elect to use the method described in (1), you must do so on a timely filed tax return (including extensions). Otherwise, you must use the method described in (2).

Effect of trade-in on basis. The discussion that follows applies to trade-ins of cars in 2009, where the election was made to treat the transaction as a tax-free disposition of the old car and the purchase of the new car. For information on how to figure depreciation for cars involved in a like-kind exchange (trade-in) in 2009, for which the election was not made, see Publication 946 and Regulations section 1.168(i)-6(d)(3).

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 $5,000 for a new car. In addition, he pays cash of $20,000 for the new car. His original basis of the new car is $25,000 (his $5,000 adjusted basis in the old car plus the $20,000 cash paid). Paul's unadjusted basis is $25,000 unless he claims the section 179 deduction, special depreciation allowance, or has other increases or decreases to his original basis, discussed under *Unadjusted basis*, earlier.

Example 2. In September 2006, Marcia purchased a car for $26,000 and placed it in service for 100% use in her business. Marcia did not claim a section 179 deduction. Marcia's unadjusted basis for the car was $26,000. For 2006 through 2008, Marcia figured her depreciation deduction using the MACRS depreciation chart for those years.

In September 2009, 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 MACRS depreciation amount figured for 2009 for her old car. (See *Disposition of a Car*, later.)

Marcia figures her basis in the new car as follows.

Cost of old car		$26,000
Less total depreciation allowed:		
2009—($26,000 × .1152) × 1/2 (Limit: $1,775)	$1,498	
2008—($26,000 × .192) (Limit: $2,850)	2,850	
2007—($26,000 × .32) (Limit: $4,800)	4,800	
2006—($26,000 × .20) (Limit: $2,960)	2,960	
Total depreciation allowed		−12,108
Adjusted basis of old car and basis of part of new car that can be treated as newly purchased MACRS property		**$ 13,892**
Additional basis (cash paid) for new car that is treated as newly purchased MACRS property		+14,200

Total basis of new car	**$28,092**

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, Sales and Other Dispositions of Assets, 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 allowed 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 2005 van (placed in service in June 2005) for a new 2009 model. He used the old van 75% for business and he used the new van 75% for business in 2009. Mark claimed actual expenses (including $9,981 depreciation expense) for the business use of the old van since 2005. He did not claim a section 179 deduction for the old or the new van.

Mark paid $19,500 for the 2005 van in June 2005. He paid an additional $12,500 when he acquired the 2009 van. Mark was allowed ½ of the depreciation deduction amount (which is included in the $9,981 depreciation expense total) for his old van for 2009, 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		$19,500
Less: Total depreciation allowed on the business cost of old van from 2005–2009		–9,981
Adjusted basis of old van before trade-in adjustment		$ 9,519
Trade-in adjustment:		
Depreciation at 100% business use:		
2009—($19,500 × .1152) × ½ (Limit: $1,675)	$ 1,123	
2008—($19,500 × .1152) (Limit: $1,675)	1,675	
2007—($19,500 × .192) (Limit: $2,850)	2,850	
2006—($19,500 × .32) (Limit: $4,700)	4,700	
2005—($19,500 × .20) (Limit: $2,960)	2,960	
Total	$13,308	
Less: Actual depreciation allowed	–9,981	
Excess of 100% over actual	$ 3,327	
Less: Lesser of excess amount ($3,327) *or* adjusted basis of old van ($9,519)		– 3,327
Unadjusted basis of part of new van that can be treated as newly purchased MACRS property		**$ 6,192**
Additional basis (cash paid) for new van that is treated as newly purchased MACRS property		**$12,500**

Example 2. Rob paid $21,000 for a new car that he placed in service in 2006. He used it partly for business in 2006 (9,600 business miles of 15,000 total miles), 2007 (12,000 business miles of 16,000 total miles), and 2008 (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 3, 2009, Rob traded in this car and paid an additional $10,000 for his new car. Rob figures the unadjusted basis for his new car as shown next.

Cost of old car		$21,000
Less: Total depreciation allowed:		
2008—14,400 mi. × .21	$3,024	
2007—12,000 mi. × .19	2,280	
2006— 9,600 mi. × .17	1,632	– 6,936
Adjusted basis of old car before trade-in adjustment		$14,064
Trade-in adjustment:		
Depreciation at 100% business use:		
2008—18,000 mi. × .21	$3,780	
2007—16,000 mi. × .19	3,040	
2006—15,000 mi. × .17	2,550	
Total	$9,370	
Less: Actual depreciation allowed	– 6,936	
Excess of 100% over actual	$2,434	
Less: Lesser of excess amount ($2,434) *or* adjusted basis of old car ($14,064)		– 2,434
Unadjusted basis of part of new car that can be treated as newly purchased MACRS property		**$11,630**
Additional basis (cash paid) for new car that is treated as newly purchased MACRS property		**$10,000**

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 2010. 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 4 of Publication 946.

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

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

TIP *If you use Table 4-1 (discussed later under* MACRS depreciation chart*) to determine your depreciation rate for 2009, you do not need to determine in what year using the straight line method provides an equal or greater deduction. 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.

- Using the straight line method provides equal yearly deductions throughout the recovery period.
- 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 *2009 MACRS Depreciation Chart* and instructions are included in this chapter as Table 4-1. Using this table will make it easy for you to figure the 2009 depreciation deduction for your car. A similar chart appears in the *Instructions for Form 2106.*

CAUTION *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 *2009 MACRS Depreciation Chart* in this publication if any one of the following four 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.
   a. You placed some property in service from January through September.

Table 4-1. **2009 MACRS Depreciation Chart (Use to Figure Depreciation for 2009.)**

If you claim actual expenses for your car, use the chart below to find the depreciation method and percentage to use for your 2009 return.

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 2009, 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 2009. (Also see *Depreciation Limits*.)

CAUTION

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 (certain property is excluded) placed in service for the entire year, use the percentage for Jan. 1—Sept. 30 for figuring depreciation for your car. See *Which Convention Applies?* in chapter 4 of Publication 946 for more details.

Example. You buy machinery (basis of $32,000) in May 2009 and a new van (basis of $20,000) in October 2009, both used 100% in your business. You use the percentage for Jan. 1—Sept. 30, 2009, to figure the depreciation for your van. This is because the $20,000 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% × ($32,000 + 20,000) = $20,800).

	(a)		(b)		(c)	
Date Placed In Service	**200% Declining Balance (200% DB)[1]**		**150% Declining Balance (150% DB)[1]**		**Straight Line (SL)**	
Oct. 1 — Dec. 31, 2009	200 DB	5.0%	150 DB	3.75%	SL	2.5%
Jan. 1 — Sept. 30, 2009	200 DB	20.0	150 DB	15.0	SL	10.0
Oct. 1 — Dec. 31, 2008	200 DB	38.0	150 DB	28.88	SL	20.0
Jan. 1 — Sept. 30, 2008	200 DB	32.0	150 DB	25.5	SL	20.0
Oct. 1 — Dec. 31, 2007	200 DB	22.8	150 DB	20.21	SL	20.0
Jan. 1 — Sept. 30, 2007	200 DB	19.2	150 DB	17.85	SL	20.0
Oct. 1 — Dec. 31, 2006	200 DB	13.68	150 DB	16.4	SL	20.0
Jan. 1 — Sept. 30, 2006	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1 — Dec. 31, 2005	200 DB	10.94	150 DB	16.41	SL	20.0
Jan. 1 — Sept. 30, 2005	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1 — Dec. 31, 2004	200 DB	9.58	150 DB	14.35	SL	17.5
Jan. 1 — Sept. 30, 2004	200 DB	5.76	150 DB	8.33	SL	10.0
Prior to 2004[2]						

[1] You can use this column only if the business use of your car is more than 50%.
[2] If your car was subject to the maximum limits for depreciation and you have unrecovered basis in the car, you can continue to claim depreciation. See *Deductions in years after the recovery period* under *Depreciation Limits*.

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 (excluding nonresidential real property, residential rental property, and property placed in service and disposed of in the same year) was more than 40% of your total bases in all property you placed in service during the year.

4. You placed qualified property in service on an Indian reservation.

Depreciation in future years. If you use the percentages from the chart, you generally 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 the 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 the adjustment and over the remaining recovery period. See *Figuring the Deduction Without Using the Tables* in chapter 4 of Publication 946.

TIP

In future years, do not use the chart in this edition of the 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 information on how to figure the depreciation allowed in the year of disposition.

How to use the 2009 chart. To figure your depreciation deduction for 2009, 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.

CAUTION

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

Example. Phil bought a used truck in February 2008 to use exclusively in his landscape business. He paid $9,200 for the truck with no trade-in. Phil did not claim any section 179 deduction, the truck did not qualify for the special depreciation allowance, 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 2008 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, $9,200, by the percentage that applied, 20%, to figure his 2008 depreciation deduction of $1,840.

In 2009, 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 2009. Phil used Table 4-1 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, $8,280 ($9,200 cost × 90% business use), by 32% to figure his 2009 depreciation deduction of $2,650.

Depreciation Limits

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

Maximum Depreciation Deduction for Cars

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2008–2009	$10,960[1]	$4,800	$2,850	$1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775
2005	2,960	4,700	2,850	1,675
2004	10,610[1]	4,800	2,850	1,675
5/06/2003–12/31/2003	10,710[2]	4,900	2,950	1,775
1/01/2003–5/05/2003	7,660[3]	4,900	2,950	1,775
2001–2002	7,660[3]	4,900	2,950	1,775
2000	3,060	4,900	2,950	1,775

[1]$2,960 if the car is not qualified property or if you elect not to claim the special depreciation allowance.

[2]$7,660 if you acquired the car before 5/6/2003. $3,060 if the car is not qualified property or if you elect not to claim any special depreciation allowance.

[3]$3,060 if you acquired the car before 9/11/2001, the car is not qualified property, or you elect not to claim the special depreciation allowance.

Trucks and vans. For 2009, the maximum depreciation deductions for trucks and vans are generally higher than those for cars. A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van, and that is rated at 6,000 pounds gross vehicle weight or less. For trucks and vans placed in service before 2003, use the *Maximum Depreciation Deduction for Cars* table.

Maximum Depreciation Deduction for Trucks and Vans

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2009	$11,060[1]	$4,900	$2,950	$1,775
2008	11,160[1]	5,100	3,050	1,875
2007	3,260	5,200	3,050	1,875
2005–2006	3,260	5,200	3,150	1,875
2004	10,910[1]	5,300	3,150	1,875
2003	11,010[1 2]	5,400	3,250	1,975

[1]If the special depreciation allowance does not apply or you make the election not to claim the special depreciation allowance, the first year limit is $3,060 for 2009, $3,160 for 2008, $3,260 for 2004, and $3,360 for 2003.

[2]If the truck or van was acquired before 5/06/03, the truck or van is qualified property, and you claim the special depreciation allowance for the truck or van, the maximum deduction is $7,960.

Car used less than full year. The depreciation limits 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 2009 for $20,000 to use exclusively in her business. She does not claim the section 179 deduction, but she does claim the special depreciation allowance, and she chooses the 200% DB method of depreciation.

Marie first figures her special depreciation allowance to be $10,000 ($20,000 x 50%). Marie next figures her car's unadjusted basis to be $10,000 ($20,000 – $10,000).

Marie's MACRS depreciation (using the rate from Table 4-1) is $2,000 ($10,000 (unadjusted basis) × 20%). Marie's total section 179, special depreciation allowance, and MACRS depreciation deduction is $12,000 ($10,000 + $2,000). However, the maximum amount she can deduct for depreciation is $10,960. (See the *Maximum Depreciation Deduction for Cars* table earlier.)

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

Example. In April 2009, Karl purchased a new car for $27,500 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, but he does claim the special depreciation allowance, and he chooses the 200% DB method to figure his depreciation deduction.

Karl first figures his special depreciation allowance to be $11,688 ($27,500 x 85% x 50%). He then figures his depreciation limit for 2009 to be $9,316 (2009 depreciation limit ($10,960) multiplied by the business use percentage (85%)). Before Karl can figure his MACRS depreciation, he figures his unadjusted basis to be $14,059 ($27,500 × 85% – $9,316).

Karl figures his MACRS depreciation to be $2,812 ($14,059 (unadjusted basis) x 20%). Karl figures his total section 179, special depreciation allowance, and MACRS depreciation to be $12,128 ($9,316 (special allowance) + $2,812 (MACRS depreciation)). However, Karl's deduction is limited to $9,316. This is the depreciation limit ($10,960) multiplied by the business use percentage (85%).

Karl continues to use his car 85% for business. Depreciation in the next 4 years continues to be subject to deduction limits. Karl figures his depreciation limits for those years as follows.

Year	Limit x Business Use	Depreciation
2010	$4,800 × 85%	$4,080
2011	2,850 × 85%	2,423
2012, 2013	1,775 × 85%	1,509

In 2014, using the rate from Table 4-1, Karl's MACRS deduction is $810 ($14,059 (unadjusted basis) × 5.76%). Since that amount is less than the depreciation limit of $1,509 ($1,775 × 85%), Karl's depreciation deduction for 2014 is $810.

If Karl continues to use his car for business after 2014, 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 that is not a truck or van in service in 2009, use it only for business, and choose the section 179 deduction, the combined section 179, special depreciation allowance, and depreciation deduction for that car for 2009 is limited to $10,960.

Example. On September 4, 2009, 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. The car is not qualified property for purposes of the special depreciation allowance.

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 $250,000 amount) multiplied by his business use ($10,000 × 80%).

Jack then figures that his section 179 deduction for 2009 is limited to $2,368 (80% of $2,960). He then figures his unadjusted basis of $5,632 (($10,000 × 80%) – $2,368) for determining his depreciation deduction. Jack has reached his maximum depreciation deduction for 2009. For 2010, Jack will use his unadjusted basis of $5,632 to figure his depreciation deduction.

Deductions in years after the recovery period. If the depreciation deductions for your car are reduced under the passenger automobile limits (discussed earlier), you will have unrecovered basis in your car at the end of the recovery period. If you continue to use your car for business, you can deduct that unrecovered

basis (subject to depreciation limits) after the recovery period ends.

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

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

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

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

Example. In April 2003, Bob bought and placed in service a car that he used exclusively in his business. The car cost $31,500. Bob did not claim a section 179 deduction, but he did claim the special depreciation allowance, for the car. He continued to use the car 100% in his business throughout the recovery period (2003 through 2008). For those years, Bob used Table 4-1 and the Maximum Depreciation Deduction for Cars table (as explained earlier) to compute his depreciation deductions during the recovery period. Bob's depreciation deductions were subject to the depreciation limits so he will have unrecovered basis at the end of the recovery period as shown in the following table.

Year	MACRS %	Amount	Limit	Deprec. Allowed
2003	30.00*	$ 9,450		
	20.00	4,410	$7,660	$ 7,660
2004	32.00	7,056	4,900	4,900
2005	19.20	4,234	2,950	2,950
2006	11.52	2,540	1,775	1,775
2007	11.52	2,540	1,775	1,775
2008	5.76	1,270	1,775	1,373
Total		**$31,500**		**$20,433**

*30-percent special depreciation allowance.

At the end of 2008, Bob had an unrecovered basis in the car of $11,067 ($31,500 – $20,433). If Bob continued to use the car 100% for business in 2009 and later years, he can claim a depreciation deduction equal to the lesser of $1,775 or his remaining unrecovered basis.

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 as if the business use had been 100%. For example, if Bob had used his car 60% for business instead of 100%, his allowable depreciation deductions would have been $12,260 ($20,433 × 60%), but he still would have to reduce his basis by $20,433 to determine his unrecovered basis.

Car Used 50% or Less for Business

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

Qualified business use 50% or less in year placed in service. If you use your car 50% or less for qualified business use, the following rules apply.

- You cannot take the section 179 deduction.
- You cannot take the special depreciation allowance.
- You must figure depreciation using the straight line method over a 5-year recovery period. You must continue to use the straight line method even if your percentage of business use increases to more than 50% in a later year.

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

Example. In May 2009, Dan bought a car for $17,500. 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 or special depreciation allowance, and he must use the straight line method over a 5-year recovery period to recover the cost of his car.

Dan deducts $700 in 2009. This is the lesser of:

1. $700 (($17,500 cost × 40% business use) × 10% recovery percentage (from column (c), Table 4-1)), or
2. $1,184 ($2,960 maximum limit × 40% business use).

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

For the year the business use drops to 50% or less and all later years in the recovery period, you must use the straight line depreciation method over a 5-year recovery period. In addition, for the year your business use drops to 50% or less, you must recapture (include in your gross income) any excess depreciation (discussed later). You also increase the adjusted basis of your car by the same amount.

Example. In June 2006, 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 (2006 through 2008) but failed to meet it in the fourth year (2009). You determine your depreciation for 2009 using 20% (from column (c) of Table 4-1). 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 figure and report the excess depreciation in your gross income.

Excess depreciation is:

1. The amount of the depreciation deductions allowable for the car (including any section 179 deduction claimed and any special depreciation allowance claimed) for tax years in which you used the car more than 50% in qualified business use, minus
2. The amount of the depreciation deductions that would have been allowable for those years if you 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. In September 2005, you bought a car for $20,500 and placed it in service. You did not claim the section 179 deduction. You used the car exclusively in qualified business use for 2005, 2006, 2007, and 2008. For those years, you used the appropriate MACRS Depreciation Chart to figure depreciation deductions totaling $12,185 ($2,960 for 2005, $4,700 for 2006, $2,850 for 2007, and $1,675 for 2008) under the 200% DB method.

During 2009, you used the car 30% for business and 70% for personal purposes. Since you did not meet the more-than-50%-use test, you must switch from the 200% DB depreciation method to the straight line depreciation method for 2009, and include in gross income for 2009 your excess depreciation determined as follows.

Total depreciation claimed: (MACRS 200% DB method)		$12,185
Minus total depreciation allowable: (Straight line method)		
2005—10% of $20,500 . . . . (Limit: $2,960)	$2,050	
2006—20% of $20,500 . . . . (Limit: $4,700)	4,100	
2007—20% of $20,500 . . . . (Limit: $2,850)	2,850	
2008—20% of $20,500 . . . . (Limit: $1,675)	1,675	10,675
Excess depreciation		**$1,510**

In 2009, using Form 4797, you figure and report the $1,510 excess depreciation you must include in your gross income. Your adjusted basis in the car is also increased by $1,510. Your 2009 depreciation is $1,230 ($20,500 (unadjusted basis) × 30% (business use percentage) × 20% (from column (c) of Table 4-1 on the line for Jan. 1— Sept. 30, 2005)). However,

your depreciation deduction is limited to $503 ($1,675 x 30% business use).

Leasing a Car

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

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

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

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

Inclusion Amounts

If you lease a car, truck, or van that you use in your business for a lease term of 30 days or more, you may have to include an inclusion amount in your income for each tax year you lease the vehicle. To do this, you 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 vehicle if you owned it.)

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

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

Cars
(Except for Trucks and Vans)

Year Lease Began	Fair Market Value
2008–2009	$18,500
2007	15,500
2005–2006	15,200
2004	17,500
2003	18,000
1999–2002	15,500

Trucks and Vans

Year Lease Began	Fair Market Value
2009	$18,500
2008	19,000
2007	16,400
2005–2006	16,700
2004	18,000
2003	18,500

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 A* for cars, in *Appendix B* for trucks and vans, and in *Appendix C* for electric cars leased after August 5, 1997, and before 2007. If the fair market value of the vehicle is $100,000 or less, use the appropriate appendix (depending on the year you first placed the vehicle in service) to determine the inclusion amount. If the fair market value is more than $100,000, see the Revenue Procedure(s) identified in the footnote of the appendices for the inclusion amount.

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

1. Locate the appendix that applies to you. To find the inclusion amount, do the following.
   a. Find the line that includes the fair market value of the car on the first day of the lease term.
   b. Go across the line to the column for the tax year in which the car is used under the lease to find the dollar amount. For the last tax year of the lease, use the dollar amount for the preceding year.
2. Prorate the dollar amount from (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, 2009, 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 A-6* to arrive at the following inclusion amounts for each year of the lease:

Tax year	Dollar amount	Proration	Business use	Inclusion amount
2009	$ 40	349/365	75%	$29
2010	87	365/365	75%	65
2011	129	365/365	75%	97
2012	129	16/366	75%	4

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, 2008, Will leased a car with a fair market value of $38,500 for 3 years. He used the car exclusively in his own data processing business. On November 5, 2009, Will closed his business and went to work for a company where he is not required to use a car for business. Using *Appendix A-5*, Will computed his inclusion amount for 2008 and 2009 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
2008	$118	138/366	100%	$ 44
2009	257	309/365	100%	218

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 2007, Janice leased a car for 4 years for personal use. On June 1, 2009, 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 2009, Janice obtained an appraisal from an independent car leasing company that showed the fair market value of her 2007 car on June 1, 2009, was $21,650. Using *Appendix A-6*, Janice computed her inclusion amount for 2009 as shown in the following table.

Tax year	Dollar amount	Proration	Business use	Inclusion amount
2009	$16	214/365	60%	$6

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).

Disposition of a Car

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

If your basis is reduced to zero (but not below zero) through the use of the standard mileage rate, and you continue to use your car for business, no adjustment (reduction) to the standard mileage rate is necessary. Use the full standard mileage rate (55 cents per mile for 2009) for business miles driven.

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

Year(s)	Depreciation Rate per Mile
2008–2009	$.21
2007	.19
2005–2006	.17
2003–2004	.16
2001–2002	.15
2000	.14

Example. In 2004, you bought a car for exclusive use in your business. The car cost $22,500. From 2004 through 2009, you used the standard mileage rate to figure your car expense deduction. You drove your car 14,100 miles in 2004, 16,300 miles in 2005, 15,600 miles in 2006, 16,700 miles in 2007, 15,100 miles in 2008, and 14,900 miles in 2009. Your depreciation is figured as follows.

Year	Miles x Rate	Depreciation
2004	14,100 × .16	$ 2,256
2005	16,300 × .17	2,771
2006	15,600 × .17	2,652
2007	16,700 × .19	3,173
2008	15,100 × .21	3,171
2009	14,900 × .21	3,129
Total depreciation		**$17,152**

At the end of 2009, your adjusted basis in the car is $5,348 ($22,500 – $17,152).

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 2009, first determine the depreciation deduction for the full year using Table 4-1.

If you used a *Date Placed in Service* line for *Jan. 1—Sept. 30,* you can deduct one-half of the depreciation amount figured for the full year. 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 depreciation amount figured for the full year. 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%

CAUTION *Do not use this table if you are a fiscal year filer. See* Sale or Other Disposition Before the Recovery Period Ends *in chapter 4 of Publication 946.*

5.

Recordkeeping

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

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

How To Prove Expenses

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

CAUTION *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 on a computer, it is considered an adequate record.

What Are Adequate Records?

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

Documentary evidence. You 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.

- You have meals or lodging expenses while traveling away from home for which you account to your employer under an accountable plan, and you use a per diem allowance method that includes meals and/or lodging. (Accountable plans and per diem allowances are discussed in chapter 6.)
- Your expense, other than lodging, is less than $75.
- You have a transportation expense for which a receipt 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.

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

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

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

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

Canceled check. A canceled check, together with a bill from the payee, ordinarily establishes the cost. However, a canceled check by itself 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, log, statement of expense, trip sheets, or similar record.

Proving business purpose. You must generally provide a written statement of the business purpose of an expense. However, the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then you 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.

What If I Have Incomplete Records?

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

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

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

If the element is either the business relationship of your guests or the business purpose of

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

If you have expenses for . . .	**THEN you must keep records that show details of the following elements . . .**			
	Amount	**Time**	**Place or Description**	**Business Purpose Business Relationship**
Travel	Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, fees and tips, etc.	Dates you left and returned for each trip and number of days spent on business.	Destination or area of your travel (name of city, town, or other designation).	Purpose: Business purpose for the expense or the business benefit gained or expected to be gained. Relationship: N/A
Entertainment	Cost of each separate expense. Incidental expenses such as taxis, telephones, etc., may be totaled on a daily basis.	Date of entertainment. (Also see *Business Purpose*.)	Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see *Business Purpose*.)	Purpose: 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. Relationship: 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.
Gifts	Cost of the gift.	Date of the gift.	Description of the gift.	
Transportation	Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year.	Date of the expense. For car expenses, the date of the use of the car.	Your business destination.	Purpose: Business purpose for the expense. Relationship: N/A

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

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

Example. You use your car to visit the offices of clients, meet with suppliers and other subcontractors, and pick up and deliver items to clients. There is no other business use of the car, but you and your family use the car for personal purposes. You keep adequate records during the first week of each month that show that 75% of the use of the car is for business. Invoices and bills show that your business use continues at the same rate during the later weeks of each month. Your weekly records are representative of the use of the car each month and are sufficient evidence to support the percentage of business use for the year.

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

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

Destroyed records. If you 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.

Separating and Combining Expenses

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

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

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 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.

- You claim deductions for expenses that are more than reimbursements.
- Your expenses are reimbursed under a nonaccountable plan.
- Your employer does not use adequate accounting procedures to verify expense accounts.
- You are related to your employer as defined under *Per Diem and Car Allowances*, in chapter 6.

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

Examples of Records

Examples of records that show the information you need to keep for different types of expenses are included in this publication as Table 6-2 and Table 6-3. 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, Armed Forces reservists, 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:

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

If you file Schedule C-EZ, report the total of all business expenses on line 2. You can only include 50% of your meals and entertainment in that total. If you include car expenses, you must also complete Part III of the form.

If you file Schedule F:

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

- You are an employee deducting expenses attributable to your job.
- You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 are not considered reimbursements).
- 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 (or the reimbursements were all included in box 1 of your Form W-2), the only business expense you are claiming is for gifts, and the *Special Rules* discussed later do not apply to you, do not complete Form 2106 or 2106-EZ. Instead, claim the amount of your deductible gifts directly on line 21 of Schedule A (Form 1040).

Statutory employees. If you received a Form W-2 and the "Statutory employee" box in box 13 was checked, report your income and expenses related to that income on Schedule C 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.

CAUTION *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 nondeductible personal expenses, such as for vacation trips, your employer must report the reimbursement as wage income in box 1 of your Form W-2. You 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 Schedule A (Form 1040), line 23.

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 2009 Form W-2, the amount of the value will be included in box 1, Wages, tips, other compensation, and box 12.

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 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 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.

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

Employee meets accountable plan rules. If you meet the three rules for accountable plans, your employer 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.

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

Accountable plan rules not met. Even though you are reimbursed under an accountable plan, some of your expenses may not meet all the rules. Those expenses that fail to meet all the 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.

TIP *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 rules for an accountable plan is that you must adequately account to your employer for your expenses. You adequately account by giving your employer a statement of expense, an account book, a diary, or a similar record in which you entered each expense at or near the time you had it, along with documentary evidence (such as receipts) of your travel, mileage, and other employee business expenses. (See Table 5-1 in chapter 5 for details you need to enter in your record and documents you need to prove certain expenses.) A per diem or car allowance satisfies the adequate accounting requirement under certain conditions. See *Per diem and Car Allowances*, later.

You must account for all amounts you received from your employer during the year as advances, reimbursements, or allowances. This includes amounts you charged to your employer by credit card or other method. You must give your employer the same type of records and supporting information that you would have to give to the IRS if the IRS questioned a deduction on your return. You must pay back the amount of any reimbursement or other expense allowance for which you 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 of the following conditions apply.

- Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
- The allowance is similar in form to and not more than the federal rate (defined later).
- You prove the time (dates), place, and business purpose of your expenses to your employer (as explained in Table 5-1) within a reasonable period of time.
- You are not related to your employer (as defined next). If you are related to your employer, you must be able to prove your expenses to the IRS even if you have already adequately accounted to your employer and returned any excess reimbursement.

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

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

1. Your employer is your brother or sister, half brother or half sister, spouse, ancestor, or lineal descendant,
2. Your employer is a corporation in which you own, directly or indirectly, more than 10% in value of the outstanding stock, or
3. Certain relationships (such as grantor, fiduciary, or beneficiary) exist between you, a trust, and your employer.

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

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).

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

Table 6-1. **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: *
An accountable plan with:		
Actual expense reimbursement: Adequate accounting made and excess returned.	No amount.	No amount.
Actual expense reimbursement: Adequate accounting and return of excess both required but excess not returned.	The excess amount as wages in box 1.	No amount.
Per diem or mileage allowance up to the federal rate: Adequate accounting made and excess returned.	No amount.	All expenses and reimbursements only if excess expenses are claimed. Otherwise, form is not filed.
Per diem or mileage allowance up to the federal rate: Adequate accounting and return of excess both required but excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.	No amount.
Per diem or mileage allowance exceeds the federal rate: Adequate accounting up to the federal rate only and excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.	All expenses (and reimbursements reported on Form W-2, box 12) only if expenses in excess of the federal rate are claimed. Otherwise, form is not filed.
A nonaccountable plan with:		
Either adequate accounting or return of excess, or both, not required by plan.	The entire amount as wages in box 1.	All expenses.
No reimbursement plan:	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*.

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. Publication 1542 is available on the Internet at *www.irs.gov*.)

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 $39 a day for the period January 1 through September 30, 2009, and $46 a day for the period October 1 through December 31, 2009. Most major cities and many other localities qualify for higher rates. The rates for localities within the continental United States are listed in Publication 1542. You can also find this information on the Internet at *www.gsa.gov*.

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

- Provides you with lodging (furnishes it in kind).
- Reimburses you, based on your receipts, for the actual cost of your lodging.
- Pays the hotel, motel, etc., directly for your lodging.
- 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.
- Figures 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 January through September of 2009 is $256 (including $58 for M&IE) for certain high-cost locations. All other areas have a per diem amount of $158 (including $45 for M&IE). (Employers can get Publication 1542 on the Internet, which gives the areas eligible for the $256 per diem amount under the high-low method for all or part of this period.)

CAUTION *Effective October 1, 2009, the per diem rate for certain high-cost locations increased to $258 (including $65 for M&IE). The rate for all other locations increased to $163 (including $52 for M&IE). However, an employer can continue to use the rates described in the preceding paragraph for the remainder of 2009 if those rates and locations are used consistently during October, November, and December for all employees. Employers who did not use the high-low method during the first 9 months of 2009 cannot begin to use it before 2010. For more information, see Revenue Procedure 2009-47, which can be found on the Internet at www.irs.gov/irb/2009-42_IRB/ar09.html. Also see Publication 1542 (available on the Internet at www.irs.gov).*

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 3/4 of the standard meal allowance amount for that day.
   b. For the day you return, add 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 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 2009, the standard mileage rate for the cost of operating your car for business use is 55 cents per mile.

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 facts affect your reporting.

- The federal rate.

- 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 $198 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 $198 a day ($396 total) for living expenses. Jeremy's living expenses in Denver are not more than $198 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 $256 a day ($512 total) for his lodging, meals, and incidental expenses. Matt's actual expenses totaled $700.

Since Matt's $700 of expenses are more than his $512 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 in 2009 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 40 cents a mile.

Since Nicole's $5,500 expense computed under the standard mileage rate (10,000 × 55 cents) is more than her $4,000 reimbursement (10,000 miles × 40 cents), she itemizes her deductions to claim the excess expense. Nicole completes Form 2106 (showing all of her expenses and reimbursements) and enters $1,500 ($5,500 – $4,000) 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 12 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 12 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. In July her employer sent her to Albuquerque for 4 days on business. Laura's employer paid the hotel directly for her lodging and reimbursed Laura $65 a day ($260 total) for meals and incidental expenses. Laura's actual meal expenses were not more than the federal rate for Albuquerque, which is $49 per day.

Her employer included the $64 that was more than the federal rate (($65 – $49) × 4) in box 1 of Laura's Form W-2. Her employer shows $196 ($49 a day × 4) in box 12 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 $64 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 4 days and paid the hotel directly for Joe's hotel bill. The employer reimbursed Joe $75 a day for his meals and incidental expenses. The federal rate for San Diego is $64 a day.

Joe can prove that his actual meal expenses totaled $380. His employer's accountable plan will not pay more than $75 a day for travel to San Diego, so Joe does not give his employer the records that prove that he actually spent $380. 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 $300 ($75 × 4 days), which is $44 more than the federal rate of $256 ($64 × 4 days). The employer includes the $44 as income on Joe's Form W-2 in box 1. The employer also enters $256 in box 12 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 ($380) on Form 2106. He also enters the reimbursements that were not included in his income ($256). His total deductible expense, before the 50% limit, is $124. After he figures the 50% limit on his unreimbursed meals and entertainment, he will include the balance, $62, as an itemized deduction.

Example 3. Debbie drives 10,000 miles for business in 2009. Under her employer's accountable plan, she gets reimbursed 60 cents a mile, which is more than the standard mileage rate. Her total reimbursement is $6,000.

Debbie's employer must include the reimbursement amount up to the standard mileage rate, $5,500 (10,000 × 55 cents), in box 12 of her Form W-2. That amount is not taxable. Her employer must also include $500 ($6,000 – $5,500) 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 12 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 5-1), 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 in March 2009 and gives you a $400 ($80 × 5 days) advance to cover your meals and incidental expenses. The federal per diem for meals and incidental expenses for Phoenix is $59. Your trip lasts only 3 days. Under your employer's accountable plan, you must return the $160 ($80 × 2 days) advance for the 2 days you did not travel. For the 3

days you did travel you do not have to return the $63 difference between the allowance you received and the federal rate for Phoenix (($80 – $59) × 3 days). However, the $63 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:

- Excess reimbursements you fail to return to your employer, and
- 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 $1,000 a month ($12,000 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 $12,000 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:

- You reimburse the contractor for entertainment expenses incurred on your behalf, and
- 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 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 6-1 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 all of the following conditions.

- You are an employee deducting ordinary and necessary expenses attributable to your job.
- You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming car expenses, you are using 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 on Form 2106, Part II, and then claimed on Form 2106, Part I, line 1, Column A. Car expenses using the standard mileage rate can also be figured on Form 2106-EZ by completing Part II and Part I, line 1.

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.

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

Employees must complete Form 2106, Part II, Section A, or Form 2106-EZ, Part II, 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 Form 2106, Part II, Section B. The amount on line 22 (Section B) is carried to Form 2106, Part I, line 1. In addition, on Part 1, line 2, you can deduct parking fees and tolls that apply to the business use of the car. If you file Form 2106-EZ, complete Part I, line 1, 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 car expenses, you cannot use Form 2106-EZ. You must complete Form 2106, Part II, Section C. In addition, unless you lease your car, you must complete Section D to show your depreciation deduction and any section 179 deduction and special depreciation allowance you 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 Form 2106, line 24a, 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 Form 2106, Part II, line 24b.
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 Form 2106, Part II, line 27, to reflect the percentage of business use for the tax year.

Transportation expenses. Show your transportation expenses that did not involve overnight travel on Form 2106, line 2, Column A, or on Form 2106-EZ, Part I, line 2. 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 Form 2106, Column A, lines 3 and 4, or Form 2106-EZ, lines 3 and 4. Do not include expenses for meals and entertainment on those lines. Line 4 is for expenses such as 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 Schedule A (Form 1040), line 21. List the type and amount of each expense on the dotted lines and include the total on line 21.*

Meal and entertainment expenses. Show the full amount of your expenses for business-related meals and entertainment on Form 2106, line 5, Column B. 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.

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 80% instead of 50% for meals while away from your tax home.

Reimbursements. Enter on Form 2106, line 7 (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 12 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:

- Pays you a single amount that covers meals and/or entertainment, as well as other business expenses, and
- 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 Form 2106, Column A and Column B of line 7.

Example. Rob's employer paid him an expense allowance of $12,000 this year under an accountable plan. The $12,000 payment consisted of $5,000 for airfare and $7,000 for meals, entertainment, and car expenses. The employer did not clearly show how much of the $7,000 was for the cost of deductible meals and entertainment. Rob actually spent $14,000 during the year ($5,500 for airfare, $4,500 for meals and entertainment, and $4,000 for car expenses).

Since the airfare allowance was clearly identified, Rob knows that $5,000 of the payment goes in Column A, line 7, of Form 2106. To allocate the remaining $7,000, Rob uses the worksheet from the instructions for Form 2106. His completed worksheet follows.

Reimbursement Allocation Worksheet
(Keep for your records)

1. Enter the total amount of reimbursements your employer gave you that were not reported to you in box 1 of Form W-2 . . .	$7,000
2. Enter the total amount of your expenses for the periods covered by this reimbursement	8,500
3. Of the amount on line 2, enter your total expense for meals and entertainment	4,500
4. Divide line 3 by line 2. Enter the result as a decimal (rounded to at least three places)	.529
5. Multiply line 1 by line 4. Enter the result here and in Column B, line 7	3,703
6. Subtract line 5 from line 1. Enter the result here and in Column A, line 7	$3,297

On line 7 of Form 2106, Rob enters $8,297 ($5,000 airfare and $3,297 of the $7,000) in Column A and $3,703 (of the $7,000) 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 21 of Schedule A (Form 1040). However, if you are a government official paid on a fee basis, a performing artist, an Armed Forces reservist, 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 21 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 26 of Schedule A (Form 1040).

3. Limit on total itemized deductions. If your adjusted gross income (line 38 of Form 1040) is more than $166,800 ($83,400 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 Armed Forces reservists, government officials who are paid on a fee basis, performing artists, and disabled employees with impairment-related work expenses.

Armed Forces Reservists Traveling More Than 100 Miles From Home

If you are a member of a reserve component of the Armed Forces of the United States and you travel more than 100 miles away from home in connection with your performance of services as a member of the reserves, you can deduct your travel expenses as an adjustment to gross income rather than as a miscellaneous itemized

deduction. The amount of expenses you can deduct as an adjustment to gross income is limited to the regular federal per diem rate (for lodging, meals, and incidental expenses) and the standard mileage rate (for car expenses) plus any parking fees, ferry fees, and tolls. See *Per Diem and Car Allowances* earlier for more information. Any expenses in excess of these amounts can be claimed only as a miscellaneous itemized deduction subject to the 2% limit.

Member of a reserve component. You are a member of a reserve component of the Armed Forces of the United States if you are in the Army, Navy, Marine Corps, Air Force, or Coast Guard Reserve; the Army National Guard of the United States; the Air National Guard of the United States; or the Reserve Corps of the Public Health Service.

How to report. If you have reserve-related travel that takes you more than 100 miles from home, you should first complete Form 2106 or Form 2106-EZ. Then include your expenses for reserve travel over 100 miles from home, up to the federal rate, from Form 2106, line 10, or Form 2106-EZ, line 6, in the total on Form 1040, line 24. Subtract this amount from the total on Form 2106, line 10, or Form 2106-EZ, line 6, and deduct the balance as an itemized deduction on Schedule A (Form 1040), line 21.

You cannot deduct expenses of travel that does not take you more than 100 miles from home as an adjustment to gross income. Instead, you must complete Form 2106 or 2106-EZ and deduct those expenses as an itemized deduction on Schedule A (Form 1040), line 21.

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 Form 2106, line 10, or Form 2106-EZ, line 6, in the total on Form 1040, line 24.

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 as an employee 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 Form 2106, line 10, or Form 2106-EZ, line 6, in the total on Form 1040, line 24.

If you do not meet all of the above 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 Schedule A (Form 1040), line 21.

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 Form 2106, line 10, or Form 2106-EZ, line 6, on Schedule A (Form 1040), line 28, and identify the type and amount of this expense on the dotted line next to line 28. Enter your employee business expenses that are unrelated to your disability from Form 2106, line 10, or Form 2106-EZ, line 6, on Schedule A (Form 1040), line 21.

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 1. 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.

Example 2. You are deaf. You must use a sign-language interpreter during meetings while you are at work. The interpreter's services are used only for your work. You can deduct your expenses for the interpreter 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 new car for $24,500 (not including sales tax) on January 5, 2009. In 2009, he used the car 70% for business purposes. A sample page from David's logbook is illustrated in Table 6-2. 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 but he does claim the special depreciation allowance. He uses the MACRS double declining balance method (200% DB) to determine his depreciation deduction.

David first figures his special depreciation allowance to be $8,575 ($24,500 x 70% x 50%). David's depreciation limit for 2009 is reduced because his business use is less than 100%. He figures his reduced limit to be $7,672 (2009 depreciation limit ($10,960 (from the *Maximum Depreciation Deduction for Cars* table shown in chapter 4) × 70%). David notes that his special allowance ($8,575) exceeds his depreciation limit ($7,672) for 2009. He then figures his unadjusted basis to be $9,478 ($24,500 × 70% – $7,672). David figures his MACRS depreciation deduction to be $1,896 ($9,478 (unadjusted basis) x 20%). David figures his total depreciation deduction to be $9,568 ($7,672 (special allowance) + $1,896 (MACRS depreciation)). However, David's depreciation deduction is limited to $7,672. He enters the appropriate amounts in Part II, Section D.

His other car expenses included $4,970 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 ($3,479) to the depreciation deduction ($7,672) and reports the total ($11,151) on Part I, line 1.

His other transportation expenses for parking fees, tolls, and taxis were $1,320. He enters this amount on Part I, line 2. David's employer reimbursed him a total of $5,400 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 Part I, Column A, line 7. Since David had no meal or entertainment expenses, he enters his excess deductible expenses ($6,720) on Part I, line 10. He can deduct these expenses (subject to the 2%-of-adjusted-gross-income limit) on Schedule A (Form 1040), line 21, if he itemizes his deductions.

Table 6-2. **Daily Business Mileage and Expense Log** **Name:** *David Pine*

Date	Destination (City, Town, or Area)	Business Purpose	Odometer Readings Start	Odometer Readings Stop	Miles this trip	Expenses Type (Gas, oil, tolls, etc.)	Expenses Amount
5/31/09							
6/1/09	*Local (St. Louis)*	*Sales calls*	*8,097*	*8,188*	*91*	*Gas*	*$ 25.50*
6/2/09	*Indianapolis*	*Sales calls*	*8,211*	*8,486*	*275*	*Parking*	*6.50*
6/3/09	*Louisville*	*See Bob Smith (Pot. Client)*	*8,486*	*8,599*	*113*	*Gas/Repair flat tire*	*30.00 105.00*
6/4/09	*Return to St. Louis*		*8,599*	*8,875*	*276*	*Gas*	*27.50*
6/5/09	*Local (St. Louis)*	*Sales calls*	*8,914*	*9,005*	*91*		
6/6/09							
	Weekly Total		*8,097*	*9,005*	*846*		*$ 194.50*
Total Year-to-Date					*6,236*		*$1,935.00*

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ **See separate instructions.**

▶ **Attach to Form 1040 or Form 1040NR.**

OMB No. 1545-0074

2009

Attachment Sequence No. **129**

Your name	Occupation in which you incurred expenses	**Social security number**
David Pine	Sales	559-00-9559

Part I **Employee Business Expenses and Reimbursements**

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	11,151	
2 Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2	1,320	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3		
4 Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		
5 Meals and entertainment expenses (see instructions)	5		
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	12,471	

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 **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7	5,400	

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

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 (or on Form 1040NR, line 8)	8	7,071	
Note: If ***both columns*** *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 incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	9	7,071	
10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 21** (or on **Schedule A (Form 1040NR), line 9**). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶	10	7,071	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2009)

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
11	Enter the date the vehicle was placed in service	11	1 / 5 / 09	/ /
12	Total miles the vehicle was driven during 2009	12	20,000 miles	miles
13	Business miles included on line 12	13	14,000 miles	miles
14	Percent of business use. Divide line 13 by line 12	14	70 %	%
15	Average daily roundtrip commuting distance	15	10 miles	miles
16	Commuting miles included on line 12	16	2,400 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17	3,600 miles	miles
18	Was your vehicle available for personal use during off-duty hours?		☑ Yes ☐ No	
19	Do you (or your spouse) have another vehicle available for personal use?		☐ Yes ☑ No	
20	Do you have evidence to support your deduction?		☑ Yes ☐ No	
21	If "Yes," is the evidence written?		☑ Yes ☐ No	

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

22	Multiply line 13 by 55¢ (.55). Enter the result here and on line 1	22	

Section C—Actual Expenses

			(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.	23	4,970	
24a	Vehicle rentals	24a		
b	Inclusion amount (see instructions)	24b		
c	Subtract line 24b from line 24a	24c		
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25		
26	Add lines 23, 24c, and 25	26	4,970	
27	Multiply line 26 by the percentage on line 14	27	3,479	
28	Depreciation (see instructions)	28	7,672	
29	Add lines 27 and 28. Enter total here and on line 1	29	11,151	

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
30	Enter cost or other basis (see instructions)	30	24,500	
31	Enter section 179 deduction and special allowance (see instructions)	31	7,672	
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	32	9,478	
33	Enter depreciation method and percentage (see instructions)	33	200 DB 20%	
34	Multiply line 32 by the percentage on line 33 (see instructions)	34	1,896	
35	Add lines 31 and 34	35	9,568	
36	Enter the applicable limit explained in the line 36 instructions	36	10,960	
37	Multiply line 36 by the percentage on line 14	37	7,672	
38	Enter the **smaller** of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	38	7,672	

Example 2. Bill Wilson is an employee of Fashion Clothing Co. in Manhattan, NY. In a typical travel 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, 2006. 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 6-3. He obtains receipts for 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 Form 2106-EZ, Part II, he answers all the questions and figures his car expense to be $11,000 (20,000 × 55 cents per mile).

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

Type of Expense	Amount
Parking fees and tolls	$ 520
Car expenses	11,000
Meals	3,861
Lodging, laundry, dry cleaning	18,318
Entertainment	3,250
Gifts, education, etc.	650
Total	**$37,599**

Bill received an allowance of $33,000 ($2,750 per month) to help offset his expenses. Bill did not have to account to his employer for the reimbursement and the $33,000 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.

THIS IS NOT AN OFFICIAL INTERNAL REVENUE FORM

Table 6-3. **Weekly Traveling Expense and Entertainment Record**

From: *August 2, 2009* **To:** *August 8, 2009* **Name:** *Bill Wilson*

Expenses	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
1. Travel Expenses: Airlines								
Excess Baggage								
Bus – Train								
Cab and Limousine								
Tips								
Porter								
2. Meals and Lodging: Breakfast			8 75	8 00	8 25	9 00		34 00
Lunch		9 75	10 00	10 25	10 25	10 50		50 75
Dinner		22 00	20 25	21 50				63 75
Hotel and Motel (Detail in Schedule B)		111 00	111 00	111 00	97 00			430 00
3. Entertainment (Detail in Schedule C)					130 00			130 00
4. Other Expenses: Postage								
Telephone & Telegraph		5 50				4 00		9 50
Stationery & Printing								
Stenographer								
Sample Room			75 00	75 00				150 00
Advertising								
Assistant(s) & Model(s)			150 00	150 00				300 00
Trade Shows								
5. Car Expenses: (List all car expenses - the division between business and personal expenses may be made at the end of the year.) (Detail mileage in Schedule A.)								
Gas, oil, lube, wash								
Repairs, parts								
Tires, supplies								
Parking fees, tolls		8 00			6 00	6 00		20 00
6. Other (Identify)								
Total		156 25	375 00	375 75	251 50	29 50		1,158 50

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

Schedule A – Car

Mileage: End		57,600	57,620	57,650	57,660	57,840	
Start		57,445	57,600	57,620	57,650	57,660	
Total		155	20	30	10	180	395
Business Mileage		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, 2009	*Bar*	*John's Steak House*	55 00	*Discuss purchases*	*Smith-Attire Co.*
	Dinner	*Troy*	75 00		

WEEKLY REIMBURSEMENTS:
Travel and transportation expenses . . . . N/A
Other reimbursements . . . . . _____
TOTAL . . . . . _____

Form **2106-EZ**

Department of the Treasury
Internal Revenue Service (99)

Unreimbursed Employee Business Expenses

▶ **Attach to Form 1040 or Form 1040NR.**

OMB No. 1545-0074

2009

Attachment Sequence No. **129A**

Your name	Occupation in which you incurred expenses	**Social security number**
Bill Wilson	Sales	555-00-5555

You Can Use This Form Only if All of the Following Apply.

- You are an employee deducting ordinary and necessary expenses attributable to your job. 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 required to be considered necessary.
- 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 for this purpose).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2009.

Caution: *You can use the standard mileage rate for 2009* ***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 55¢ (.55)	1	11,000
2	Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2	520
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3	18,318
4	Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4	650
5	Meals and entertainment expenses: $ 7,111 × 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	5	3,556
6	**Total expenses.** Add lines 1 through 5. Enter here and on **Schedule A (Form 1040), line 21** (or on **Schedule A (Form 1040NR), line 9**). (Armed Forces reservists, 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.)	6	34,044

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) ▶ 1/3/2006

8 Of the total number of miles you drove your vehicle during 2009, enter the number of miles you used your vehicle for:

a Business 20,000 b Commuting (see instructions) 2,600 c Other 2,400

9 Was your vehicle available for personal use during off-duty hours? ☑ **Yes** ☐ **No**

10 Do you (or your spouse) have another vehicle available for personal use? ☑ **Yes** ☐ **No**

11a Do you have evidence to support your deduction? ☑ **Yes** ☐ **No**

b If "Yes," is the evidence written? ☑ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see page 4. Cat. No. 20604Q Form **2106-EZ** (2009)

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- TAS is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low Income Taxpayer Clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest Vita or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.

Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2009 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, Regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service.*
- *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.
- *Refund information.* To check the status of your 2009 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up

certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
  – The first release will ship the beginning of January 2010.
  – The final release will ship the beginning of March 2010.

Purchase the DVD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for $30 (plus a $6 handling fee).

Appendices

There are fifteen appendices.

Appendices A-1 through A-6 show the lease inclusion amounts that you may need to report if you leased a car (other than a truck or van, or an electric car) for 30 days or more. The tables are numbered.

Appendices B-1 through B-6 show the lease inclusion amounts that you may need to report if you leased a truck or van.

Appendices C-1 through C-3 show the lease inclusion amounts that you may need to report if you leased an electric car before 2007.

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 First Leased in 2000 through 2004**

Fair Market Value		Tax Year of Lease[1]				
		For Lease Term Beginning in 2000	For Lease Term Beginning in 2001	For Lease Term Beginning in 2002	For Lease Term Beginning in 2003	For Lease Term Beginning in 2004
Over	Not Over	5th and Later	5th and Later	5th and Later	5th and Later	5th and Later
$ 15,500	$ 15,800	$ 12	$ 11	$ 6	$ 0	$ 0
15,800	16,100	23	22	13	0	0
16,100	16,400	34	33	19	0	0
16,400	16,700	45	44	26	0	0
16,700	17,000	57	56	31	0	0
17,000	17,500	72	70	40	0	0
17,500	18,000	91	89	50	0	48
18,000	18,500	109	107	61	45	56
18,500	19,000	128	125	72	53	65
19,000	19,500	147	143	82	61	73
19,500	20,000	166	162	93	69	81
20,000	20,500	185	181	103	77	89
20,500	21,000	204	199	114	85	97
21,000	21,500	222	217	123	92	106
21,500	22,000	241	236	134	100	114
22,000	23,000	269	263	150	111	126
23,000	24,000	306	300	171	127	142
24,000	25,000	345	337	192	143	159
25,000	26,000	381	373	213	158	176
26,000	27,000	419	410	234	174	192
27,000	28,000	457	447	255	189	209
28,000	29,000	494	484	276	204	225
29,000	30,000	532	520	296	221	242
30,000	31,000	570	557	318	236	257
31,000	32,000	607	594	338	251	274
32,000	33,000	645	631	360	267	291
33,000	34,000	683	667	381	283	307
34,000	35,000	720	705	402	298	323
35,000	36,000	757	741	422	314	340
36,000	37,000	795	778	443	330	357
37,000	38,000	833	815	464	346	373
38,000	39,000	870	851	485	361	389
39,000	40,000	908	888	506	376	405
40,000	41,000	946	925	527	391	423
41,000	42,000	983	962	549	407	438
42,000	43,000	1,021	998	570	423	455
43,000	44,000	1,058	1,036	590	438	471
44,000	45,000	1,095	1,072	611	454	488
45,000	46,000	1,133	1,108	632	470	504
46,000	47,000	1,171	1,145	653	486	520
47,000	48,000	1,208	1,183	674	501	538
48,000	49,000	1,246	1,219	695	516	554
49,000	50,000	1,284	1,256	717	532	570
50,000	51,000	1,321	1,293	737	548	586
51,000	52,000	1,359	1,330	758	563	603
52,000	53,000	1,396	1,366	779	578	619
53,000	54,000	1,433	1,403	800	594	636
54,000	55,000	1,471	1,439	821	610	652
55,000	56,000	1,508	1,476	842	626	669
56,000	57,000	1,546	1,514	863	641	685
57,000	58,000	1,584	1,550	883	656	701
58,000	59,000	1,621	1,586	905	672	718
59,000	60,000	1,659	1,624	925	688	734
60,000	62,000	1,715	1,678	957	711	759
62,000	64,000	1,790	1,752	999	743	792
64,000	66,000	1,865	1,825	1,041	773	825
66,000	68,000	1,941	1,900	1,083	805	857
68,000	70,000	2,016	1,972	1,125	835	890
70,000	72,000	2,092	2,047	1,166	867	923
72,000	74,000	2,166	2,120	1,208	898	956
74,000	76,000[2]	2,241	2,193	1,250	930	990

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $76,000 or less than $15,501, see the document listed for the first year of the lease.
For 2000, Revenue Procedure 2000-18 (2000-9 IRB 722), available at *www.irs.gov/pub/irs-irbs/irb00-09.pdf*.
For 2001, Revenue Procedure 2001-19 (2001-9 IRB 732), available at *www.irs.gov/pub/irs-irbs/irb01-09.pdf*.
For 2002, Revenue Procedure 2002-14 (2002-5 IRB 450), available at *www.irs.gov/pub/irs-irbs/irb02-05.pdf*.
For 2003, Revenue Procedure 2003-75 (2003-45 IRB 1018), available at *www.irs.gov/irb/2003-45_IRB/ar14.html*.
For 2004, Revenue Procedure 2004-20 (2004-13 IRB 642), available at *www.irs.gov/irb/2004-13_IRB/ar09.html*.

Appendix A-2. **Inclusion Amounts for Cars (Other Than Trucks, Vans, or Electric Cars) First Leased in 2005**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 15,200	$ 15,500	$ 3	$ 6	$ 9	$ 11	$ 13
15,500	15,800	4	9	13	17	19
15,800	16,100	5	12	18	22	26
16,100	16,400	7	15	22	27	32
16,400	16,700	8	18	27	32	39
16,700	17,000	9	21	32	38	44
17,000	17,500	11	25	38	45	52
17,500	18,000	14	30	45	54	63
18,000	18,500	16	35	52	63	73
18,500	19,000	18	40	60	72	83
19,000	19,500	20	46	67	80	94
19,500	20,000	23	50	75	90	104
20,000	20,500	25	55	82	99	115
20,500	21,000	27	61	89	108	125
21,000	21,500	30	65	97	117	135
21,500	22,000	32	70	105	125	146
22,000	23,000	35	78	116	139	161
23,000	24,000	40	88	131	156	182
24,000	25,000	44	98	146	175	202
25,000	26,000	49	108	161	192	223
26,000	27,000	54	118	175	211	244
27,000	28,000	58	128	191	228	265
28,000	29,000	63	138	205	247	285
29,000	30,000	67	149	220	264	306
30,000	31,000	72	159	234	283	326
31,000	32,000	77	168	250	300	348
32,000	33,000	81	179	265	318	367
33,000	34,000	86	189	279	336	389
34,000	35,000	90	199	295	354	409
35,000	36,000	95	209	309	372	430
36,000	37,000	99	219	325	389	451
37,000	38,000	104	229	339	408	471
38,000	39,000	109	239	354	426	491
39,000	40,000	113	249	370	443	512
40,000	41,000	118	259	384	462	533
41,000	42,000	122	269	400	479	554
42,000	43,000	127	279	414	497	575
43,000	44,000	132	289	429	515	595
44,000	45,000	136	299	444	533	616
45,000	46,000	141	309	459	551	636
46,000	47,000	145	320	473	569	657
47,000	48,000	150	329	489	587	678
48,000	49,000	154	340	504	604	699
49,000	50,000	159	350	518	623	719
50,000	51,000	164	360	533	640	740
51,000	52,000	168	370	548	659	760
52,000	53,000	173	380	563	676	781
53,000	54,000	177	390	578	694	802
54,000	55,000	182	400	593	712	823
55,000	56,000	186	410	609	729	844
56,000	57,000	191	420	623	748	864
57,000	58,000	196	430	638	766	884
58,000	59,000	200	440	653	784	905
59,000	60,000	205	450	668	802	925
60,000	62,000	212	465	691	828	957
62,000	64,000	221	485	721	864	998
64,000	66,000	230	506	750	900	1,039
66,000	68,000	239	526	780	935	1,081
68,000	70,000	248	546	810	971	1,123
70,000	72,000	258	566	839	1,008	1,163
72,000	74,000	267	586	869	1,044	1,204
74,000	76,000	276	606	899	1,079	1,247
76,000	78,000	285	626	930	1,114	1,288
78,000	80,000	294	646	960	1,150	1,329
80,000	85,000	310	682	1,011	1,213	1,402
85,000	90,000	333	732	1,086	1,303	1,504
90,000	95,000	356	782	1,161	1,392	1,608
95,000	100,000[2]	379	832	1,236	1,481	1,712

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2005-13 (2005-12 IRB 759), available at *www.irs.gov/irb/2005-12_IRB/ar15.html*.

Appendix A-3. **Inclusion Amounts for Cars (Other Than Trucks, Vans, or Electric Cars) First Leased in 2006**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 15,200	$ 15,500	$ 4	$ 6	$ 10	$ 10	$ 10
15,500	15,800	6	10	16	18	18
15,800	16,100	8	15	22	25	28
16,100	16,400	9	19	29	33	36
16,400	16,700	11	24	35	40	45
16,700	17,000	13	28	42	48	53
17,000	17,500	16	34	50	58	66
17,500	18,000	19	41	61	71	80
18,000	18,500	23	48	71	84	95
18,500	19,000	26	55	82	96	110
19,000	19,500	29	62	93	109	125
19,500	20,000	32	70	103	122	139
20,000	20,500	36	76	114	135	154
20,500	21,000	39	84	124	148	168
21,000	21,500	42	91	135	160	184
21,500	22,000	45	98	146	173	198
22,000	23,000	50	109	162	192	220
23,000	24,000	57	123	183	218	250
24,000	25,000	63	138	204	243	279
25,000	26,000	70	152	225	269	309
26,000	27,000	76	166	247	294	339
27,000	28,000	83	181	268	319	368
28,000	29,000	90	195	289	345	397
29,000	30,000	96	209	311	371	426
30,000	31,000	103	223	332	397	455
31,000	32,000	109	238	353	422	485
32,000	33,000	116	252	374	448	515
33,000	34,000	122	267	395	473	545
34,000	35,000	129	281	417	498	574
35,000	36,000	135	295	439	523	604
36,000	37,000	142	309	460	549	633
37,000	38,000	148	324	481	575	662
38,000	39,000	155	338	502	601	691
39,000	40,000	161	353	523	626	721
40,000	41,000	168	367	545	651	750
41,000	42,000	175	381	566	677	780
42,000	43,000	181	396	587	702	810
43,000	44,000	188	410	608	728	839
44,000	45,000	194	424	630	753	869
45,000	46,000	201	438	651	779	898
46,000	47,000	207	453	672	805	927
47,000	48,000	214	467	694	830	956
48,000	49,000	220	482	715	855	986
49,000	50,000	227	496	736	881	1,016
50,000	51,000	233	510	758	906	1,045
51,000	52,000	240	525	778	932	1,075
52,000	53,000	246	539	800	958	1,104
53,000	54,000	253	553	821	984	1,133
54,000	55,000	259	568	842	1,009	1,163
55,000	56,000	266	582	864	1,034	1,192
56,000	57,000	273	596	885	1,060	1,221
57,000	58,000	279	611	906	1,085	1,251
58,000	59,000	286	625	927	1,111	1,281
59,000	60,000	292	639	949	1,136	1,311
60,000	62,000	302	661	981	1,174	1,354
62,000	64,000	315	690	1,023	1,225	1,413
64,000	66,000	328	718	1,066	1,276	1,473
66,000	68,000	341	747	1,108	1,328	1,531
68,000	70,000	354	776	1,151	1,378	1,590
70,000	72,000	367	804	1,194	1,429	1,649
72,000	74,000	380	833	1,236	1,481	1,707
74,000	76,000	393	862	1,278	1,532	1,767
76,000	78,000	407	890	1,321	1,583	1,825
78,000	80,000	420	919	1,363	1,634	1,884
80,000	85,000	443	969	1,438	1,723	1,987
85,000	90,000	475	1,041	1,544	1,851	2,135
90,000	95,000	508	1,112	1,651	1,978	2,282
95,000	100,000[2]	541	1,184	1,757	2,106	2,429

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2006-18 (2006-12 IRB 645), available at *www.irs.gov/irb/2006-12_IRB/ar11.html*.

Appendix A-4. **Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2007**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 15,000	$ 15,800	$ 2	$ 5	$ 11	$ 11	$ 13
15,800	16,100	4	10	17	19	22
16,100	16,400	6	14	24	28	31
16,400	16,700	9	18	31	35	41
16,700	17,000	11	23	37	43	50
17,000	17,500	13	29	46	54	62
17,500	18,000	17	37	56	68	77
18,000	18,500	20	44	68	81	93
18,500	19,000	24	51	80	94	108
19,000	19,500	27	59	90	108	124
19,500	20,000	30	67	101	121	139
20,000	20,500	34	74	113	134	154
20,500	21,000	37	82	123	148	170
21,000	21,500	41	89	135	161	185
21,500	22,000	44	97	146	174	201
22,000	23,000	49	108	163	194	224
23,000	24,000	56	123	185	221	255
24,000	25,000	63	138	207	248	285
25,000	26,000	70	153	229	275	316
26,000	27,000	77	168	251	302	347
27,000	28,000	83	183	274	328	378
28,000	29,000	90	198	296	355	409
29,000	30,000	97	213	318	382	439
30,000	31,000	104	228	341	408	470
31,000	32,000	111	243	363	435	501
32,000	33,000	118	258	385	461	532
33,000	34,000	125	273	407	488	563
34,000	35,000	131	288	430	515	593
35,000	36,000	138	303	452	542	624
36,000	37,000	145	318	474	568	656
37,000	38,000	152	333	496	595	686
38,000	39,000	159	348	519	621	717
39,000	40,000	166	363	541	648	748
40,000	41,000	172	378	564	674	779
41,000	42,000	179	393	586	701	810
42,000	43,000	186	408	608	728	840
43,000	44,000	193	423	630	755	871
44,000	45,000	200	438	652	782	902
45,000	46,000	207	453	674	809	933
46,000	47,000	213	468	697	835	964
47,000	48,000	220	483	719	862	995
48,000	49,000	227	498	742	888	1,025
49,000	50,000	234	513	764	915	1,056
50,000	51,000	241	528	786	942	1,087
51,000	52,000	278	543	808	969	1,117
52,000	53,000	254	558	831	995	1,148
53,000	54,000	261	573	853	1,022	1,179
54,000	55,000	268	588	875	1,049	1,210
55,000	56,000	275	603	897	1,076	1,241
56,000	57,000	282	618	920	1,102	1,271
57,000	58,000	289	633	942	1,128	1,303
58,000	59,000	296	648	964	1,155	1,334
59,000	60,000	302	663	987	1,182	1,364
60,000	62,000	313	685	1,020	1,222	1,411
62,000	64,000	326	716	1,064	1,276	1,472
64,000	66,000	340	746	1,108	1,329	1,534
66,000	68,000	354	775	1,154	1,382	1,595
68,000	70,000	367	806	1,198	1,435	1,657
70,000	72,000	381	836	1,242	1,489	1,719
72,000	74,000	395	865	1,287	1,543	1,780
74,000	76,000	408	896	1,331	1,596	1,842
76,000	78,000	422	926	1,376	1,649	1,903
78,000	80,000	436	955	1,421	1,703	1,965
80,000	85,000	460	1,008	1,498	1,796	2,074
85,000	90,000	494	1,083	1,610	1,929	2,228
90,000	95,000	528	1,158	1,721	2,063	2,382
95,000	100,000[2]	562	1,233	1,833	2,196	2,536

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2007-30 (2007-18 IRB 1104), available at *www.irs.gov/irb/2007-18_IRB/ar11.html*.

Appendix A-5. **Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2008**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 18,500	$ 19,000	$ 20	$ 42	$ 62	$ 73	$ 84
19,000	19,500	22	47	71	83	94
19,500	20,000	25	53	78	93	106
20,000	20,500	27	58	87	102	117
20,500	21,000	30	63	95	112	128
21,000	21,500	32	69	103	122	139
21,500	22,000	34	75	111	131	151
22,000	23,000	38	83	123	146	167
23,000	24,000	43	94	139	165	190
24,000	25,000	48	105	155	185	212
25,000	26,000	53	115	172	204	235
26,000	27,000	58	126	188	223	257
27,000	28,000	63	137	204	243	279
28,000	29,000	68	148	220	262	302
29,000	30,000	73	159	236	282	324
30,000	31,000	78	107	252	301	347
31,000	32,000	83	181	268	321	368
32,000	33,000	88	192	284	340	391
33,000	34,000	93	202	301	359	414
34,000	35,000	98	213	317	379	436
35,000	36,000	103	224	333	398	459
36,000	37,000	108	235	349	418	481
37,000	38,000	113	246	365	437	503
38,000	39,000	118	257	381	457	525
39,000	40,000	123	268	397	476	548
40,000	41,000	128	279	413	495	571
41,000	42,000	133	289	430	515	593
42,000	43,000	137	301	446	534	615
43,000	44,000	142	312	462	553	638
44,000	45,000	147	323	478	573	659
45,000	46,000	152	333	495	592	682
46,000	47,000	157	344	511	611	705
47,000	48,000	162	355	527	631	727
48,000	49,000	167	366	543	650	750
49,000	50,000	172	377	559	670	772
50,000	51,000	177	388	575	689	794
51,000	52,000	182	399	591	709	816
52,000	53,000	187	410	607	728	839
53,000	54,000	192	420	624	747	862
54,000	55,000	197	431	640	767	884
55,000	56,000	202	442	657	785	906
56,000	57,000	207	453	673	805	928
57,000	58,000	212	464	689	824	951
58,000	59,000	217	475	705	844	973
59,000	60,000	222	486	721	863	996
60,000	62,000	229	502	746	892	1,029
62,000	64,000	239	524	778	931	1,074
64,000	66,000	249	546	810	970	1,118
66,000	68,000	259	567	843	1,008	1,164
68,000	70,000	269	589	875	1,047	1,209
70,000	72,000	279	611	907	1,086	1,253
72,000	74,000	289	633	939	1,125	1,298
74,000	76,000	299	654	972	1,164	1,342
76,000	78,000	309	676	1,004	1,203	1,387
78,000	80,000	319	698	1,036	1,242	1,432
80,000	85,000	336	736	1,093	1,309	1,511
85,000	90,000	361	791	1,173	1,406	1,623
90,000	95,000	386	845	1,255	1,503	1,734
95,000	100,000[2]	410	900	1,335	1,600	1,846

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2008-22 (2008-12 IRB 658), available at *www.irs.gov/irb/2008-12_IRB/ar18.html*.

Appendix A-6. **Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2009**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 18,500	$ 19,000	$ 9	$ 19	$ 28	$ 34	$ 38
19,000	19,500	10	21	32	38	43
19,500	20,000	11	24	36	42	48
20,000	20,500	12	27	39	46	54
20,500	21,000	13	29	43	51	58
21,000	21,500	15	31	47	55	64
21,500	22,000	16	34	50	60	68
22,000	23,000	17	38	56	66	76
23,000	24,000	20	42	64	75	86
24,000	25,000	22	47	71	84	96
25,000	26,000	24	52	78	93	107
26,000	27,000	26	58	85	101	117
27,000	28,000	29	62	93	110	127
28,000	29,000	31	67	100	119	138
29,000	30,000	33	72	108	128	147
30,000	31,000	35	77	115	137	157
31,000	32,000	38	82	122	146	167
32,000	33,000	40	87	129	155	178
33,000	34,000	42	92	137	163	188
34,000	35,000	44	97	144	172	199
35,000	36,000	47	102	151	181	208
36,000	37,000	49	107	159	189	219
37,000	38,000	51	112	166	199	228
38,000	39,000	53	117	173	208	239
39,000	40,000	56	122	180	216	250
40,000	41,000	58	127	188	225	259
41,000	42,000	60	132	195	234	269
42,000	43,000	62	137	203	242	280
43,000	44,000	65	141	210	252	290
44,000	45,000	67	146	218	260	300
45,000	46,000	69	151	225	269	311
46,000	47,000	71	157	232	278	320
47,000	48,000	74	161	240	286	331
48,000	49,000	76	166	247	296	340
49,000	50,000	78	171	255	304	351
50,000	51,000	80	176	262	313	361
51,000	52,000	83	181	269	322	371
52,000	53,000	85	186	276	331	381
53,000	54,000	87	191	284	339	392
54,000	55,000	89	196	291	349	401
55,000	56,000	92	201	298	357	412
56,000	57,000	94	206	306	365	423
57,000	58,000	96	211	313	375	432
58,000	59,000	98	216	320	384	442
59,000	60,000	101	221	327	393	452
60,000	62,000	104	228	339	406	467
62,000	64,000	109	238	353	424	488
64,000	66,000	113	248	368	441	509
66,000	68,000	118	258	382	459	529
68,000	70,000	122	268	397	476	550
70,000	72,000	127	277	413	493	570
72,000	74,000	131	288	427	511	590
74,000	76,000	136	297	442	529	610
76,000	78,000	140	307	457	546	631
78,000	80,000	145	317	471	564	651
80,000	85,000	152	335	497	595	686
85,000	90,000	164	359	534	639	737
90,000	95,000	175	384	570	683	789
95,000	100,000[2]	186	409	607	727	839

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2009-24 (2009-17 IRB 885), available at *www.irs.gov/irb/2009-17_IRB/ar11.html*.

Appendix B-1. **Inclusion Amounts for Trucks and Vans First Leased in 2000 through 2004**

Fair Market Value		Tax Year of Lease[1]				
		For Lease Term Beginning in 2000	For Lease Term Beginning in 2001	For Lease Term Beginning in 2002	For Lease Term Beginning in 2003	For Lease Term Beginning in 2004
Over	Not Over	5th and Later	5th and Later	5th and Later	5th and Later	5th and Later
$ 15,500	$ 15,800	$ 12	$ 11	$ 6	$ 0	$ 0
15,800	16,100	23	22	13	0	0
16,100	16,400	34	33	19	0	0
16,400	16,700	45	44	26	0	0
16,700	17,000	57	56	31	0	0
17,000	17,500	72	70	40	0	0
17,500	18,000	91	89	50	0	0
18,000	18,500	109	107	61	0	30
18,500	19,000	128	125	72	29	38
19,000	19,500	147	143	82	36	47
19,500	20,000	166	162	93	44	55
20,000	20,500	185	181	103	52	63
20,500	21,000	204	199	114	60	72
21,000	21,500	222	217	123	67	80
21,500	22,000	241	236	134	75	88
22,000	23,000	269	263	150	86	100
23,000	24,000	306	300	171	102	117
24,000	25,000	345	337	192	118	133
25,000	26,000	381	373	213	133	149
26,000	27,000	419	410	234	149	166
27,000	28,000	457	447	255	165	183
28,000	29,000	494	484	276	180	198
29,000	30,000	532	520	296	196	215
30,000	31,000	570	557	318	212	231
31,000	32,000	607	594	338	227	248
32,000	33,000	645	631	360	242	264
33,000	34,000	683	667	381	258	281
34,000	35,000	720	705	402	273	298
35,000	36,000	757	741	422	289	314
36,000	37,000	795	778	443	305	330
37,000	38,000	833	815	464	320	346
38,000	39,000	870	851	485	336	364
39,000	40,000	908	888	506	352	379
40,000	41,000	946	925	527	367	396
41,000	42,000	983	962	549	383	412
42,000	43,000	1,021	998	570	398	429
43,000	44,000	1,058	1,036	590	414	445
44,000	45,000	1,095	1,072	611	429	462
45,000	46,000	1,133	1,108	632	445	479
46,000	47,000	1,171	1,145	653	460	495
47,000	48,000	1,208	1,183	674	476	511
48,000	49,000	1,246	1,219	695	492	527
49,000	50,000	1,284	1,256	717	507	544
50,000	51,000	1,321	1,293	737	523	560
51,000	52,000	1,359	1,330	758	538	577
52,000	53,000	1,396	1,366	779	554	593
53,000	54,000	1,433	1,403	800	570	610
54,000	55,000	1,471	1,439	821	585	626
55,000	56,000	1,508	1,476	842	601	643
56,000	57,000	1,546	1,514	863	617	659
57,000	58,000	1,584	1,550	883	632	675
58,000	59,000	1,621	1,586	905	647	691
59,000	60,000	1,659	1,624	925	663	708
60,000	62,000	1,715	1,678	957	687	733
62,000	64,000	1,790	1,752	999	717	766
64,000	66,000	1,865	1,825	1,041	749	798
66,000	68,000	1,941	1,900	1,083	780	832
68,000	70,000	2,016	1,972	1,125	811	864
70,000	72,000	2,092	2,047	1,166	842	897
72,000	74,000	2,166	2,120	1,208	873	931
74,000	76,000[2]	2,241	2,193	1,250	905	963

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $76,000 or less than $15,501, see the document listed for the first year of the lease.
For 2000, Revenue Procedure 2000-18 (2000-9 IRB 722), available at *www.irs.gov/pub/irs-irbs/irb00-09.pdf*.
For 2001, Revenue Procedure 2001-19 (2001-9 IRB 732), available at *www.irs.gov/pub/irs-irbs/irb01-09.pdf*.
For 2002, Revenue Procedure 2002-14 (2002-5 IRB 450), available at *www.irs.gov/pub/irs-irbs/irb02-05.pdf*.
For 2003, Revenue Procedure 2003-75 (2003-45 IRB 1018), available at *www.irs.gov/irb/2003-45_IRB/ar14.html*.
For 2004, Revenue Procedure 2004-20 (2004-13 IRB 642), available at *www.irs.gov/irb/2004-13_IRB/ar09.html*.

Appendix B-2. **Inclusion Amounts for Trucks and Vans First Leased in 2005**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 16,700	$ 17,000	$ 3	$ 6	$ 8	$ 10	$ 11
17,000	17,500	4	10	14	17	20
17,500	18,000	7	15	21	26	30
18,000	18,500	9	20	29	35	40
18,500	19,000	11	25	37	43	51
19,000	19,500	14	30	44	52	61
19,500	20,000	16	35	51	62	71
20,000	20,500	18	40	59	71	81
20,500	21,000	20	45	67	79	92
21,000	21,500	23	50	74	88	103
21,500	22,000	25	55	81	98	113
22,000	23,000	28	63	92	111	129
23,000	24,000	33	73	107	129	149
24,000	25,000	38	83	122	147	169
25,000	26,000	42	93	137	165	190
26,000	27,000	47	103	152	183	210
27,000	28,000	51	113	167	201	231
28,000	29,000	56	123	182	218	253
29,000	30,000	60	133	197	237	272
30,000	31,000	65	143	212	254	294
31,000	32,000	70	153	227	272	314
32,000	33,000	74	163	242	290	335
33,000	34,000	79	173	257	308	355
34,000	35,000	83	184	271	326	376
35,000	36,000	88	193	287	344	397
36,000	37,000	93	203	302	361	418
37,000	38,000	97	214	316	380	438
38,000	39,000	102	223	332	397	459
39,000	40,000	106	234	346	415	480
40,000	41,000	111	244	361	433	500
41,000	42,000	115	254	376	451	521
42,000	43,000	120	264	391	469	542
43,000	44,000	125	274	406	487	562
44,000	45,000	129	284	421	505	583
45,000	46,000	134	294	436	523	603
46,000	47,000	138	304	451	541	624
47,000	48,000	143	314	466	558	645
48,000	49,000	148	324	481	576	666
49,000	50,000	152	334	496	594	687
50,000	51,000	157	344	511	612	707
51,000	52,000	161	355	525	630	728
52,000	53,000	166	364	541	648	748
53,000	54,000	170	375	555	666	769
54,000	55,000	175	385	570	684	789
55,000	56,000	180	394	586	701	811
56,000	57,000	184	405	600	720	830
57,000	58,000	189	415	615	737	852
58,000	59,000	193	425	630	755	873
59,000	60,000	198	435	645	773	893
60,000	62,000	205	450	667	800	924
62,000	64,000	214	470	697	836	966
64,000	66,000	223	490	727	872	1,007
66,000	68,000	232	510	757	908	1,048
68,000	70,000	241	531	786	944	1,089
70,000	72,000	251	550	817	979	1,131
72,000	74,000	260	571	846	1,015	1,172
74,000	76,000	269	591	876	1,051	1,213
76,000	78,000	278	611	906	1,087	1,254
78,000	80,000	287	631	936	1,123	1,296
80,000	85,000	303	666	989	1,185	1,368
85,000	90,000	326	717	1,063	1,274	1,472
90,000	95,000	349	767	1,137	1,365	1,575
95,000	100,000[2]	372	817	1,212	1,454	1,678

[1] For the last year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2005-13 (2005-12 IRB 759), available at *www.irs.gov/irb/2005-12_IRB/ar15.html*.

Appendix B-3. **Inclusion Amounts for Trucks and Vans First Leased in 2006**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 16,700	$ 17,000	$ 4	$ 8	$ 12	$ 14	$ 16
17,000	17,500	6	14	20	24	29
17,500	18,000	9	21	31	37	43
18,000	18,500	13	28	42	49	58
18,500	19,000	16	36	52	62	72
19,000	19,500	19	43	63	75	87
19,500	20,000	23	50	73	88	102
20,000	20,500	26	57	84	101	116
20,500	21,000	29	64	95	113	131
21,000	21,500	32	72	105	126	146
21,500	22,000	36	78	116	139	161
22,000	23,000	41	89	132	158	183
23,000	24,000	47	104	153	183	213
24,000	25,000	54	118	174	209	242
25,000	26,000	60	132	196	235	271
26,000	27,000	67	146	217	261	300
27,000	28,000	73	161	238	286	330
28,000	29,000	80	175	260	311	359
29,000	30,000	86	190	281	336	389
30,000	31,000	93	204	302	362	418
31,000	32,000	99	219	323	388	447
32,000	33,000	106	233	344	413	478
33,000	34,000	112	247	366	439	506
34,000	35,000	119	261	387	465	536
35,000	36,000	125	276	408	490	566
36,000	37,000	132	290	430	515	595
37,000	38,000	139	304	451	541	624
38,000	39,000	145	319	472	566	654
39,000	40,000	152	333	493	592	684
40,000	41,000	158	347	515	618	712
41,000	42,000	165	362	536	642	743
42,000	43,000	171	376	557	669	772
43,000	44,000	178	390	579	694	801
44,000	45,000	184	405	600	719	831
45,000	46,000	191	419	621	745	860
46,000	47,000	197	434	642	770	890
47,000	48,000	204	448	663	796	919
48,000	49,000	210	462	685	822	948
49,000	50,000	217	476	707	847	977
50,000	51,000	224	490	728	872	1,008
51,000	52,000	230	505	749	898	1,037
52,000	53,000	237	519	770	924	1,066
53,000	54,000	243	534	791	949	1,096
54,000	55,000	250	548	813	974	1,125
55,000	56,000	256	563	833	1,000	1,155
56,000	57,000	263	577	855	1,025	1,184
57,000	58,000	269	591	877	1,051	1,213
58,000	59,000	276	605	898	1,077	1,243
59,000	60,000	282	620	919	1,102	1,272
60,000	62,000	292	641	951	1,141	1,316
62,000	64,000	305	670	994	1,191	1,375
64,000	66,000	318	699	1,036	1,242	1,435
66,000	68,000	331	728	1,078	1,293	1,494
68,000	70,000	344	756	1,121	1,345	1,552
70,000	72,000	358	784	1,164	1,395	1,612
72,000	74,000	371	813	1,206	1,447	1,670
74,000	76,000	384	842	1,249	1,497	1,729
76,000	78,000	397	871	1,291	1,548	1,788
78,000	80,000	410	899	1,334	1,600	1,846
80,000	85,000	433	949	1,409	1,688	1,950
85,000	90,000	465	1,021	1,515	1,816	2,098
90,000	95,000	498	1,093	1,621	1,944	2,244
95,000	100,000[2]	531	1,164	1,728	2,071	2,392

[1] For the last year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2006-18 (2006-12 IRB 645), available at *www.irs.gov/irb/2006-12_IRB/ar11.html*.

Appendix B-4. **Inclusion Amounts for Trucks and Vans First Leased in 2007**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 16,400	$ 16,700	$ 2	$ 4	$ 8	$ 10	$ 11
16,700	17,000	4	9	15	17	21
17,000	17,500	6	15	24	28	33
17,500	18,000	10	22	35	42	48
18,000	18,500	13	30	46	55	64
18,500	19,000	17	37	57	69	79
19,000	19,500	20	45	68	82	94
19,500	20,000	24	52	80	95	109
20,000	20,500	27	60	90	109	125
20,500	21,000	30	67	102	122	141
21,000	21,500	34	75	113	135	156
21,500	22,000	37	82	124	149	171
22,000	23,000	42	94	140	169	194
23,000	24,000	49	109	163	195	225
24,000	25,000	56	123	186	222	256
25,000	26,000	63	138	208	249	286
26,000	27,000	70	153	230	276	317
27,000	28,000	77	168	252	302	349
28,000	29,000	83	184	274	329	379
29,000	30,000	90	199	296	356	410
30,000	31,000	97	214	318	383	440
31,000	32,000	104	228	342	408	472
32,000	33,000	111	243	364	435	503
33,000	34,000	118	258	386	462	534
34,000	35,000	125	273	408	489	564
35,000	36,000	131	289	430	515	595
36,000	37,000	138	304	452	542	626
37,000	38,000	145	318	475	569	657
38,000	39,000	152	333	497	596	688
39,000	40,000	159	348	520	622	718
40,000	41,000	166	363	542	649	749
41,000	42,000	172	379	563	676	780
42,000	43,000	179	397	586	702	811
43,000	44,000	186	409	608	729	842
44,000	45,000	193	423	631	756	872
45,000	46,000	200	438	653	783	903
46,000	47,000	207	453	675	810	934
47,000	48,000	213	469	697	836	965
48,000	49,000	220	484	719	863	996
49,000	50,000	227	499	741	890	1,026
50,000	51,000	234	514	764	916	1,057
51,000	52,000	241	528	787	943	1,088
52,000	53,000	248	543	809	969	1,119
53,000	54,000	254	559	831	996	1,150
54,000	55,000	261	574	853	1,023	1,180
55,000	56,000	268	589	875	1,050	1,211
56,000	57,000	275	604	897	1,076	1,243
57,000	58,000	282	618	920	1,103	1,273
58,000	59,000	289	633	943	1,129	1,304
59,000	60,000	296	648	965	1,156	1,335
60,000	62,000	306	671	998	1,196	1,381
62,000	64,000	319	701	1,043	1,249	1,443
64,000	66,000	333	731	1,087	1,303	1,504
66,000	68,000	347	761	1,131	1,357	1,566
68,000	70,000	361	791	1,176	1,410	1,627
70,000	72,000	374	821	1,221	1,463	1,689
72,000	74,000	388	851	1,265	1,517	1,751
74,000	76,000	402	881	1,309	1,570	1,813
76,000	78,000	415	911	1,354	1,624	1,874
78,000	80,000	429	941	1,399	1,676	1,936
80,000	85,000	453	994	1,476	1,770	2,044
85,000	90,000	487	1,069	1,587	1,904	2,198
90,000	95,000	521	1,144	1,699	2,037	2,352
95,000	100,000[2]	555	1,219	1,810	2,171	2,506

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2007-30 (2007-18 IRB 1104), available at *www.irs.gov/irb/2007-18_IRB/ar11.html*.

Appendix B-5. **Inclusion Amounts for Trucks and Vans First Leased in 2008**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 19,000	$ 19,500	$ 17	$ 37	$ 54	$ 65	$ 73
19,500	20,000	20	42	63	73	85
20,000	20,500	22	48	70	84	96
20,500	21,000	25	53	79	93	107
21,000	21,500	27	59	86	103	118
21,500	22,000	30	64	95	112	130
22,000	23,000	33	72	107	128	146
23,000	24,000	38	83	123	147	168
24,000	25,000	43	94	139	166	191
25,000	26,000	48	105	155	186	213
26,000	27,000	53	116	171	205	236
27,000	28,000	58	127	187	225	258
28,000	29,000	63	138	204	243	280
29,000	30,000	68	148	221	263	302
30,000	31,000	73	159	237	282	325
31,000	32,000	78	170	253	301	348
32,000	33,000	83	181	269	321	370
33,000	34,000	88	192	285	340	393
34,000	35,000	93	203	301	360	414
35,000	36,000	98	214	317	379	437
36,000	37,000	103	225	333	399	459
37,000	38,000	108	235	350	418	482
38,000	39,000	113	246	366	437	505
39,000	40,000	118	257	382	457	526
40,000	41,000	123	268	398	476	549
41,000	42,000	128	279	414	496	571
42,000	43,000	133	290	430	515	594
43,000	44,000	137	301	447	534	616
44,000	45,000	142	312	463	553	639
45,000	46,000	147	323	479	573	661
46,000	47,000	152	334	495	592	684
47,000	48,000	157	345	511	612	705
48,000	49,000	162	356	527	631	728
49,000	50,000	167	366	544	651	750
50,000	51,000	172	377	560	670	773
51,000	52,000	177	388	576	689	796
52,000	53,000	182	399	592	709	817
53,000	54,000	187	410	608	728	840
54,000	55,000	192	421	624	748	862
55,000	56,000	197	432	640	767	885
56,000	57,000	202	443	656	787	907
57,000	58,000	207	453	673	806	929
58,000	59,000	212	464	689	825	952
59,000	60,000	217	475	705	845	974
60,000	62,000	224	492	729	874	1,008
62,000	64,000	234	513	762	913	1,052
64,000	66,000	244	535	794	951	1,098
66,000	68,000	254	557	826	990	1,142
68,000	70,000	264	579	858	1,029	1,187
70,000	72,000	274	600	892	1,067	1,232
72,000	74,000	284	622	924	1,106	1,276
74,000	76,000	294	644	956	1,145	1,321
76,000	78,000	304	666	988	1,184	1,366
78,000	80,000	314	687	1,021	1,222	1,411
80,000	85,000	331	726	1,077	1,290	1,489
85,000	90,000	356	780	1,158	1,387	1,601
90,000	95,000	381	835	1,238	1,484	1,713
95,000	100,000[2]	405	889	1,320	1,581	1,825

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2008-22 (2008-12 IRB 658), available at *www.irs.gov/irb/2008-12_IRB/ar18.html*.

Appendix B-6. **Inclusion Amounts for Trucks and Vans First Leased in 2009**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 18,500	$ 19,000	8	17	25	30	35
19,000	19,500	9	19	29	35	40
19,500	20,000	10	22	33	38	45
20,000	20,500	11	25	36	43	50
20,500	21,000	12	27	40	48	55
21,000	21,500	13	30	43	52	60
21,500	22,000	15	32	47	56	66
22,000	23,000	16	36	52	64	72
23,000	24,000	18	41	60	72	83
24,000	25,000	21	45	68	81	93
25,000	26,000	23	50	75	90	103
26,000	27,000	25	56	82	98	114
27,000	28,000	27	61	89	107	124
28,000	29,000	30	65	97	116	134
29,000	30,000	32	70	104	125	144
30,000	31,000	34	75	112	134	154
31,000	32,000	36	80	119	143	164
32,000	33,000	39	85	126	151	175
33,000	34,000	41	90	134	160	184
34,000	35,000	43	95	141	169	195
35,000	36,000	45	100	148	178	205
36,000	37,000	48	105	155	187	215
37,000	38,000	50	110	163	195	226
38,000	39,000	52	115	170	204	236
39,000	40,000	55	120	177	213	246
40,000	41,000	57	125	185	221	256
41,000	42,000	59	130	192	231	266
42,000	43,000	61	135	199	240	276
43,000	44,000	64	139	207	249	286
44,000	45,000	66	144	215	257	296
45,000	46,000	68	149	222	266	307
46,000	47,000	70	155	229	274	317
47,000	48,000	73	159	237	283	327
48,000	49,000	75	164	244	292	338
49,000	50,000	77	169	251	301	348
50,000	51,000	79	174	259	310	357
51,000	52,000	82	179	266	318	368
52,000	53,000	84	184	273	328	378
53,000	54,000	86	189	281	336	388
54,000	55,000	88	194	288	345	399
55,000	56,000	91	199	295	354	408
56,000	57,000	93	204	302	363	419
57,000	58,000	95	209	310	371	429
58,000	59,000	97	214	317	381	439
59,000	60,000	100	219	324	389	450
60,000	62,000	103	226	336	402	465
62,000	64,000	107	236	351	420	485
64,000	66,000	112	246	365	438	505
66,000	68,000	116	256	380	455	526
68,000	70,000	121	266	394	473	546
70,000	72,000	125	276	409	491	566
72,000	74,000	130	286	423	509	586
74,000	76,000	134	296	438	526	607
76,000	78,000	139	305	454	543	627
78,000	80,000	143	316	467	561	648
80,000	85,000	151	333	493	592	684
85,000	90,000	163	357	531	635	735
90,000	95,000	174	382	567	680	785
95,000	100,000[2]	185	407	604	724	836

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2009-24 (2009-17 IRB 885), available at *www.irs.gov/irb/2009-17_IRB/ar11.html*.

Appendix C-1. **Inclusion Amounts for Electric Cars First Leased in 2000 through 2004**

Fair Market Value		Tax Year of Lease[1]				
		For Lease Term Beginning in 2000	For Lease Term Beginning in 2001	For Lease Term Beginning in 2002	For Lease Term Beginning in 2003	For Lease Term Beginning in 2004
Over	Not Over	5th and Later	5th and Later	5th and Later	5th and Later	5th and Later
$ 46,000	$ 47,000	$ 0	$ 0	$ 12	$ 0	$ 0
47,000	48,000	36	46	33	0	0
48,000	49,000	66	83	54	0	0
49,000	50,000	95	119	74	0	0
50,000	51,000	124	157	96	0	0
51,000	52,000	153	193	117	0	0
52,000	53,000	183	230	138	0	0
53,000	54,000	211	266	159	124	147
54,000	55,000	240	304	180	140	164
55,000	56,000	270	340	201	156	180
56,000	57,000	299	377	222	171	197
57,000	58,000	328	414	242	187	213
58,000	59,000	357	451	264	203	229
59,000	60,000	387	487	284	218	245
60,000	62,000	430	543	316	241	270
62,000	64,000	489	616	358	273	303
64,000	66,000	547	690	400	304	336
66,000	68,000	606	763	442	334	369
68,000	70,000	664	837	484	366	402
70,000	72,000	723	910	525	397	435
72,000	74,000	781	984	567	428	468
74,000	76,000	838	1,057	609	460	500
76,000	78,000	897	1,131	652	491	534
78,000	80,000	955	1,204	693	521	566
80,000	85,000	1,058	1,332	767	576	624
85,000	90,000	1,204	1,517	871	655	706
90,000	95,000	1,350	1,701	976	732	788
95,000	100,000[2]	1,495	1,885	1,081	810	870

[1] For the last tax year of the lease, use the dollar amount for the preceding year.

[2] 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 2000, Revenue Procedure 2000-18 (2000-9 IRB 722), available at *www.irs.gov/pub/irs-irbs/irb00-09.pdf*.
For 2001, Revenue Procedure 2001-19 (2001-9 IRB 732), available at *www.irs.gov/pub/irs-irbs/irb01-09.pdf*.
For 2002, Revenue Procedure 2002-14 (2002-5 IRB 450), available at *www.irs.gov/pub/irs-irbs/irb02-05.pdf*.
For 2003, Revenue Procedure 2003-75 (2003-45 IRB 1018), available at *www.irs.gov/irb/2003-45_IRB/ar14.html*.
For 2004, Revenue Procedure 2004-20 (2004-13 IRB 642), available at *www.irs.gov/irb/2004-13_IRB/ar09.html*.

Appendix C-2. **Inclusion Amounts for Electric Cars First Leased in 2005**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 45,000	$ 46,000	$ 5	$ 11	$ 18	$ 21	$ 25
46,000	47,000	10	21	33	39	45
47,000	48,000	14	31	48	57	66
48,000	49,000	19	41	63	75	86
49,000	50,000	23	52	77	93	107
50,000	51,000	28	61	93	111	127
51,000	52,000	33	71	108	129	148
52,000	53,000	37	82	122	147	169
53,000	54,000	42	92	137	164	190
54,000	55,000	46	102	152	183	210
55,000	56,000	51	112	167	200	231
56,000	57,000	55	122	182	218	252
57,000	58,000	60	132	197	236	272
58,000	59,000	65	142	212	254	293
59,000	60,000	69	152	227	272	314
60,000	62,000	76	167	250	298	345
62,000	64,000	85	187	280	334	386
64,000	66,000	94	208	309	370	427
66,000	68,000	104	227	339	406	469
68,000	70,000	113	247	369	442	510
70,000	72,000	122	268	398	478	551
72,000	74,000	131	288	428	514	593
74,000	76,000	140	308	458	550	634
76,000	78,000	149	328	489	585	675
78,000	80,000	159	348	518	621	717
80,000	85,000	175	383	571	683	789
85,000	90,000	197	434	645	773	892
90,000	95,000	220	484	720	863	995
95,000	100,000[2]	243	534	795	952	1,099

Appendix C-3. **Inclusion Amounts for Electric Cars First Leased in 2006**

Fair Market Value		Tax Year of Lease[1]				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
$ 45,000	$ 46,000	$ 4	$ 8	$ 11	$ 12	$ 12
46,000	47,000	10	22	33	37	42
47,000	48,000	17	36	54	63	72
48,000	49,000	24	51	74	89	101
49,000	50,000	30	65	96	114	131
50,000	51,000	37	79	118	139	160
51,000	52,000	43	94	139	165	189
52,000	53,000	50	108	160	190	219
53,000	54,000	56	123	181	216	248
54,000	55,000	63	137	202	242	277
55,000	56,000	69	151	224	267	307
56,000	57,000	76	165	245	293	337
57,000	58,000	82	180	266	318	367
58,000	59,000	89	194	288	343	396
59,000	60,000	95	209	309	369	425
60,000	62,000	105	230	341	407	470
62,000	64,000	118	259	383	459	528
64,000	66,000	131	288	425	510	587
66,000	68,000	144	316	469	560	646
68,000	70,000	158	345	510	612	705
70,000	72,000	171	373	554	662	764
72,000	74,000	184	402	596	713	823
74,000	76,000	197	431	638	765	881
76,000	78,000	210	459	682	815	940
78,000	80,000	223	488	724	866	1,000
80,000	85,000	246	538	798	956	1,103
85,000	90,000	278	610	905	1,083	1,250
90,000	95,000	311	682	1,011	1,211	1,397
95,000	100,000[2]	344	753	1,118	1,338	1,544

[1] For the last tax year of the lease, use the dollar amount for the preceding year.
[2] If the fair market value of the car is more than $100,000, see Revenue Procedure 2005-13 (2005-12 IRB 759), available at *www.irs.gov/irb/2005-12_IRB/ar15.html*.
[3] If the fair market value of the car is more than $100,000, see Revenue Procedure 2006-18 (2006-12 IRB 645), available at *www.irs.gov/irb/2006-12_IRB/ar11.html*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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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 2010
- **910** IRS Guide to Free Tax Services

Specialized Publications

- **3** Armed Forces' Tax Guide
- **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- **225** Farmer's Tax Guide
- **463** Travel, Entertainment, Gift, and Car Expenses
- **501** Exemptions, Standard Deduction, and Filing Information
- **502** Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- **503** Child and Dependent Care Expenses
- **504** Divorced or Separated Individuals
- **505** Tax Withholding and Estimated Tax
- **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
- **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 (Including Rental of Vacation Homes)
- **529** Miscellaneous Deductions
- **530** Tax Information for Homeowners
- **531** Reporting Tip Income
- **535** Business Expenses
- **536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- **537** Installment Sales
- **541** Partnerships
- **544** Sales and Other Dispositions of Assets
- **547** Casualties, Disasters, and Thefts
- **550** Investment Income and Expenses (Including Capital Gains and Losses)
- **551** Basis of Assets
- **552** Recordkeeping for Individuals
- **554** Tax Guide for Seniors
- **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
- **571** Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- **575** Pension and Annuity Income
- **584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- **587** Business Use of Your Home (Including Use by Daycare Providers)
- **590** Individual Retirement Arrangements (IRAs)
- **593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- **594** The IRS Collection Process
- **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
- **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 For Wages Paid in 2010
- **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** The IRS Will Figure Your Tax
- **969** Health Savings Accounts and Other Tax-Favored Health Plans
- **970** Tax Benefits for Education
- **971** Innocent Spouse Relief
- **972** Child Tax Credit
- **1542** Per Diem Rates (For Travel Within the Continental United States)
- **1544** Reporting Cash Payments of Over $10,000 (Received in a Trade or Business)
- **1546** Taxpayer Advocate Service – Your Voice at the IRS

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **17SP** El Impuesto Federal sobre los Ingresos Para Personas Fisicas
- **547SP** Hechos Fortuitos Desastres y Robos
- **594SP** El Proceso de Cobro del IRS
- **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, phone, and mail.

Form Number and Title

- **1040** U.S. Individual Income Tax Return
  - **Sch A** Itemized Deductions
  - **Sch B** Interest and Ordinary Dividends
  - **Sch C** Profit or Loss From Business
  - **Sch C-EZ** Net Profit From Business
  - **Sch D** Capital Gains and Losses
  - **Sch D-1** Continuation Sheet for Schedule D
  - **Sch E** Supplemental Income and Loss
  - **Sch EIC** Earned Income Credit
  - **Sch F** Profit or Loss From Farming
  - **Sch H** Household Employment Taxes
  - **Sch J** Income Averaging for Farmers and Fishermen
  - **Sch L** Standard Deduction for Certain Filers
  - **Sch M** Making Work Pay and Government Retiree Credits
  - **Sch R** Credit for the Elderly or the Disabled
  - **Sch SE** Self-Employment Tax
- **1040A** U.S. Individual Income Tax Return
- **1040EZ** Income Tax Return for Single and Joint Filers With No Dependents
- **1040-ES** Estimated Tax for Individuals
- **1040X** Amended U.S. Individual Income Tax Return
- **2106** Employee Business Expenses
- **2106-EZ** Unreimbursed Employee Business Expenses

Form Number and Title

- **2210** Underpayment of Estimated Tax by Individuals, Estates, and Trusts
- **2441** Child and Dependent Care Expenses
- **2848** Power of Attorney and Declaration of Representative
- **3903** Moving Expenses
- **4562** Depreciation and Amortization
- **4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- **4952** Investment Interest Expense Deduction
- **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- **6251** Alternative Minimum Tax—Individuals
- **8283** Noncash Charitable Contributions
- **8582** Passive Activity Loss Limitations
- **8606** Nondeductible IRAs
- **8812** Additional Child Tax Credit
- **8822** Change of Address
- **8829** Expenses for Business Use of Your Home
- **8863** Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)
- **9465** Installment Agreement Request