



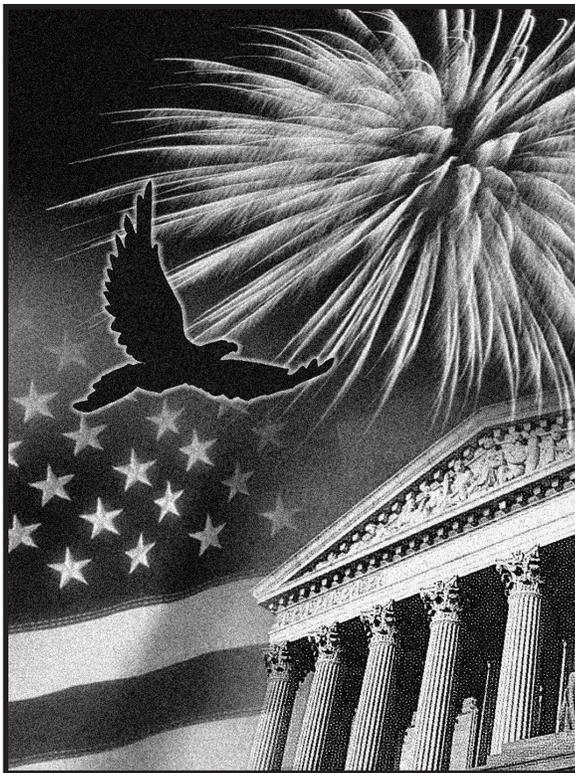
Department
of the
Treasury

Internal
Revenue
Service

Publication 463
Cat. No. 11081L

Travel, Entertainment, Gift, and Car Expenses

For use in preparing
2017 Returns



Get forms and other information faster and easier at:

- [IRS.gov](https://www.irs.gov) (English)
- [IRS.gov/Korean](https://www.irs.gov/korean) (한국어)
- [IRS.gov/Spanish](https://www.irs.gov/spanish) (Español)
- [IRS.gov/Russian](https://www.irs.gov/russian) (Русский)
- [IRS.gov/Chinese](https://www.irs.gov/chinese) (中文)
- [IRS.gov/Vietnamese](https://www.irs.gov/vietnamese) (Tiếng Việt)

Contents

Future Developments	2
What's New	2
Reminder	2
Introduction	2
Chapter 1. Travel	3
Traveling Away From Home	3
Tax Home	3
Tax Home Different From Family Home	3
Temporary Assignment or Job	4
What Travel Expenses Are Deductible?	4
Meals	5
Travel in the United States	6
Travel Outside the United States	7
Luxury Water Travel	8
Conventions	9
Chapter 2. Entertainment	10
Directly Related Test	10
Associated Test	10
50% Limit	11
Exceptions to the 50% Limit	11
What Entertainment Expenses Are Deductible?	12
What Entertainment Expenses Aren't Deductible?	13
Chapter 3. Gifts	14
Chapter 4. Transportation	14
Car Expenses	15
Standard Mileage Rate	15
Actual Car Expenses	16
Leasing a Car	23
Disposition of a Car	24
Chapter 5. Recordkeeping	25
How To Prove Expenses	25
What Are Adequate Records?	25
What if I Have Incomplete Records?	25
Separating and Combining Expenses	26
How Long To Keep Records and Receipts	27
Examples of Records	27
Chapter 6. How To Report	27
Where To Report	27
Vehicle Provided by Your Employer	29
Reimbursements	29
Accountable Plans	30
Nonaccountable Plans	32
Rules for Independent Contractors and Clients	33
How To Use Per Diem Rate Tables	33
The Two Substantiation Methods	33
Transition Rules	33

Completing Forms 2106 and 2106-EZ	34
Special Rules	35

How To Get Tax Help	36
--------------------------------------	--------------------

Appendices	38
-----------------------------	--------------------

Index	49
------------------------	--------------------

Future Developments

For the latest information about developments related to Pub. 463, such as legislation enacted after it was published, go to [IRS.gov/Pub463](https://www.irs.gov/pub463).

What's New

Standard mileage rate. For 2017, the standard mileage rate for the cost of operating your car for business use is 53.5 cents (0.535) per mile. [Car expenses](#) and use of the [standard mileage rate](#) are explained in chapter 4.

Depreciation limits on cars, trucks, and vans. For 2017, the first-year limit on the total depreciation deduction for cars remains at \$11,160 (\$3,160 if you elect not to claim the special depreciation allowance). For trucks and vans, the first-year limit is \$11,560 (\$3,560 if you elect not to claim the special depreciation allowance). [Depreciation limits](#) are explained in chapter 4. Also, for vehicles purchased and placed in service after September 27, 2017, you may be able to take a special depreciation allowance of 100% and you may apply the deduction to used vehicles.

Section 179 deduction. For 2017, the section 179 deduction limit on qualifying property purchases (including cars, trucks, and vans) is a total of \$510,000, and the limit on those purchases at which the deduction begins to be phased out is \$2,030,000. [Section 179 deduction](#) is explained in chapter 4.

Special depreciation allowance. For 2017, the special (“bonus”) depreciation allowance on qualified property (including cars, trucks, and vans) remains at 50%. [Special depreciation allowance](#) is explained in chapter 4.

Reminder

Photographs of missing children. The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). 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.

Per diem rates. Current and prior per diem rates may be found on the U.S. General Services Administration (GSA) website at [GSA.gov/Perdiem](https://www.gsa.gov/Perdiem).

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 doesn't 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 of the vehicle 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 isn't 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 didn't 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 doesn't need to use this publication. Partnerships, corporations, trusts, and employers who reimburse their employees for business expenses should refer to the instructions for their required tax forms and chapter 11 of Pub. 535, Business Expenses, for information on deducting travel, meals, and entertainment expenses.

If you are an employee, you won't 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 Pub. 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 send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications.

Ordering forms and publications. Visit [IRS.gov/FormsPubs](https://www.irs.gov/FormsPubs) to download forms and publications. Otherwise, you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to order current and prior-year forms and instructions. Your order should arrive within 10 business days.

Tax questions. If you have a tax question not answered by this publication, check [IRS.gov](https://www.irs.gov) and [How To Get Tax Help](#) at the end of this publication.

Useful Items

You may want to see:

Publication

- 535** Business Expenses
- 946** How To Depreciate Property

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

See [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 doesn't have to be required to be considered necessary.

You will find examples of deductible travel expenses in [Table 1-1](#).

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 isn't satisfied by merely napping in your car. You don't 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 aren't off to get necessary sleep and the brief time off isn't an adequate rest period, you aren't 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 aren't traveling away from home. You can't deduct your expenses for meals and lodging. You can't deduct these expenses even if you have to maintain a home in the United States for your family members who aren't 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 Pub. 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 the 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 don't 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 don't 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 can't 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 don't 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 don't 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 haven't 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 can't 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 don't expect to return to work in Boston after you complete your training.

During your training, you don't 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 don't satisfy factor (1) because you didn't work in Boston. You satisfy factor (2) because you had duplicate living expenses. You also satisfy factor (3) because you didn't abandon your apartment in Boston as your main home, you kept your community contacts, and you frequently returned to live in your apartment. Therefore, 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 don't 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 don't pay your sister for the use of the room.

You don't 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) don't live at your tax home (defined earlier), you can't deduct the cost of traveling between your tax home and your family home. You also can't deduct the cost of meals and lodging while at your tax home. See [Example 1](#), later.

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](#), later.

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

Temporary Assignment or Job

You may regularly work 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 doesn't 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 can't 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 Pub. 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 aren't 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, 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. Your tax home is Los Angeles. 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 can't 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 deduct only your travel expenses for the first 8 months. You can't 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 aren't considered away from home while you are in your hometown. You can't 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 can't 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 aren't covered there, depending on the facts and your circumstances.



When you travel away from home on business, you must 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 can't deduct his or her travel expenses.

Employee. You can deduct the travel expenses of someone who goes with you if that person:

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 free 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 <i>Conventions</i> , earlier, for additional rules and limits.
taxi, commuter bus, and airport limousine	fares for these and other types of transportation that take you between: <ul style="list-style-type: none"> • 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 , later, 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.

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.

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, aren't enough to make the expenses deductible.

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

conduct of Jerry's business. Her expenses aren't 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 both Jerry and Linda use public transportation, Jerry 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 aren't business-related entertainment.

Lavish or extravagant. You can't deduct expenses for meals that are lavish or extravagant. An expense isn't considered lavish or extravagant if it is reasonable based on the facts and circumstances. Expenses won't 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 aren't 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, hotel staff, and staff on ships.

Incidental expenses don't include expenses for laundry, cleaning and pressing of clothing, lodging taxes, costs of telegrams or telephone calls, transportation between places of lodging or business and places where meals are taken, or the mailing cost of filing travel vouchers and paying employer-sponsored charge card billings.

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 \$5 a day. You can use this method only if you didn't pay or incur any meal expenses. You can't 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.

Note. The incidental-expenses-only method isn't subject to the 50% limit discussed below.



Federal employees should refer to the *Federal Travel Regulations* at GSA.gov for changes affecting claims for reimbursement.

50% limit may apply. If you use the standard meal allowance method for meal expenses and you aren't 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.



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 can't 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 2017, the rate for most small localities in the United States is \$51 a day.

Most major cities and many other localities in the United States are designated as high-cost areas, qualifying for higher standard meal allowances.



You can find this information (organized by state) at GSA.gov/Perdiem. Enter a zip code or select a city and state for the per diem rates for the current fiscal year. Per diem rates for prior fiscal years are available by using the drop-down menu.

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.

Federal government's fiscal year. Per diem rates are listed by the federal government's fiscal year which runs from October 1 to September 30. You can choose to use the rates from the 2017 fiscal year per diem tables or the rates from the 2018 fiscal year tables, but you must consistently use the same tables for all travel you are reporting on your income tax return for the year. See [Transition Rules](#), later.

Standard meal allowance for areas outside the continental United States. The standard meal allowance rates above don't

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 www.DefenseTravel.dod.mil/site/perdiemCalc.cfm. You can access all other foreign per diem rates at State.gov/travel/. Click on "Travel Per Diem Allowances for Foreign Areas" under "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, you can claim a standard meal allowance of \$63 a day (\$68 for travel outside the continental United States) for travel in 2017.

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 $\frac{3}{4}$ 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 2 nights there, she flew back to New Orleans on Friday and arrived back home at 8 p.m. Jen's employer gave her a flat amount to cover her expenses and included it with her wages.

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

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

Travel in the United States

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

Trip Primarily for Business

You can deduct all of your travel expenses if your trip was entirely business related. If your trip was primarily for business and, while at your business destination, you extended your stay for a vacation, made a personal side trip, or had other personal activities, you can deduct only 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 in May. Your business travel totals 900 miles round trip. On your way home, you stop in Mobile to visit your parents. You spend \$2,165 for the 9 days you are away from home for travel, meals, lodging, and other travel expenses. If you hadn't stopped in Mobile, you would have been gone only 6 days, and your total cost would have been \$1,633.50. You can deduct \$1,633.50 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, won't 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 doesn't 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](#), later.

Example. You fly from New York to Puerto Rico with a scheduled stop in Miami. Puerto Rico isn't considered part of the United States for purposes of travel. 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 below 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 didn't spend your entire time on business activities, your trip is considered en-

tirely 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 didn't have substantial control over arranging the trip. The fact that you control the timing of your trip doesn't, by itself, mean that you have substantial control over arranging your trip.

You don't have substantial control over your trip if you:

- Are an employee who was reimbursed or paid a travel expense allowance, and
- Aren't related to your employer, or
- Aren't 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, don't 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 weren't outside the United States for more than a week. This is because the day you depart doesn't 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 can't 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 direc-

Because only $\frac{5}{21}$ (less than 25%) of your total time abroad was for nonbusiness activities, you can deduct as travel expenses what it would have cost you to make the trip if you hadn't 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 wasn't 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 can't 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 don't 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 business and nonbusiness days of travel.

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 don't 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 can't 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 the 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, don't 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 (top number) of the fraction is the number of nonbusiness days during your travel outside the United States and the denominator (bottom number) 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 hadn't stopped in Dublin, you would have arrived home the evening of May 14. You don't 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 can't deduct your expenses while in Dublin. You also can't deduct $\frac{7}{18}$ 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 $\frac{7}{18}$ of the round-trip fare and other expenses you would have had in traveling directly between New York and Dublin ($\$1,250 \times \frac{7}{18} = \486) from your total expenses in traveling from New York to Paris to Dublin and back to New York ($\$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 (top number) of the fraction is the number of nonbusiness days during your travel outside the United States and the denominator (bottom number) 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 can't deduct any part of the cost of your trip from Paris to Venice and return to Paris. In addition, you can't deduct $\frac{7}{18}$ of the airfare and other expenses from New York to Paris and back to New York.

You can deduct $\frac{11}{18}$ of the round-trip plane fare and other travel expenses from New York to Paris, plus your meals (subject to the [50% limit](#)), lodging, and any other business expenses you had in Paris. (Assume these expenses total \$4,939.) 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 ($\frac{11}{18} \times \$1,750$), plus the full \$4,939 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. However, 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 aren't 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 within 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 2017 is shown in the following table.

2017 Dates	Highest Federal Per Diem	Daily Limit on Luxury Water Travel
January 1 – March 31	\$436	\$872
April 1 – April 30	380	760
May 1 – May 31	344	688
June 1 – August 31	368	736
September 1 – September 30	375	750
October 1 – October 31	376	752
November 1 – November 30	365	730
December 1 – December 31	498	996

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 can't exceed \$4,128 (6 days × \$688 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, \$3,700 was separately stated as meals and entertainment. Caroline, who is self-employed, isn't reimbursed for any of her travel expenses. Caroline figures her deductible travel expenses as follows.

Meals and entertainment	\$3,700
50% limit	× 0.50
Allowable meals & entertainment	\$1,850
Other travel expenses	+ 1,500
Allowable cost before the daily limit	\$3,350
Daily limit for May 2017	\$ 688
Times number of days	× 6
Maximum luxury water travel deduction	\$4,128
Amount of allowable deduction	\$3,350

Caroline's deduction for her cruise is limited to \$3,350, even though the limit on luxury water travel is higher.

Not separately stated. If your meal or entertainment charges aren't separately stated or aren't clearly identifiable, you don't have to allocate any portion of the total charge to meals or entertainment.

Exceptions

The [daily limit on luxury water travel](#) (discussed earlier) doesn't apply to expenses you have to

attend a convention, seminar, or meeting on board a cruise ship. See [Cruise Ships](#), later, under *Conventions*.

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 can't 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 can't deduct the expenses.



Your appointment or election as a delegate doesn't, 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 doesn't 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 can't 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 reasonable to hold the meeting outside the North American area. See [Reasonableness test](#), later.

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	Northern Mariana Islands
Costa Rica	Palau
Curaçao	Palmyra Atoll
Dominica	Panama
Dominican Republic	Puerto Rico
Grenada	Saint Lucia
Guam	Trinidad and Tobago
Guyana	USA
Honduras	U.S. Virgin Islands
Howland Island	Wake Island
Jamaica	

The North American area also includes U.S. islands, cays, and reefs that are possessions of the United States and not part of the 50 states or the District of Columbia. See Revenue Ruling 2016-16, available at [IRS.gov/irb/2016-26_IRB/ar09.html](#), for more information.

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.

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	<ul style="list-style-type: none"> 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	<p>Directly related test</p> <ul style="list-style-type: none"> 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. <p>Associated test</p> <ul style="list-style-type: none"> Entertainment is associated with your trade or business, and Entertainment is directly before or after a substantial business discussion.
Other rules	<ul style="list-style-type: none"> You can't deduct the cost of your meal as an entertainment expense if you are claiming the meal as a travel expense. You can't deduct expenses that are lavish or extravagant under the circumstances. You generally can deduct only 50% of your unreimbursed entertainment expenses (see 50% Limit, later).

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 doesn't have to be required to be considered necessary.



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 generally isn't 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 can't deduct the expenses for the use of an entertainment facility. See [Entertainment facilities](#) under *What Entertainment Expenses Aren't Deductible*, later in this chapter.

You must consider all the facts, including the nature of the business transacted and the reasons for conducting business during the entertainment. It isn't necessary to devote more time to business than to entertainment. However, if the business discussion is only incidental to the entertainment, the entertainment expenses don't meet the directly related test.



You don't 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 aren't considered directly related if you aren't there or in situations where there are substantial distractions that generally prevent you from actively conducting business. The following are exam-

ples 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 aren't business associates at places such as cocktail lounges, country clubs, golf clubs, athletic clubs, or vacation resorts.

Associated Test

Even if your expenses don't 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 won't 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 doesn't 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 isn't necessary that you devote more time to business than to entertainment. You don't have to discuss business during the meal or entertainment.

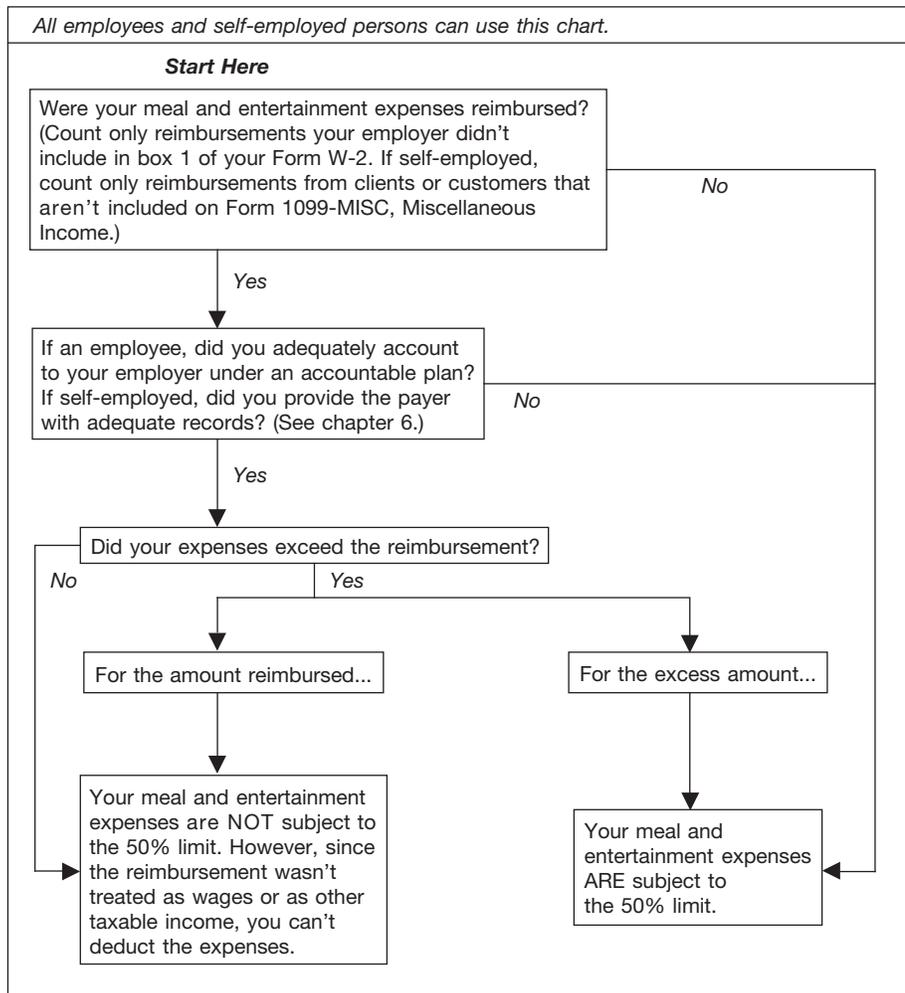
Meetings at conventions. You are considered to have a substantial business discussion if you attend meetings at a convention or similar event, or at a trade or business meeting sponsored and conducted by a business or professional organization. However, your reason for attending the convention or meeting 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 aren't 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

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

There are exceptions to these rules. See [Exceptions to the 50% Limit](#), later.



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 didn't 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](#) 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 isn't 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 isn't covered by one of the exceptions discussed later.

The 50% limit also applies to certain meal and entertainment expenses that aren't 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 isn't allowable because it is lavish and extravagant, the remaining \$90 is subject to the 50% limit. Your deduction can't be more than \$45 (50% (0.50) × \$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 can't be more than \$80 (50% (0.50) × \$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 isn't 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 aren't 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 aren't 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 aren't 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 (as an independent contractor) have expenses for meals and entertainment related to providing services for a client but don't 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 aren't 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 aren't 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, isn't subject to the 50% limit.

5—Charitable sports event. You aren't 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 you may be able to deduct.

Entertainment. Entertainment includes any activity generally considered to provide enter-

tainment, amusement, or recreation. Examples include entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips.

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

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



You can't claim the cost of your meal both as an entertainment expense and as a travel expense.



Meals sold in the normal course of your business aren't 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 isn't 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 takes turns picking up each others' meal or entertainment checks primarily for personal reasons, 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 can't deduct expenses for entertainment that are lavish or extravagant. An expense isn't considered lavish or extravagant if it is reasonable considering the facts and circumstances. Expenses won't 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 can't establish the

part of the expense for each person participating, allocate the expense to each participant on a pro rata basis.

Example. You entertain a group of individuals that includes yourself, three business prospects, and seven social guests. Only $\frac{4}{11}$ of the expense qualifies as a business entertainment expense. You can't 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 can't deduct more than the face value of an entertainment ticket, even if you paid a higher price. For example, you can't deduct service fees you pay to ticket agencies or brokers or any amount over the face value of the tickets you pay to resellers.

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.



The 50% limit on entertainment doesn't 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.

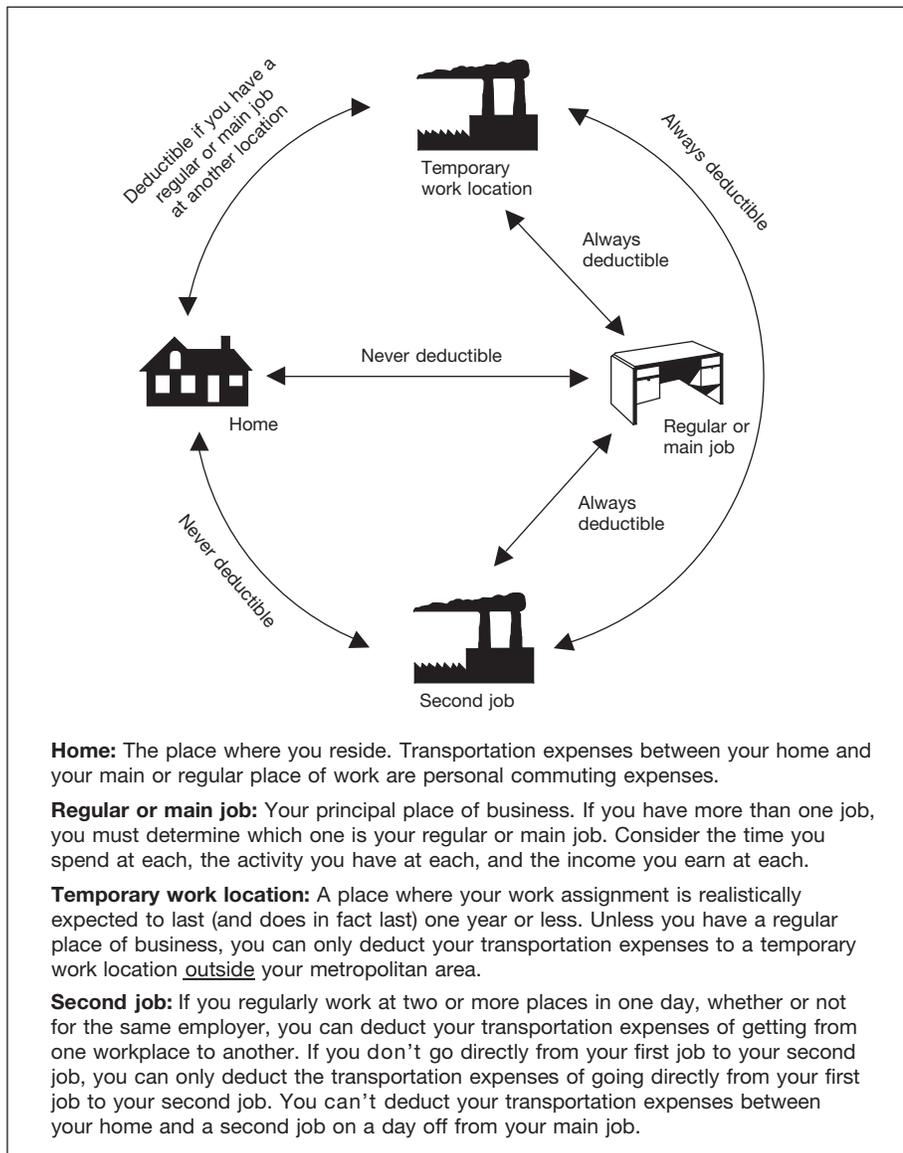
Example 2. You purchase tickets to a college football game through a ticket broker. After having a business discussion, you take a client to the game. Net proceeds from the game go to colleges that qualify as charitable organizations. However, since the colleges also pay individuals to perform services, 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 can't 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

Figure B. When Are Transportation Expenses Deductible?

Most employees and self-employed persons can use this chart. (Don't use this chart if your home is your principal place of business. See [Office in the home](#).)



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 can't inflate the charges for food and beverages to avoid the limited deduction for skybox rentals.

What Entertainment Expenses Aren't Deductible?

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

Club dues and membership fees. You can't 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 can't 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 can't 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 aren't 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 can't 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 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 don't 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 can't 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 doesn't apply if you have a bona fide, independent business connection with that family member and the gift isn't intended for the customer's eventual use.

If you and your spouse both give gifts, both of you are treated as one taxpayer. It doesn't 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 gourmet gift baskets to thank them for their business. They paid \$80 for each gift basket, or \$240 total. Three of Local Company's executives took the gift baskets home for their families' use. Bob and Jan have no independent business relationship with any of the executives' other family members. They can deduct a total of \$75 ($\$25 \text{ limit} \times 3$) for the gift baskets.

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 doesn't 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 isn't an incidental cost if the value of the basket is substantial compared to the value of the fruit.

Exceptions. The following items aren't 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 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 don't 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 can't choose, in this case, to treat the cost of the tickets as a gift expense.

4. Transportation

This chapter discusses expenses you can deduct for business transportation when you aren't [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 don't include expenses you have while traveling away from home overnight. Those expenses are travel expenses 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.

Daily transportation expenses you incur while traveling from home to one or more regular places of business are generally nondeductible commuting expenses. However, there may be exceptions to this general rule. You can deduct daily transportation expenses incurred going between your residence and a temporary work station outside the metropolitan area where you live. Also, daily transportation expenses can be deducted if (1) you have one or more regular work locations away from your residence; or (2) your residence is your principal place of business and you incur expenses going between the residence and another work location in the same trade or business, regardless of whether the work is temporary or permanent and regardless of the distance.

Illustration of transportation expenses. [Figure B](#), earlier, 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 isn't 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 won't 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 can't 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 don't go directly from one location to the other, you can't 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 can't 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 can't deduct the expense if the reserve meeting is held on a day on which you don't 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 can't 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 can't deduct commuting expenses no matter how far your home is from your regular place of work. You can't 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 don't change the trip from personal to business. You can't 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 doesn't 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 can't deduct your expenses for those uses.

Car pools. You can't deduct the cost of using your car in a nonprofit car pool. Don't 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 doesn't 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 Pub. 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 don't have an office in your home. In this case, the location of your first business contact inside the metropolitan area 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. While you can't 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 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.

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 shouldn't 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 can't increase the qualified reimbursement amount by more than the rate of inflation.

See your employer for information on your reimbursement.



If you are a rural mail carrier and received a qualified reimbursement, you can't 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 2017, the standard mileage rate for the cost of operating your car for business use is 53.5 cents (0.535) per mile.



If you use the standard mileage rate for a year, you can't deduct your actual car expenses for that year. You can't 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 can't 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.

Example. Larry is an employee who occasionally uses his own car for business purposes. He purchased the car in 2015, but he didn't claim any unreimbursed employee expenses on his 2015 tax return. Because Larry didn't use the standard mileage rate the first year the car was available for business use, he can't use the standard mileage rate in 2017 to claim unreimbursed employee business expenses.

For more information about depreciation included in the standard mileage rate, see [Exception](#) under *Methods of depreciation*, later.

Standard mileage rate not allowed. You can't use the standard mileage rate if you:

- Use five or more cars at the same time (such 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.)

Note. You can elect to use the standard mileage rate if you used a car for hire (such as a

taxi) unless the standard mileage rate is otherwise not allowed, as discussed above.

Five or more cars. If you own or lease five or more cars that are used for business at the same time, you can't 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 aren't 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 can't 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 doesn't 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 can't 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 can't 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 can't deduct the part of the interest expense that represents your personal use of the car.



If you use a home equity loan to purchase your car, you may be able to deduct the interest. See *Pub. 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 don't 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 (Form 1040), Schedule C-EZ (Form 1040), 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 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 don't use the standard mileage rate, you may be able to deduct your actual car expenses.



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

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 contractor and drive your car 20,000 miles during the year: 12,000 miles for business use 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 can't use the standard mileage rate. See [Vehicle Provided by Your Employer](#) in chapter 6.

Interest on car loans. If you are an employee, you can't deduct any interest paid on a car loan.

This interest is treated as personal interest and isn't 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.

Fines and collateral. You can't 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 not covered by insurance. See Pub. 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 can't 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 don't use the standard mileage rate to figure your business-related car expenses in the year you first place a car in service.

If, in the year you first place a car in service, you claim either a section 179 deduction or use a depreciation method other than straight line for its estimated useful life, you can't 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) 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 physically attached to it or usually included in the purchase price.

A car doesn't 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 aren't

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 aren't 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 cost of a car as a current expense. If you choose to deduct all or part of the cost as a current expense, you must reduce your depreciable basis in the car by the amount of the section 179 deduction.

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 specifically assigned use, whether in a trade or business, a tax-exempt activity, a personal activity, or for the production of income. Even if you aren't using the property, it is in service when it is ready and available for its specifically assigned use.

A car first used for personal purposes can't qualify for the deduction in a later year when its use changes to business.

Example. In 2016, you bought a new car and used it for personal purposes. In 2017, you began to use it for business. Changing its use to business use doesn't qualify the cost of your car for a section 179 deduction in 2017. However, you can claim a depreciation deduction for the business use of the car starting in 2017. 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 2017 for \$24,500 and used it 60% for business. Based on his business usage, the total cost of Peter's car that qualifies for the section 179 deduction is \$14,700 (\$24,500 cost × 60% (0.60) 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 2017, the total amount you can choose to deduct under section 179 generally can't be more than \$510,000.

If the cost of your section 179 property placed in service in 2017 is over \$2,030,000, you must reduce the \$510,000 dollar limit (but not below zero) by the amount of cost over \$2,030,000. If the cost of your section 179 property placed in service during 2017 is \$2,540,000 or more, you can't 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 Pub. 946.

Limit for sport utility and certain other vehicles. For sport utility and certain other vehicles placed in service in 2017, 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 isn't 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 doesn't 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 isn't readily accessible directly from the passenger compartment; or
- That has an integral enclosure, fully enclosing the driver compartment and load carrying device, doesn't 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 deduction, special depreciation allowance, and depreciation deduction. Generally, the total amount of section 179 deduction, special depreciation allowance, and depreciation deduction you can claim for a car that is qualified property and that you placed in service in 2017 is \$11,160. 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 cost (for purposes of the section 179 deduction) of \$14,700. However, based on Peter's business usage of his car, the total of his section 179, special depreciation allowance, and depreciation deductions is limited to \$6,696 (\$11,160 limit x 60% (0.60) business use).

Cost of car. For purposes of the section 179 deduction, the cost of the car doesn't 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 doesn't 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 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 place the car 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 2017 can only be revoked with the Commissioner's approval.

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 de-

duction claimed on the car is included in figuring 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 2017. The allowance is an additional depreciation deduction for 50% of the car's depreciable basis (after any section 179 deduction, but before figuring your regular depreciation deduction under MACRS). This allowance is increased to 100% if the vehicle was purchased and placed in service after September 27, 2017. The special depreciation allowance applies only for the first year the car is placed in service. Further, while it applies to a new vehicle regardless of the date in 2017 when it was placed in service, it applies to a used vehicle only if the vehicle was purchased and placed in service after September 27, 2017. 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).

Combined depreciation. Your combined section 179 depreciation, special depreciation allowance, and regular MACRS depreciation deduction is limited to the maximum allowable depreciation deduction for cars of \$11,160 (\$3,160 if you elect not to claim the special depreciation allowance). For trucks and vans, the first-year limit is \$11,560 (\$3,560 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, 2020.
- You used the car more than 50% in a qualified business use.

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 this 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 on or after January 1, 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 wasn't 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. This means 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 figuring 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 can't 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 can't 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 Pub. 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 doesn't include use for the production of income (investment use). However, you do combine your business and investment use to figure your depreciation deduction for the tax year.

Use of your car by another person. Don't 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.



Property doesn't 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% (0.80) × ⁶/₁₂).

Limits. The amount you can claim for section 179, 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 (for vehicles placed in service before January 1, 2006), and alternative motor vehicle credit.

See Form 8910, Alternative Motor Vehicle Credit, for information on the alternative motor vehicle credit. It is available on vehicles that were acquired in 2016, even if they weren't placed in service until 2017.



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 Pub. 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 doesn't 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) can't 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") for another car (the "new car") in 2017, 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 don't 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 figure your depreciation deduction. You can't use Form 2106, Part II, Section D. This method is explained in Pub. 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 2017, 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 2017, for which the election wasn't made, see Pub. 946 and Regulations section 1.168(i)-6(d) (3).

Traded car used only for business. If you trade in a car 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. 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.

Traded car used partly in business. If you trade in a car you used partly in your business for a new car 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 isn't used, however, when you determine the gain or loss on the later disposition of the new car. See Pub. 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 \(MACRS\)](#) next.

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.

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 Pub. 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) to determine your depreciation rate for 2017, you don't 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 2017 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 2017 depreciation deduction for your car. A similar chart appears in the Instructions for Form 2106.

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

You must use the Depreciation Tables in Pub. 946 rather than the 2017 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.
 - 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 can't 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 Pub. 946.

TIP In future years, don't 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 2017 chart. To figure your depreciation deduction for 2017, find the percentage in the column of [Table 4-1](#) based on the date that you first placed the car in service and the depreciation method that you are using. Multiply the [unadjusted basis](#) of your car (defined earlier) by that percentage to determine the amount of your depreciation deduction. If you prefer to figure your depreciation deduction without the help of the chart, see Pub. 946.

CAUTION Your deduction can't be more than the maximum depreciation limit for cars. See [Depreciation Limits](#), later.

Example. Phil bought a used truck in February 2016 to use exclusively in his landscape business. He paid \$9,200 for the truck with no trade-in. Phil didn't claim any section 179 deduction, the truck didn't 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 2016 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 2016 depreciation deduction of \$1,840.

In 2017, 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 2017. 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% (0.90) business use), by 32% (0.32) to figure his 2017 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
2012–2017	\$11,160 ¹	\$5,100	\$3,050	\$1,875
2010–2011	11,060 ²	4,900	2,950	1,775
2008–2009	10,960 ³	4,800	2,850	1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775
2005	2,960	4,700	2,850	1,675
2004	10,610 ³	4,800	2,850	1,675
5/06/2003–12/31/2003	10,710 ⁴	4,900	2,950	1,775
1/01/2003–5/05/2003	7,660 ⁵	4,900	2,950	1,775

¹\$3,160 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.

²\$3,060 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.

³\$2,960 if the car isn't qualified property or if you elect not to claim the special depreciation allowance.

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

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

Trucks and vans. For 2017, the maximum depreciation deductions for trucks and vans are generally higher than those for cars. A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van and rated at 6,000 pounds gross vehicle weight or less.

Maximum Depreciation Deduction for Trucks and Vans

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2017	\$11,560 ¹	\$5,700	\$3,450	\$2,075
2016	11,560 ¹	5,700	3,350	2,075
2015	11,460 ¹	5,600	3,350	1,975
2014	11,460 ¹	5,500	3,350	1,975
2013	11,360 ¹	5,400	3,250	1,975
2012	11,360 ¹	5,300	3,150	1,875
2011	11,260 ¹	5,200	3,150	1,875
2010	11,160 ¹	5,100	3,050	1,875
2009	11,060 ¹	4,900	2,950	1,775
2008	11,160 ¹	5,100	3,050	1,875
2007	3,260	5,200	3,050	1,875
2005–2006	3,260	5,200	3,150	1,875
2004	10,910 ¹	5,300	3,150	1,875
2003	11,010 ^{1,2}	5,400	3,250	1,975

¹If the special depreciation allowance doesn't apply or you make the election not to claim the special depreciation allowance, the first-year limit is \$3,560 for 2017 and 2016, \$3,460 for 2015 and 2014, \$3,360 for 2013 and 2012, \$3,260 for 2011, \$3,160 for 2010, \$3,060 for 2009, \$3,160 for 2008, \$3,260 for 2004, and \$3,360 for 2003.

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

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

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

Section 179 deduction. The section 179 deduction is treated as a depreciation deduction. If you place a car that isn't a truck or van in service in 2017, use it only for business, and choose the section 179 deduction, the special depreciation allowance and the depreciation deduction for that car for 2017 is limited to \$11,160.

Example. On September 4, 2017, 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 isn't 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 \$510,000 amount) multiplied by his business use ($\$10,000 \times 80\%$ (0.80)).

Jack then figures that his section 179 deduction for 2017 is limited to \$2,528 (80% of \$3,160). He then figures his unadjusted basis of \$5,472 ($(\$10,000 \times 80\%$ (0.80)) – \$2,528) for determining his depreciation deduction. Jack has reached his maximum depreciation deduction for 2017. For 2018, Jack will use his unadjusted basis of \$5,472 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 (for vehicles placed in service before January 1, 2006), alternative motor vehicle credit, electric vehicle credit, gas guzzler tax, and depreciation (including any [special depreciation allowance](#), discussed earlier, unless you elect not to claim it) and section 179 deductions that would have been allowable if you had used the car 100% for business and investment use.

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

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

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

Example. In April 2011, Bob bought and placed in service a car he used exclusively in his business. The car cost \$31,500. Bob didn't claim a section 179 deduction or the special depreciation allowance for the car. He continued to use the car 100% in his business throughout the recovery period (2011 through 2016). For those years, Bob used the MACRS Depreciation Chart (200% declining balance method) and the [Maximum Depreciation Deduction for Cars](#) table, earlier, for the applicable tax year to figure his depreciation deductions during the recovery period. Bob's depreciation deductions were subject to the depreciation limits so he will

**Table 4-1. 2017 MACRS Depreciation Chart
(Use to Figure Depreciation for 2017.)**

If you claim actual expenses for your car, use the chart below to find the depreciation method and percentage to use for your 2017 return for cars placed in service in 2017.

First, using the left column, find the date you first placed the car in service in 2017. 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 2017, you must use the same method you used on last year's return unless a decline in your business use requires you to change to the straight line method. Refer back to the MACRS Depreciation Chart for the year you placed the car in service. (See [Car Used 50% or Less for Business](#), later.)

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 2017. (Also see [Depreciation Limits](#), earlier.)



If you placed your car in service after September of any year and you placed other business property in service during the same year, you may have to use the Jan. 1–Sept. 30 percentage instead of the Oct. 1–Dec. 31 percentage for your car.

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

Example. You buy machinery (basis of \$32,000) in May 2017 and a new van (basis of \$20,000) in October 2017, both used 100% in your business. You use the percentage for Jan. 1–Sept. 30, 2017, to figure the depreciation for your van. This is because the \$20,000 basis of the property (van) placed in service after September isn't more than 40% of the basis of all property placed in service during the year (40%(0.40) × (\$32,000 + 20,000) = \$20,800).

Date Placed In Service	(a)		(b)		(c)	
	200% Declining Balance (200% DB) ¹		150% Declining Balance (150% DB) ¹		Straight Line (SL)	
Oct. 1–Dec. 31, 2017	200 DB	5.0%	150 DB	3.75%	SL	2.5%
Jan. 1–Sept. 30, 2017	200 DB	20.0	150 DB	15.0	SL	10.0
Oct. 1–Dec. 31, 2016	200 DB	38.0	150 DB	28.88	SL	20.0
Jan. 1–Sept. 30, 2016	200 DB	32.0	150 DB	25.5	SL	20.0
Oct. 1–Dec. 31, 2015	200 DB	22.8	150 DB	20.21	SL	20.0
Jan. 1–Sept. 30, 2015	200 DB	19.2	150 DB	17.85	SL	20.0
Oct. 1–Dec. 31, 2014	200 DB	13.68	150 DB	16.4	SL	20.0
Jan. 1–Sept. 30, 2014	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1–Dec. 31, 2013	200 DB	10.94	150 DB	16.41	SL	20.0
Jan. 1–Sept. 30, 2013	200 DB	11.52	150 DB	16.66	SL	20.0
Oct. 1–Dec. 31, 2012	200 DB	9.58	150 DB	14.35	SL	17.5
Jan. 1–Sept. 30, 2012	200 DB	5.76	150 DB	8.33	SL	10.0
Prior to 2012 ²						

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

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

have unrecovered basis at the end of the recovery period as shown in the following table.

Year	MACRS		Limit	Deprec. Allowed
	%	Amount		
2011	20.00	\$6,300	\$3,060	\$3,060
2012	32.00	10,080	4,900	4,900
2013	19.20	6,048	2,950	2,950
2014	11.52	3,629	1,775	1,775
2015	11.52	3,629	1,775	1,775
2016	5.76	1,814	1,775	1,775
Total		\$31,500		\$16,235

For the correct limit, see [Maximum Depreciation Deduction for Cars](#) under *Depreciation Limits*, earlier, for the maximum amount of depreciation allowed each year.

At the end of 2016, Bob had an unrecovered basis in the car of \$15,265 (\$31,500 – \$16,235). If Bob continued to use the car 100% for business in 2017 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 \$9,741 (\$16,235 × 60% (0.60)), but he still would have to reduce his basis by \$16,235 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 can't take the section 179 deduction.
- You can't take the special depreciation allowance.
- You must figure depreciation using the straight line method over a 5-year recovery period. You must continue to use the straight line method even if your percentage of business use increases to more than 50% in a later year.

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

Example. In May 2017, Dan bought a car for \$17,500. He used it 40% for his consulting business. Because he didn't use the car more than 50% for business, Dan can't 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 2017. This is the lesser of:

1. \$700 (((\$17,500 cost × 40% (0.40) business use) × 10% recovery percentage (from column (c), [Table 4-1](#)), or
2. \$1,264 (\$3,160 maximum limit × 40% (0.40) 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 2014, 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 (2014 through 2016) but failed to meet it in the fourth year (2017). You determine your depreciation for 2017 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 don't use the car more than 50% in qualified business use. Use Form 4797, Sales of Business Property, to figure and report the excess depreciation in your gross income.

Excess depreciation is:

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

Example. In September 2013, you bought a car for \$20,500 and placed it in service. You didn't claim the section 179 deduction or the special depreciation allowance. You used the car exclusively in qualified business use for 2013, 2014, 2015, and 2016. For those years, you used the appropriate MACRS Depreciation Chart to figure depreciation deductions totaling \$13,185 (\$3,160 for 2013, \$5,100 for 2014, \$3,050 for 2015, and \$1,875 for 2016) under the 200% DB method.

During 2017, you used the car 30% for business and 70% for personal purposes. Since you didn't meet the more-than-50%-use test, you must switch from the 200% DB depreciation

method to the straight line depreciation method for 2017, and include in gross income for 2017 your excess depreciation determined as follows.

Total depreciation claimed: (MACRS 200% DB method)	\$13,185
Minus total depreciation allowable: (Straight line method)	
2013—10% of \$20,500 (Limit: \$3,160)	\$2,050
2014—20% of \$20,500 (Limit: \$5,100)	4,100
2015—20% of \$20,500 (Limit: \$3,050)	3,050
2016—20% of \$20,500 (Limit: \$1,875)	1,875
Excess depreciation	<u>\$2,110</u>

For the correct limit, see [Maximum Depreciation Deduction for Cars](#) under *Depreciation Limits*, earlier, for the maximum amount of depreciation allowed each year.

In 2017, using Form 4797, you figure and report the \$2,110 excess depreciation you must include in your gross income. Your adjusted basis in the car is also increased by \$2,110. Your 2017 depreciation is \$1,230 (\$20,500 (unadjusted basis) × 30% (0.30) (business use percentage) × 20% (0.20) (from column (c) of [Table 4-1](#) on the line for Jan. 1–Sept. 30, 2012)). However, your depreciation deduction is limited to \$563 (\$1,875 × 30% (0.30) business use).

Leasing a Car

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

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

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

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

Inclusion Amounts

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

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

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

Cars (Except for Trucks and Vans)

<u>Year Lease Began</u>	<u>Fair Market Value</u>
2013–2017	\$19,000
2010–2012	18,500

Trucks and Vans

<u>Year Lease Began</u>	<u>Fair Market Value</u>
2014–2017	\$19,500
2010–2013	19,000

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

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

Figuring the inclusion amount. Inclusion amounts are listed in [Appendices A-1 through A-5](#) for cars and in [Appendices B-1 through B-5](#) for trucks and vans. If the fair market value of the vehicle is \$100,000 or less, use the appropriate appendix (depending on the year you first placed the vehicle in service) to determine the inclusion amount. If the fair market value is more than \$100,000, see the Revenue Procedure(s) identified in the footnote of 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 (1b) for the number of days of the lease term included in the tax year.

- 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, 2017, 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-5](#) to arrive at the following inclusion amounts for each year of the lease. For the last tax year of the lease, 2020, you use the amount for the preceding year.

Tax year	Dollar amount	Proration	Business use	Inclusion amount
2017	\$30	348/365	75%	\$21
2018	67	365/365	75%	50
2019	99	365/365	75%	74
2020	989	16/366	75%	3

Note. 2020 is a leap year, and includes an extra calendar day, February 29, 2020.

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

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

Example. On August 16, 2016, 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, 2017, Will closed his business and went to work for a company where he isn't required to use a car for business. Using [Appendix A-4](#), Will figured his inclusion amount for 2016 and 2017 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
2016	\$41	138/366	100%	\$15
2017	89	309/365	100%	75

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 2015, Janice leased a car for 4 years for personal use. On June 1, 2017, 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 2017, Janice obtained an appraisal from an independent car leasing company that showed the fair market value of her 2015 car on June 1, 2017, was \$21,650. Using [Appendix A-5](#), Janice figured her inclusion amount for 2017 as shown in the following table.

Tax year	Dollar amount	Proration	Business use	Inclusion amount
2017	\$11	214/365	60%	\$4

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 (for vehicles placed in service before January 1, 2006), and special depreciation allowance) that you claimed on the car will be treated as ordinary income. However, you may not have to recognize a gain or loss if you dispose of the car because of a casualty, 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 Pub. 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 don't recognize any gain. Your basis in the replacement property is its cost minus any gain that isn't recognized. See Pub. 547 for more information.

Trade-in. When you trade in an old car for a new one, the transaction is considered a like-kind exchange. Generally, no gain or loss is recognized. (For exceptions, see chapter 1 of Pub. 544.) In a trade-in situation, your basis in the new property is generally your adjusted basis in the old property plus any additional amount you pay. (See [Unadjusted basis](#), earlier.)

Depreciation adjustment when you used the standard mileage rate. If you used the standard mileage rate for the business use of your car, depreciation was included in that rate. The rate of depreciation that was allowed in the

standard mileage rate is shown in the [Rate of Depreciation Allowed in Standard Mileage Rate](#) table, later. You must reduce your basis in your car (but not below zero) by the amount of this depreciation.

If your basis is reduced to zero (but not below zero) through the use of the standard mileage rate, and you continue to use your car for business, no adjustment (reduction) to the standard mileage rate is necessary. Use the full standard mileage rate (53.5 cents (0.535) per mile for 2017) for business miles driven.

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

Rate of Depreciation Allowed in Standard Mileage Rate

Year(s)	Depreciation Rate per Mile
2017	\$0.25
2015–2016	0.24
2014	0.22
2012–2013	0.23
2011	0.22
2010	0.23
2008–2009	0.21
2007	0.19
2005–2006	0.17
2003–2004	0.16
2001–2002	0.15
2000	0.14

Example. In 2012, you bought a car for exclusive use in your business. The car cost \$22,500. From 2012 through 2017, you used the standard mileage rate to figure your car expense deduction. You drove your car 14,100 miles in 2012, 16,300 miles in 2013, 15,600 miles in 2014, 16,700 miles in 2015, 15,100 miles in 2016, and 14,900 miles in 2017. The depreciation portion of your car expense deduction is figured as follows.

Year	Miles x Rate	Depreciation
2012	14,100 × \$0.23	\$3,243
2013	16,300 × 0.23	3,749
2014	15,600 × 0.22	3,432
2015	16,700 × 0.24	4,008
2016	15,100 × 0.24	3,744
2017	14,900 × 0.25	3,725
Total depreciation		\$21,901

At the end of 2017, your adjusted basis in the car is \$599 (\$22,500 – \$21,901).

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 2017, 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%



Don't use this table if you are a fiscal year filer. See Sale or Other Disposition Before the Recovery Period Ends in chapter 4 of Pub. 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.



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

How To Prove Expenses

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



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

You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You must generally prepare a written record for it to be

considered adequate. This is because written evidence is more reliable than oral evidence alone. However, if you prepare a record on a computer, it is considered an adequate record.

What Are Adequate Records?

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

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

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

- You have meals or lodging expenses while traveling away from home for which you account to your employer under an accountable plan, and you use a per diem allowance method that includes meals and/or lodging. ([Accountable plans](#) and [per diem allowances](#) are discussed in chapter 6.)
- Your expense, other than lodging, is less than \$75.
- You have a transportation expense for which a receipt isn't readily available.

Adequate evidence. Documentary evidence 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 doesn't prove a business expense without other evidence to show that it was for a business purpose.

Duplicate information. You don't have to record information in your account book or other record that duplicates information shown on a receipt as long as your records and receipts complement each other in an orderly manner.

You don't have to record amounts your employer pays directly for any ticket or other travel item. However, if you charge these items to

your employer, through a credit card or otherwise, you must keep a record of the amounts you spend.

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

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

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

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

Example. If you are a sales representative who calls on customers on an established sales route, you don't have to give a written explanation of the business purpose for traveling that route. You can satisfy the requirements by recording the length of the delivery route once, the date of each trip at or near the time of the trips, and the total miles you drove the car during the tax year. You could also establish the date of each trip with a receipt, record of delivery, or other documentary evidence.

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

What if I Have Incomplete Records?

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

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

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

Table 5-1. How To Prove Certain Business Expenses

IF you have expenses for . . .	THEN you must keep records that show details of the following elements . . .			
	Amount	Time	Place or Description	Business Purpose Business Relationship
Travel	Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, fees and tips, etc.	Dates you left and returned for each trip and number of days spent on business.	Destination or area of your travel (name of city, town, or other designation).	<u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. <u>Relationship:</u> N/A
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 <i>Business Purpose</i> .)	Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see <i>Business Purpose</i> .)	<u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion: the date, place, nature, and duration of the business discussion, and the identities of the persons who took part in both the business discussion and the entertainment activity. <u>Relationship:</u> Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you. For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal.
Gifts	Cost of the gift.	Date of the gift.	Description of the gift.	
Transportation	Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year.	Date of the expense. For car expenses, the date of the use of the car.	Your business destination.	<u>Purpose:</u> Business purpose for the expense. <u>Relationship:</u> N/A

Documentary evidence can be receipts, paid bills, or similar evidence.

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

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

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

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

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

- You were unable to obtain evidence for an element of the expense or use that completely satisfies the requirements explained earlier under [What Are Adequate Records](#).
- You are unable to obtain evidence for an element that completely satisfies the two rules listed earlier under [What if I Have Incomplete Records](#).

- You have presented other evidence for the element that is the best proof possible under the circumstances.

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

Separating and Combining Expenses

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

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

THIS IS NOT AN OFFICIAL INTERNAL REVENUE FORM

Table 5-3. **Weekly Traveling Expense and Entertainment Record**

From: _____ **To:** _____ **Name:** _____

Expenses	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
1. Travel Expenses:								
Airlines								
Excess Baggage								
Bus – Train								
Cab and Limousine								
Tips								
Porter								
2. Meals and Lodging:								
Breakfast								
Lunch								
Dinner								
Hotel and Motel (Detail in Schedule B)								
3. Entertainment (Detail in Schedule C)								
4. Other Expenses:								
Postage								
Telephone & Telegraph								
Stationery & Printing								
Stenographer								
Sample Room								
Advertising								
Assistant(s)								
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								
6. Other (Identify)								
Total								

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

Schedule A—Car

Mileage: End								
Start								
Total								
Business Mileage								

Schedule B—Lodging

Hotel or Motel	Name	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
	City								

Schedule C—Entertainment

Date	Item	Place	Amount	Business Purpose	Business Relationship

WEEKLY REIMBURSEMENTS:

Travel and transportation expenses _____
 Other reimbursements _____
TOTAL _____

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

If you file Schedule C (Form 1040):

- 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 27a; and
- Report your car expenses on line 9. Complete Part IV of the form unless you have to file Form 4562 for depreciation or amortization.

If you file Schedule C-EZ (Form 1040), report the total of all business expenses on Part II, line 2. You can include only 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 (Form 1040), do the following.

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

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

Both self-employed and an employee. If you are both self-employed and an employee, you must keep separate records for each business activity. Report your business expenses for self-employment on Schedule C (Form 1040), Schedule C-EZ (Form 1040), or Schedule 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 weren't reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 aren't considered reimbursements).
- If you claim car expenses, you use the standard mileage rate.

For more information on how to report your expenses on Forms 2106 and 2106-EZ, see [Completing Forms 2106 and 2106-EZ](#), later.

Gifts. If you didn't receive any reimbursements (or the reimbursements were all included in box 1 of your Form W-2), the only business expense you are claiming is for gifts, and the [special rules](#) discussed later don't apply to you, don't complete Form 2106 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 (Form 1040) or Schedule C-EZ (Form 1040). Don't complete Form 2106 or 2106-EZ.

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



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

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

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

For example, if you have rental real estate income and expenses, report your expenses on Schedule E (Form 1040), Supplemental Income and Loss. See Pub. 527, Residential Rental Property, for more information on the rental of real estate. 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 can't 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 on 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 2017 Form W-2, the amount of the value will be included in box 1, Wages, tips, other compensation; and box 14.

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

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

If you paid any actual costs (that your employer didn't provide or reimburse you for) to operate the car, you can deduct the business portion of those costs. Examples of costs that you may have are gas, oil, and repairs. Complete Form 2106, Part II, Sections A and C. Enter your actual costs on line 23 of Section C and leave line 25 blank. Complete the rest of the form.

Reimbursements

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

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

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

No reimbursement. You aren't reimbursed or given an allowance for your expenses if you are paid a salary or commission with the understanding that you will pay your own expenses. In this situation, you have no reimbursement or allowance arrangement, and you don't have to read this section on reimbursements. Instead, see [Completing 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, aren't reported as pay. Reimbursements treated as paid under [nonaccountable plans](#), as explained later, are reported as pay. See Pub. 15 (Circular E), Employer's Tax Guide, for information on employee pay.

Accountable Plans

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

1. Your expenses must have a business connection—that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
2. You must adequately account to your employer for these expenses within a reasonable period of time.
3. You must return any excess reimbursement or allowance within a reasonable period of time.

[Adequate accounting](#) and [returning excess reimbursements](#) are discussed later.

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

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

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

Employee meets accountable plan rules. If you meet the three rules for accountable plans, your employer shouldn't include any reimbursements in your income in box 1 of your Form W-2. If your expenses equal your reimbursements, you don't complete Form 2106. You have no deduction since your expenses and 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 three rules. All reimbursements that fail to meet all three rules for accountable plans are generally treated as having been reimbursed under a [nonaccountable plan](#) (discussed later).

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

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

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

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 can't convert these amounts to payments under an accountable plan by voluntarily accounting to your employer for the expenses and voluntarily returning excess reimbursements to the employer.*

Adequate Accounting

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

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

Per Diem and Car Allowances

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

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

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

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

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

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

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

1. For per diem amounts:
 - a. The regular federal per diem rate.
 - b. The standard meal allowance.

- c. The high-low rate.
2. For car expenses:
 - a. The standard mileage rate.
 - b. A fixed and variable rate (FAVR).



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

Regular federal per diem rate. The regular federal per diem rate is the highest amount that the federal government will pay to its employees for lodging, meals, and incidental expenses (or meals and incidental expenses only) while they are traveling away from home in a particular area. The rates are different for different locations. Your employer should have these rates available. You can also find federal per diem rates at GSA.gov/Perdiem.

The standard meal allowance. The standard meal allowance is the federal M&IE rate. For travel in 2017, the rate for most small localities in the United States is \$51 a day. Most major cities and many other localities qualify for higher rates. You can find this information at GSA.gov/Perdiem.

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.
- Doesn't 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 figuring your compensation, such as number of hours worked or miles traveled.

High-low rate. This is a simplified method of figuring 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 rates for each city.

Under the high-low method, the per diem amount for travel during January through September of 2017 is \$282 (including \$68 for M&IE) for certain high-cost locations. All other areas have a per diem amount of \$189 (including \$57 for M&IE). For more information, see Notice 2016-58, which can be found at IRS.gov/irb/2016-41_IRB/ar06.html.



Effective October 1, 2017, the per diem rate for certain high-cost locations increased to \$284 (including \$68 for M&IE). The rate for all other locations increased to \$191 (including \$57 for M&IE). Employers who didn't use the high-low method during the first 9 months of 2017 can't begin to use it before 2018. For more information, see Notice 2017-54, which can be found at IRS.gov/irb/2017-42_IRB/ar06.html, and Rev. Proc. 2011-47 at IRS.gov/irb/2011-42_IRB/ar12.html.

Prorating the standard meal allowance on partial days of travel. The standard meal allowance is for a full 24-hour day of travel. If

you travel for part of a day, such as on the days you depart and return, you must prorate the full-day M&IE rate. This rule also applies if your employer uses the regular federal per diem rate or the high-low rate.

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

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

The standard mileage rate. This is a set rate per mile that you can use to figure your deductible car expenses. For 2017, the standard mileage rate for the cost of operating your car for business use is 53.5 cents (0.535) 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 won't be included in box 1 of your Form W-2. You don't 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 don't have to prove that amount.

Example 1. In April, Jeremy takes a 2-day business trip to Denver. The federal rate for Denver is \$247 (\$178 lodging + \$69 M&IE) 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 \$247 a day (\$494 total) for living expenses. Jeremy's living expenses in Denver aren't more than \$247 a day.

Jeremy's employer doesn't include any of the reimbursement on his Form W-2 and Jeremy doesn't 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 \$282 (\$214 lodging + \$68 M&IE) a day (\$564 total) for his lodging, meals, and incidental expenses. Matt's actual expenses totaled \$700.

Since Matt's \$700 of expenses are more than his \$564 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 2017 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 (0.40) a mile.

Since Nicole's \$5,350 expense figured under the standard mileage rate (10,000 miles \times 53.5 cents (0.535)) is more than her \$4,000 reimbursement (10,000 miles \times 40 cents (0.40)), she itemizes her deductions to claim the excess expense. Nicole completes Form 2106 (showing all her expenses and reimbursements) and enters \$1,350 (\$5,350 - \$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 under code L in box 12 of your Form W-2. This amount isn't 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 don't 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 under code L 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

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:		
<i>Actual expense reimbursement:</i> Adequate accounting made <u>and</u> excess returned.	No amount.	No amount.
<i>Actual expense reimbursement:</i> Adequate accounting and return of excess both required <u>but</u> excess not returned.	The excess amount as wages in box 1.	No amount.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting made <u>and</u> excess returned.	No amount.	All expenses and reimbursements only if excess expenses are claimed. Otherwise, form is not filed.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting and return of excess both required <u>but</u> excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only under code L in box 12 of Form W-2—it isn't reported in box 1.	No amount.
<i>Per diem or mileage allowance exceeds the federal rate:</i> Adequate accounting up to the federal rate only <u>and</u> excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only under code L in box 12 of Form W-2—it isn't reported in box 1.	All expenses (and reimbursements reported under code L in box 12 of Form W-2) only if expenses in excess of the federal rate are claimed. Otherwise, form isn't 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](#), later.

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 weren't more than the federal rate for Albuquerque, which is \$51 per day.

Her employer included the \$56 that was more than the federal rate (($\$65 - \51) \times 4) in box 1 of Laura's Form W-2. Her employer shows \$204 ($\51 a day \times 4) under code L in box 12 of her Form W-2. This amount isn't included in Laura's income. Laura doesn't have to complete Form 2106; however, she must include the \$56 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 won't pay more than \$75 a day for travel to San Diego, so Joe doesn't 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 is 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 under code L 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 weren't 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 in 2017 for business. Under her employer's accountable plan, she gets reimbursed 60 cents (0.60) 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, \$5,350 ($10,000 \times 53.5$ cents (0.535)), under code L in box 12 of her Form W-2. That amount isn't taxable. Her employer must also include \$650 ($\$6,000 - \$5,350$) 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 wouldn't 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 under code L 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 didn't adequately account within a reasonable period of time. For example, if you received a travel advance and you didn't spend all the money on business-related expenses or you don't 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 don't adequately account for or don't return any excess advance within a reasonable period of time, the amount you don't account for or return will be treated as having been paid under a [nonaccountable plan](#) (discussed later).

Unproven amounts. If you don't 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 unproven amount of the travel advance within a reasonable period of time. If you don't do this, the unproven 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 don't 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 2017 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 didn't travel. For the 3 days you did travel, you don't have to return the \$63 difference between the allowance you received and the federal rate for Phoenix (($\$80 - \59) \times 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 doesn't 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.

- 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 aren't 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 doesn't have to provide any proof of her expenses to her employer, and Kim can keep any funds that she doesn't 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 don't 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 don't 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 don't 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 don't have to report the amounts on an information return.

Contractor doesn't adequately account. If the contractor doesn't adequately account to you for allowances or reimbursements of entertainment expenses, you don't have to keep records of these items. You aren't 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.

How To Use Per Diem Rate Tables

This section contains information about the per diem rate substantiation methods available and the choice of rates you must make for the last 3 months of the year.

The Two Substantiation Methods

High-low method. IRS notices list the localities that are treated under the high-low substantiation method as high-cost localities for all or part of the year. Notice 2016-58, available at [IRS.gov/irb/2016-41_IRB/ar06.html](#), lists the localities that are eligible for \$282 (\$68 meals and incidental expenses (M&IE)) per diem, effective October 1, 2017. For travel on or after October 1, 2017, all other localities within the continental United States (CONUS) are eligible for \$189 (\$57 M&IE) per diem under the high-low method.

Notice 2017-54, available at [IRS.gov/irb/2017-42_IRB/ar06.html](#), lists the localities that are eligible for \$284 (\$68 M&IE) per diem, effective October 1, 2017. For travel on or after October 1, 2017, the per diem for all other localities increased to \$191 (\$57 M&IE).

Regular federal per diem rate method. Regular federal per diem rates are published by the General Services Administration (GSA). Both tables include the separate rate for M&IE for each locality. The rates listed for FY2017 at [GSA.gov/Perdiem](#) are effective October 1, 2016, and those listed for FY2018 are effective October 1, 2017. The standard rate for all locations within CONUS not specifically listed for FY2017 is \$142 (\$91 for lodging and \$51 for M&IE). For FY2018, this rate increases to \$144 (\$93 for lodging and \$51 for M&IE).

Transition Rules

The transition period covers the last 3 months of the calendar year, from the time that new rates are effective (generally October 1) through December 31. During this period, you generally may change to the new rates or finish out the year with the rates you had been using.

High-low method. If you use the high-low substantiation method, when new rates become effective (generally October 1) you can either continue with the rates you used for the first part of the year or change to the new rates. However, you must continue using the high-low method for the rest of the calendar year (through December 31). If you are an employer, you must use the same rates for all employees reimbursed under the high-low method during that calendar year.

The new rates and localities for the high-low method are included each year in a notice that is generally published in mid to late September. You can find the notice in the weekly Internal Revenue Bulletin (IRB) at [IRS.gov/IRB](#), or visit [IRS.gov](#) and enter "Special Per Diem Rates" in the search box.

Federal per diem rate method. New CONUS per diem rates become effective on October 1 of each year and remain in effect through September 30 of the following year. Employees being reimbursed under the per diem rate method during the first 9 months of a year (January 1–September 30) must continue under the same method through the end of that calendar year (December 31). However, for travel by these employees from October 1 through December 31, you can choose to continue using the same per diem rates or use the new rates.

The new federal CONUS per diem rates are published each year, generally early in September. Go to GSA.gov/Perdiem.



Per diem rates for localities listed for FY2018 may change at any time. To be sure you have the most current rate, check GSA.gov/Perdiem.

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, don't file Form 2106 or 2106-EZ. Report your expenses on Schedule C (Form 1040), Schedule C-EZ (Form 1040), or Schedule 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 the following conditions.

- You are an employee deducting ordinary and necessary expenses attributable to your job.
- You weren't reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 aren't considered reimbursements).
- If you 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 I, 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 can't 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 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, don't 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. Figure 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 figured 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 didn't 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. Don't 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, lines 3 and 4, Column A, or Form 2106-EZ, lines 3 and 4. Don't 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.



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 don't apply to you, don't 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% (0.50). 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 can't use Form 2106-EZ) the amounts your employer (or third party) reimbursed you that weren't 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 weren't 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.
- Doesn't 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 on Form 2106, line 7, Column A and Column B.

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 didn't 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 weren't 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)	0.529
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 either of the 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. Total itemized deductions may be limited if your adjusted gross income is over: \$313,800 if filing as married filing jointly or qualifying widow(er); \$287,650 if head of household; \$261,500 if single; or \$156,900 if married filing separately. This limit is figured on the Itemized Deductions Worksheet found in the Instructions for Schedule A (Form 1040).

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 can't deduct expenses of travel that doesn't 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 isn't 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 don't meet all of the above requirements, you don't 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 aren't 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 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.

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$54,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov to see your options for preparing and filing your return which include the following.

- **Free File.** Go to IRS.gov/FreeFile. See if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to IRS.gov/VITA, download the free IRS2Go app, or call 1-800-906-9887 to find the nearest VITA location for free tax preparation.
- **TCE.** Go to IRS.gov/TCE, download the free IRS2Go app, or call 1-888-227-7669

to find the nearest TCE location for free tax preparation.



Getting answers to your tax questions. On IRS.gov get answers to your tax questions anytime, anywhere.

- Go to IRS.gov/Help or IRS.gov/LetUsHelp pages for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to IRS.gov/ITA for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to IRS.gov/Pub17 to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2017 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile device as an eBook.
- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to IRS.gov/Forms to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or, you can go to IRS.gov/OrderForms to place an order and have forms mailed to you within 10 business days.

Access your online account (Individual taxpayers only). Go to IRS.gov/Account to securely access information about your federal tax account.

- View the amount you owe, pay online or set up an online payment agreement.
- Access your tax records online.
- Review the past 18 months of your payment history.
- Go to IRS.gov/SecureAccess to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and *IRS e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. IRS issues more than 90% of refunds in less than 21 days.

Delayed refund for returns claiming certain credits. Due to changes in the law, the IRS can't issue refunds before mid-February 2018, for returns that properly claimed the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to IRS.gov/Transcripts. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 1-800-908-9946.

- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to IRS.gov/Tools for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EIC\)](http://IRS.gov/EIC) determines if you're eligible for the EIC.
- The [Online EIN Application \(IRS.gov/EIN\)](http://IRS.gov/EIN) helps you get an employer identification number.
- The [IRS Withholding Calculator \(IRS.gov/W4App\)](http://IRS.gov/W4App) estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The [First Time Homebuyer Credit Account Look-up \(IRS.gov/HomeBuyer\)](http://IRS.gov/HomeBuyer) tool provides information on your repayments and account balance.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](http://IRS.gov/SalesTax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to IRS.gov/IDProtection for information and videos.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit IRS.gov/ID to learn what steps you should take.

Checking on the status of your refund.

- Go to IRS.gov/Refunds.
- Due to changes in the law, the IRS can't issue refunds before mid-February 2018, for returns that properly claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to IRS.gov/Payments to make a payment using any of the following options.

- **IRS Direct Pay:** Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax preparation software or through a tax professional.

- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.

What if I can't pay now? Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/OPA\)](https://www.irs.gov/OPA) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier \(IRS.gov/OIC\)](https://www.irs.gov/OIC) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to [IRS.gov/WMAR](https://www.irs.gov/WMAR) to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it to show up in our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to [IRS.gov/Notices](https://www.irs.gov/Notices) to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TACLocator](https://www.irs.gov/TACLocator) to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab,

choose the Contact Us option and click on "Local Offices".

Watching IRS videos. The IRS Video portal ([IRSVideos.gov](https://www.irs.gov/IRSVideos)) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- [Spanish \(IRS.gov/Spanish\)](https://www.irs.gov/Spanish).
- [Chinese \(IRS.gov/Chinese\)](https://www.irs.gov/Chinese).
- [Vietnamese \(IRS.gov/Vietnamese\)](https://www.irs.gov/Vietnamese).
- [Korean \(IRS.gov/Korean\)](https://www.irs.gov/Korean).
- [Russian \(IRS.gov/Russian\)](https://www.irs.gov/Russian).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service Is Here To Help You

What is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](https://www.irs.gov/TaxpayerBillOfRights).

What Can the Taxpayer Advocate Service Do For You?

They can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business,
- You face (or your business is facing) an immediate threat of adverse action, or

- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach Them?

They have offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at [TaxpayerAdvocate.IRS.gov/Contact-Us](https://www.irs.gov/Contact-Us). You can also call them at 1-877-777-4778.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at [TaxpayerAdvocate.IRS.gov](https://www.irs.gov/TaxpayerAdvocate.IRS.gov) can help you understand [what these rights mean to you](https://www.irs.gov/WhatTheseRightsMeanToYou) and how they apply. These are *your* rights. Know them. Use them.

How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at [IRS.gov/SAMS](https://www.irs.gov/SAMS).

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit [TaxpayerAdvocate.IRS.gov/LITCmap](https://www.irs.gov/LITCmap) or see IRS Publication 4134, [Low Income Taxpayer Clinic List](https://www.irs.gov/LowIncomeTaxpayerClinicList).

Appendices

Appendices A-1 through A-5 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-5 show the lease inclusion amounts

that you may need to report if you leased a truck or van.

If any of these apply to you, use the appendix for the year you first

leased the car. (See [Leasing a Car](#) in chapter 4.)

Appendix A-1. Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2013

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,000	\$ 19,500	\$ 2	\$ 4	\$ 6	\$ 7	\$ 8
19,500	20,000	2	5	6	9	9
20,000	20,500	2	5	8	9	11
20,500	21,000	3	6	8	10	12
21,000	21,500	3	6	10	11	13
21,500	22,000	3	7	10	13	14
22,000	23,000	4	8	11	14	16
23,000	24,000	4	9	14	16	18
24,000	25,000	5	10	15	18	21
25,000	26,000	5	12	16	21	23
26,000	27,000	6	12	19	23	25
27,000	28,000	6	14	20	25	28
28,000	29,000	7	15	22	27	30
29,000	30,000	7	16	24	29	33
30,000	31,000	8	17	26	31	35
31,000	32,000	8	19	27	33	38
32,000	33,000	9	20	29	35	40
33,000	34,000	10	21	31	37	43
34,000	35,000	10	22	33	39	45
35,000	36,000	11	23	35	41	48
36,000	37,000	11	25	36	43	50
37,000	38,000	12	26	38	45	53
38,000	39,000	12	27	40	47	55
39,000	40,000	13	28	42	49	58
40,000	41,000	13	29	44	52	59
41,000	42,000	14	30	45	54	63
42,000	43,000	14	32	47	56	64
43,000	44,000	15	33	48	59	67
44,000	45,000	15	34	51	60	69
45,000	46,000	16	35	52	63	72
46,000	47,000	17	36	54	65	74
47,000	48,000	17	38	55	67	77
48,000	49,000	18	39	57	69	79
49,000	50,000	18	40	59	71	82
50,000	51,000	19	41	61	73	84
51,000	52,000	19	42	63	75	87
52,000	53,000	20	43	65	77	89
53,000	54,000	20	45	66	79	92
54,000	55,000	21	46	68	81	94
55,000	56,000	21	47	70	84	96
56,000	57,000	22	48	72	85	99
57,000	58,000	22	50	73	88	101
58,000	59,000	23	51	75	90	103
59,000	60,000	24	52	76	92	106
60,000	62,000	24	54	79	95	110
62,000	64,000	25	56	83	99	115
64,000	66,000	27	58	87	103	120
66,000	68,000	28	60	90	108	125
68,000	70,000	29	63	93	112	130
70,000	72,000	30	65	97	117	134
72,000	74,000	31	68	100	121	139
74,000	76,000	32	70	104	125	144
76,000	78,000	33	73	107	129	149
78,000	80,000	34	75	111	133	154
80,000	85,000	36	79	117	141	162
85,000	90,000	39	85	126	151	174
90,000	95,000	41	91	135	162	186
95,000	100,000 ²	44	97	144	172	199

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 vehicle is more than \$100,000, see Rev. Proc. 2013-21 (2013-12 I.R.B. 660), available at www.irs.gov/irb/2013-12_IRB/ar07.html.

Appendix A-2. Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2014

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,000	\$ 19,500	\$ 3	\$ 6	\$ 10	\$ 11	\$ 13
19,500	20,000	3	8	11	13	14
20,000	20,500	4	8	13	14	17
20,500	21,000	4	9	14	17	18
21,000	21,500	5	10	15	18	21
21,500	22,000	5	11	17	20	22
22,000	23,000	6	13	18	23	25
23,000	24,000	7	14	22	26	29
24,000	25,000	8	16	25	29	33
25,000	26,000	8	19	27	32	38
26,000	27,000	9	20	31	35	42
27,000	28,000	10	22	33	40	45
28,000	29,000	11	24	36	43	49
29,000	30,000	12	26	39	46	53
30,000	31,000	13	28	41	50	57
31,000	32,000	14	30	44	53	61
32,000	33,000	14	32	47	56	65
33,000	34,000	15	34	50	59	69
34,000	35,000	16	36	52	64	72
35,000	36,000	17	38	55	67	76
36,000	37,000	18	39	59	70	80
37,000	38,000	19	41	61	74	84
38,000	39,000	20	43	64	77	88
39,000	40,000	21	45	67	80	92
40,000	41,000	21	47	70	84	96
41,000	42,000	22	49	73	87	100
42,000	43,000	23	51	75	91	104
43,000	44,000	24	53	78	94	108
44,000	45,000	25	55	81	97	112
45,000	46,000	26	56	84	101	116
46,000	47,000	27	58	87	104	120
47,000	48,000	28	60	90	107	124
48,000	49,000	28	62	93	111	127
49,000	50,000	29	64	96	114	131
50,000	51,000	30	66	98	118	135
51,000	52,000	31	68	101	121	139
52,000	53,000	32	70	104	124	143
53,000	54,000	33	72	106	128	147
54,000	55,000	34	74	109	131	151
55,000	56,000	34	76	112	135	155
56,000	57,000	35	78	115	138	159
57,000	58,000	36	80	118	141	163
58,000	59,000	37	81	121	145	167
59,000	60,000	38	83	124	148	171
60,000	62,000	39	86	128	153	177
62,000	64,000	41	90	134	159	185
64,000	66,000	43	94	139	167	192
66,000	68,000	44	98	145	173	201
68,000	70,000	46	102	150	180	209
70,000	72,000	48	105	156	188	216
72,000	74,000	50	109	162	194	224
74,000	76,000	51	113	168	200	232
76,000	78,000	53	117	173	208	239
78,000	80,000	55	120	179	215	247
80,000	85,000	58	127	189	226	261
85,000	90,000	62	137	203	243	281
90,000	95,000	67	146	217	260	301
95,000	100,000 ²	71	156	231	277	320

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 vehicle is more than \$100,000, see Rev. Proc. 2014-21 (2014-11 I.R.B. 641), available at www.irs.gov/irb/2014-11_IRB/ar09.html.

Appendix A-3. Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2015

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,000	\$ 19,500	\$ 5	\$ 11	\$ 15	\$ 19	\$ 21
19,500	20,000	6	12	18	22	24
20,000	20,500	6	14	20	25	27
20,500	21,000	7	15	23	27	31
21,000	21,500	8	17	25	30	34
21,500	22,000	9	18	28	32	38
22,000	23,000	10	21	31	37	42
23,000	24,000	11	24	36	42	49
24,000	25,000	12	27	41	48	55
25,000	26,000	14	30	45	54	62
26,000	27,000	15	34	49	60	68
27,000	28,000	17	37	54	65	75
28,000	29,000	18	40	59	71	81
29,000	30,000	20	43	64	76	87
30,000	31,000	21	46	69	81	95
31,000	32,000	23	49	73	88	100
32,000	33,000	24	52	78	93	107
33,000	34,000	25	56	82	99	114
34,000	35,000	27	59	87	104	120
35,000	36,000	28	62	92	110	126
36,000	37,000	30	65	96	116	133
37,000	38,000	31	68	102	121	139
38,000	39,000	33	71	106	127	146
39,000	40,000	34	75	110	132	153
40,000	41,000	35	78	115	138	159
41,000	42,000	37	81	120	143	166
42,000	43,000	38	84	125	149	172
43,000	44,000	40	87	129	155	179
44,000	45,000	41	90	134	161	185
45,000	46,000	43	93	139	166	191
46,000	47,000	44	97	143	172	198
47,000	48,000	45	100	148	177	205
48,000	49,000	47	103	153	183	210
49,000	50,000	48	106	158	188	218
50,000	51,000	50	109	162	194	224
51,000	52,000	51	112	167	200	230
52,000	53,000	53	115	172	205	237
53,000	54,000	54	119	176	211	243
54,000	55,000	56	122	180	217	250
55,000	56,000	57	125	186	222	256
56,000	57,000	58	128	191	227	263
57,000	58,000	60	131	195	234	269
58,000	59,000	61	135	199	239	276
59,000	60,000	63	137	205	244	283
60,000	62,000	65	142	212	253	292
62,000	64,000	68	149	220	265	304
64,000	66,000	71	155	230	275	318
66,000	68,000	73	162	239	287	331
68,000	70,000	76	168	249	298	343
70,000	72,000	79	174	258	309	357
72,000	74,000	82	180	268	320	370
74,000	76,000	85	186	277	332	383
76,000	78,000	88	193	286	343	396
78,000	80,000	91	199	296	354	408
80,000	85,000	96	210	312	374	431
85,000	90,000	103	226	335	402	464
90,000	95,000	110	242	359	430	496
95,000	100,000 ²	117	258	382	458	529

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 vehicle is more than \$100,000, see Rev. Proc. 2015-19 (2015-8 I.R.B. 656), available at www.irs.gov/irb/2015-8_IRB/ar10.html.

Appendix A-4. Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2016

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,000	\$ 19,500	\$ 6	\$ 13	\$ 20	\$ 23	\$ 27
19,500	20,000	7	15	23	27	30
20,000	20,500	8	17	26	30	35
20,500	21,000	8	19	29	33	39
21,000	21,500	10	21	31	38	42
21,500	22,000	11	23	34	41	47
22,000	23,000	12	26	39	46	53
23,000	24,000	14	30	44	54	60
24,000	25,000	16	34	50	60	69
25,000	26,000	17	38	56	67	78
26,000	27,000	19	42	62	74	85
27,000	28,000	21	46	68	81	93
28,000	29,000	23	50	73	89	101
29,000	30,000	25	53	80	95	110
30,000	31,000	26	58	85	102	118
31,000	32,000	28	62	91	109	126
32,000	33,000	30	65	98	116	134
33,000	34,000	32	69	103	123	142
34,000	35,000	34	73	109	130	150
35,000	36,000	35	77	115	137	158
36,000	37,000	37	81	121	144	166
37,000	38,000	39	85	127	151	174
38,000	39,000	41	89	132	158	183
39,000	40,000	42	93	138	166	190
40,000	41,000	44	97	144	172	199
41,000	42,000	46	101	150	179	207
42,000	43,000	48	105	155	187	215
43,000	44,000	50	109	161	193	223
44,000	45,000	51	113	167	201	231
45,000	46,000	53	117	173	207	239
46,000	47,000	55	121	179	214	247
47,000	48,000	57	124	185	222	255
48,000	49,000	59	128	191	228	264
49,000	50,000	60	133	196	236	271
50,000	51,000	62	136	203	242	280
51,000	52,000	64	140	209	249	288
52,000	53,000	66	144	214	257	295
53,000	54,000	68	148	220	263	304
54,000	55,000	69	152	226	271	312
55,000	56,000	71	156	232	277	320
56,000	57,000	73	160	238	284	328
57,000	58,000	75	164	243	292	336
58,000	59,000	77	168	249	298	345
59,000	60,000	78	172	255	306	352
60,000	62,000	81	178	264	316	364
62,000	64,000	85	185	276	330	381
64,000	66,000	88	194	287	344	397
66,000	68,000	92	201	299	358	413
68,000	70,000	95	209	311	372	430
70,000	72,000	99	217	322	387	445
72,000	74,000	102	225	334	400	462
74,000	76,000	106	233	346	414	478
76,000	78,000	110	241	357	428	494
78,000	80,000	113	249	369	442	510
80,000	85,000	120	262	390	467	538
85,000	90,000	128	282	419	502	579
90,000	95,000	137	302	448	537	620
95,000	100,000 ²	146	322	477	572	660

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 vehicle is more than \$100,000, see Rev. Proc. 2016-23 (2016-16 I.R.B. 581) available at www.irs.gov/irb/2016-16_IRB/ar06.html.

Appendix A-5. Inclusion Amounts for Cars (Other Than Trucks and Vans) First Leased in 2017

Fair Market Value			Tax Year of Lease ¹				
Over	Not Over		1st	2nd	3rd	4th	5th and Later
\$19,000	\$19,500		\$6	\$14	\$20	\$23	\$27
19,500	20,000		7	16	23	27	31
20,000	20,500		8	18	26	30	35
20,500	21,000		9	20	28	35	39
21,000	21,500		10	21	32	38	44
21,500	22,000		11	23	35	42	47
22,000	23,000		12	27	39	47	53
23,000	24,000		14	31	45	54	62
24,000	25,000		16	34	52	61	70
25,000	26,000		18	38	58	68	78
26,000	27,000		19	43	63	75	87
27,000	28,000		21	47	69	82	95
28,000	29,000		23	51	75	89	103
29,000	30,000		25	55	80	97	112
30,000	31,000		27	58	87	104	120
31,000	32,000		29	62	93	111	128
32,000	33,000		30	67	99	118	136
33,000	34,000		32	71	104	126	144
34,000	35,000		34	75	110	133	152
35,000	36,000		36	79	116	140	160
36,000	37,000		38	82	123	147	169
37,000	38,000		40	86	129	154	177
38,000	39,000		41	91	134	161	186
39,000	40,000		43	95	140	168	194
40,000	41,000		45	99	146	175	202
41,000	42,000		47	103	152	182	210
42,000	43,000		49	106	159	189	218
43,000	44,000		50	111	164	197	226
44,000	45,000		52	115	170	204	234
45,000	46,000		54	119	176	211	243
46,000	47,000		56	123	182	218	251
47,000	48,000		58	127	187	225	260
48,000	49,000		60	130	194	232	268
49,000	50,000		61	135	200	239	276
50,000	51,000		63	139	206	246	284
51,000	52,000		65	143	211	254	292
52,000	53,000		67	147	217	261	301
53,000	54,000		69	151	223	268	309
54,000	55,000		70	155	229	275	318
55,000	56,000		72	159	235	282	326
56,000	57,000		74	163	241	289	334
57,000	58,000		76	167	247	296	342
58,000	59,000		78	171	253	303	350
59,000	60,000		80	174	260	310	359
60,000	62,000		82	181	268	321	371
62,000	64,000		86	189	280	335	387
64,000	66,000		90	197	292	349	404
66,000	68,000		93	205	304	364	420
68,000	70,000		97	213	315	379	436
70,000	72,000		101	221	327	393	453
72,000	74,000		104	229	339	407	470
74,000	76,000		108	237	351	421	486
76,000	78,000		111	245	363	436	502
78,000	80,000		115	253	375	450	518
80,000	85,000		122	267	396	474	548
85,000	90,000		131	287	425	511	588
90,000	95,000		140	307	455	546	630
95,000	100,000 ²		149	327	485	581	671

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 vehicle is more than \$100,000, see Rev. Proc. 2017-29 (2017-14 I.R.B. 1065) available at [IRS.gov/irb/2017-14_IRB/ar10.html](https://www.irs.gov/irb/2017-14_IRB/ar10.html).

Appendix B-1. Inclusion Amounts for Trucks and Vans First Leased in 2013

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,000	\$ 19,500	\$ 1	\$ 3	\$ 4	\$ 5	\$ 6
19,500	20,000	2	3	5	6	7
20,000	20,500	2	4	6	7	8
20,500	21,000	2	5	7	8	9
21,000	21,500	2	5	8	9	11
21,500	22,000	3	6	8	10	12
22,000	23,000	3	7	10	11	14
23,000	24,000	4	8	11	14	16
24,000	25,000	4	9	14	16	18
25,000	26,000	5	10	15	18	21
26,000	27,000	5	12	17	20	23
27,000	28,000	6	13	18	23	25
28,000	29,000	6	14	20	25	28
29,000	30,000	7	15	22	27	30
30,000	31,000	7	16	24	29	33
31,000	32,000	8	17	26	31	35
32,000	33,000	8	19	27	33	38
33,000	34,000	9	20	29	35	41
34,000	35,000	10	21	31	37	43
35,000	36,000	10	22	33	39	46
36,000	37,000	11	23	35	41	48
37,000	38,000	11	25	36	43	51
38,000	39,000	12	26	38	45	53
39,000	40,000	12	27	40	48	55
40,000	41,000	13	28	42	49	58
41,000	42,000	13	29	44	52	60
42,000	43,000	14	30	46	54	62
43,000	44,000	14	32	47	56	65
44,000	45,000	15	33	48	59	67
45,000	46,000	15	34	51	60	70
46,000	47,000	16	35	52	63	72
47,000	48,000	17	36	54	65	74
48,000	49,000	17	38	55	67	77
49,000	50,000	18	39	57	69	79
50,000	51,000	18	40	59	71	82
51,000	52,000	19	41	61	73	84
52,000	53,000	19	42	63	75	87
53,000	54,000	20	43	65	77	89
54,000	55,000	20	45	66	80	91
55,000	56,000	21	46	68	81	94
56,000	57,000	21	47	70	84	96
57,000	58,000	22	48	72	86	98
58,000	59,000	22	50	73	88	101
59,000	60,000	23	51	75	90	103
60,000	62,000	24	52	78	93	108
62,000	64,000	25	55	81	97	113
64,000	66,000	26	57	85	101	118
66,000	68,000	27	60	88	106	122
68,000	70,000	28	62	92	110	127
70,000	72,000	29	64	96	114	132
72,000	74,000	30	67	99	118	137
74,000	76,000	31	69	103	122	142
76,000	78,000	32	72	105	127	147
78,000	80,000	34	73	110	131	151
80,000	85,000	35	78	116	138	160
85,000	90,000	38	84	124	149	172
90,000	95,000	41	90	133	160	184
95,000	100,000 ²	44	95	142	171	196

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 vehicle is more than \$100,000, see Rev. Proc. 2013-21 (2013-12 I.R.B. 660), available at www.irs.gov/irb/2013-12_IRB/ar07.html.

Appendix B-2. Inclusion Amounts for Trucks and Vans First Leased in 2014

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,500	\$ 20,000	\$ 2	\$ 5	\$ 7	\$ 8	\$ 10
20,000	20,500	3	6	8	10	12
20,500	21,000	3	7	10	11	14
21,000	21,500	3	8	11	14	15
21,500	22,000	4	9	12	15	18
22,000	23,000	5	10	15	17	21
23,000	24,000	5	12	18	21	24
24,000	25,000	6	14	20	25	28
25,000	26,000	7	16	23	28	32
26,000	27,000	8	18	26	31	36
27,000	28,000	9	20	28	35	40
28,000	29,000	10	21	32	38	44
29,000	30,000	11	23	35	41	48
30,000	31,000	11	26	37	45	52
31,000	32,000	12	27	41	48	56
32,000	33,000	13	29	43	52	60
33,000	34,000	14	31	46	55	64
34,000	35,000	15	33	49	58	68
35,000	36,000	16	35	51	62	72
36,000	37,000	17	37	54	65	76
37,000	38,000	18	38	58	69	79
38,000	39,000	18	41	60	72	83
39,000	40,000	19	43	63	75	87
40,000	41,000	20	44	66	79	91
41,000	42,000	21	46	69	82	95
42,000	43,000	22	48	72	85	99
43,000	44,000	23	50	74	89	103
44,000	45,000	24	52	77	93	106
45,000	46,000	24	54	80	96	111
46,000	47,000	25	56	83	99	115
47,000	48,000	26	58	86	102	119
48,000	49,000	27	60	88	106	123
49,000	50,000	28	62	91	109	127
50,000	51,000	29	63	95	113	130
51,000	52,000	30	65	97	117	134
52,000	53,000	31	67	100	120	138
53,000	54,000	31	69	103	123	142
54,000	55,000	32	71	106	126	146
55,000	56,000	33	73	108	130	150
56,000	57,000	34	75	111	133	154
57,000	58,000	35	77	114	137	157
58,000	59,000	36	79	116	141	161
59,000	60,000	37	80	120	144	165
60,000	62,000	38	84	123	149	172
62,000	64,000	40	87	130	155	180
64,000	66,000	41	91	136	162	187
66,000	68,000	43	95	141	169	195
68,000	70,000	45	99	146	176	203
70,000	72,000	47	102	153	182	211
72,000	74,000	48	107	158	189	219
74,000	76,000	50	110	164	196	227
76,000	78,000	52	114	169	203	235
78,000	80,000	54	118	175	209	243
80,000	85,000	57	124	185	222	256
85,000	90,000	61	134	199	239	276
90,000	95,000	65	144	213	256	295
95,000	100,000 ²	70	153	227	273	315

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 vehicle is more than \$100,000, see Rev. Proc. 2014-21 (2014-11 I.R.B. 641), available at www.irs.gov/irb/2014-11_IRB/ar09.html.

Appendix B-3. Inclusion Amounts for Trucks and Vans First Leased in 2015

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,500	\$ 20,000	\$ 4	\$ 7	\$ 11	\$ 13	\$ 16
20,000	20,500	4	9	13	16	19
20,500	21,000	5	11	15	19	22
21,000	21,500	6	12	18	22	25
21,500	22,000	6	14	20	25	28
22,000	23,000	7	16	24	29	33
23,000	24,000	9	19	29	34	40
24,000	25,000	10	23	33	40	46
25,000	26,000	12	25	38	46	53
26,000	27,000	13	29	42	51	60
27,000	28,000	15	32	47	57	65
28,000	29,000	16	35	52	62	73
29,000	30,000	18	38	56	68	79
30,000	31,000	19	41	61	74	85
31,000	32,000	20	45	66	79	91
32,000	33,000	22	48	70	85	98
33,000	34,000	23	51	75	91	104
34,000	35,000	25	54	80	96	111
35,000	36,000	26	57	85	101	118
36,000	37,000	28	60	89	108	124
37,000	38,000	29	63	94	113	131
38,000	39,000	30	67	98	119	137
39,000	40,000	32	70	103	124	144
40,000	41,000	33	73	108	130	150
41,000	42,000	35	76	113	135	157
42,000	43,000	36	79	118	141	163
43,000	44,000	38	82	122	147	169
44,000	45,000	39	85	127	153	176
45,000	46,000	40	89	131	158	183
46,000	47,000	42	92	136	163	189
47,000	48,000	43	95	141	169	195
48,000	49,000	45	98	145	175	202
49,000	50,000	46	101	151	180	208
50,000	51,000	48	104	155	186	215
51,000	52,000	49	108	159	192	221
52,000	53,000	51	110	165	197	228
53,000	54,000	52	114	169	203	234
54,000	55,000	53	117	174	208	241
55,000	56,000	55	120	178	214	248
56,000	57,000	56	123	183	220	254
57,000	58,000	58	126	188	225	261
58,000	59,000	59	130	192	231	267
59,000	60,000	61	133	197	236	273
60,000	62,000	63	137	204	245	283
62,000	64,000	66	144	213	256	296
64,000	66,000	68	150	223	268	308
66,000	68,000	71	157	232	278	322
68,000	70,000	74	163	241	290	335
70,000	72,000	77	169	251	301	348
72,000	74,000	80	175	261	312	361
74,000	76,000	83	182	269	324	374
76,000	78,000	86	188	279	335	386
78,000	80,000	89	194	288	346	400
80,000	85,000	94	205	305	366	422
85,000	90,000	101	221	328	394	455
90,000	95,000	108	237	351	422	488
95,000	100,000 ²	115	253	375	450	519

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 vehicle is more than \$100,000, see Rev. Proc. 2015-19 (2015-8 I.R.B. 656), available at www.irs.gov/irb/2015-8_IRB/ar10.html.

Appendix B-4. Inclusion Amounts for Trucks and Vans First Leased in 2016

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 19,500	\$ 20,000	\$ 3	\$ 8	\$ 12	\$ 14	\$ 16
20,000	20,500	4	10	15	17	20
20,500	21,000	5	12	17	21	25
21,000	21,500	6	14	20	25	28
21,500	22,000	7	16	23	28	32
22,000	23,000	8	19	28	33	38
23,000	24,000	10	23	33	41	46
24,000	25,000	12	26	40	47	55
25,000	26,000	14	30	46	54	63
26,000	27,000	16	34	51	62	70
27,000	28,000	17	38	58	68	79
28,000	29,000	19	42	63	76	86
29,000	30,000	21	46	69	82	95
30,000	31,000	23	50	75	89	103
31,000	32,000	25	54	80	97	111
32,000	33,000	26	58	86	104	119
33,000	34,000	28	62	92	111	127
34,000	35,000	30	66	98	117	136
35,000	36,000	32	70	104	124	143
36,000	37,000	34	73	110	132	151
37,000	38,000	35	78	115	139	160
38,000	39,000	37	82	121	146	167
39,000	40,000	39	85	128	152	176
40,000	41,000	41	89	133	160	184
41,000	42,000	42	94	139	166	192
42,000	43,000	44	97	145	174	200
43,000	44,000	46	101	151	181	208
44,000	45,000	48	105	157	187	217
45,000	46,000	50	109	162	195	224
46,000	47,000	51	113	169	201	233
47,000	48,000	53	117	174	209	240
48,000	49,000	55	121	180	216	248
49,000	50,000	57	125	186	222	257
50,000	51,000	59	129	191	230	265
51,000	52,000	60	133	197	237	273
52,000	53,000	62	137	203	244	281
53,000	54,000	64	141	209	250	290
54,000	55,000	66	144	216	257	298
55,000	56,000	68	148	221	265	305
56,000	57,000	69	153	226	272	314
57,000	58,000	71	156	233	279	321
58,000	59,000	73	160	239	285	330
59,000	60,000	75	164	244	293	338
60,000	62,000	77	170	253	304	350
62,000	64,000	81	178	265	317	366
64,000	66,000	85	186	276	331	383
66,000	68,000	88	194	288	345	399
68,000	70,000	92	202	299	360	414
70,000	72,000	95	210	311	374	431
72,000	74,000	99	217	324	387	447
74,000	76,000	102	226	335	401	463
76,000	78,000	106	233	347	415	480
78,000	80,000	110	241	358	430	495
80,000	85,000	116	255	379	454	524
85,000	90,000	125	274	409	489	564
90,000	95,000	134	284	437	525	605
95,000	100,000 ²	156	314	466	560	645

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 vehicle is more than \$100,000, see Rev. Proc. 2016-23 (2016-16 I.R.B. 581), available at www.irs.gov/irb/2016-16_IRB/ar06.html.

Appendix B-5. Inclusion Amounts for Trucks and Vans First Leased in 2017

Fair Market Value		Tax Year of Lease ¹				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$19,500	\$20,000	\$4	\$8	\$11	\$13	\$16
20,000	20,500	4	10	14	17	20
20,500	21,000	5	12	17	21	23
21,000	21,500	6	14	20	24	28
21,500	22,000	7	16	23	28	32
22,000	23,000	9	19	27	33	38
23,000	24,000	10	23	34	40	46
24,000	25,000	12	27	39	48	54
25,000	26,000	14	31	45	55	62
26,000	27,000	16	35	51	62	71
27,000	28,000	18	39	57	69	79
28,000	29,000	19	43	63	76	88
29,000	30,000	21	47	69	83	96
30,000	31,000	23	51	75	90	104
31,000	32,000	25	55	81	97	112
32,000	33,000	27	59	87	104	120
33,000	34,000	29	63	93	111	129
34,000	35,000	30	67	99	119	136
35,000	36,000	32	71	105	126	145
36,000	37,000	34	75	111	133	153
37,000	38,000	36	79	117	140	161
38,000	39,000	38	83	122	148	169
39,000	40,000	40	87	128	155	177
40,000	41,000	41	91	135	161	186
41,000	42,000	43	95	141	168	194
42,000	43,000	45	99	146	176	203
43,000	44,000	47	103	152	183	211
44,000	45,000	49	107	158	190	219
45,000	46,000	50	111	165	196	228
46,000	47,000	52	115	170	204	236
47,000	48,000	54	119	176	211	244
48,000	49,000	56	123	182	218	252
49,000	50,000	58	127	188	225	261
50,000	51,000	60	131	194	232	269
51,000	52,000	61	135	200	240	277
52,000	53,000	63	139	206	247	285
53,000	54,000	65	143	212	254	293
54,000	55,000	67	147	218	261	301
55,000	56,000	69	151	224	268	309
56,000	57,000	70	155	230	275	318
57,000	58,000	72	159	236	282	326
58,000	59,000	74	163	242	289	335
59,000	60,000	76	167	248	296	343
60,000	62,000	79	173	256	308	355
62,000	64,000	82	181	269	321	372
64,000	66,000	86	189	280	336	388
66,000	68,000	90	197	292	350	404
68,000	70,000	93	205	304	365	420
70,000	72,000	97	213	316	379	437
72,000	74,000	101	221	328	393	453
74,000	76,000	104	229	340	407	470
76,000	78,000	108	237	352	421	487
78,000	80,000	111	245	364	436	503
80,000	85,000	118	259	384	461	532
85,000	90,000	127	279	414	497	573
90,000	95,000	136	299	444	532	614
95,000	100,000 ²	145	319	474	567	656

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 vehicle is more than \$100,000, see Rev. Proc. 2017-29 (2017-14 I.R.B. 1065), available at [IRS.gov/irb/2017-14_IRB/ar10.html](https://www.irs.gov/irb/2017-14_IRB/ar10.html).



"Hours of service" limits [12](#)
 Form 2106 [34](#)
 50% limit on meals [5](#)

A

Accountable plans [30-32](#)
Accounting to employer [30](#)
Adequate accounting [30](#)
 Independent contractors [33](#)
Adequate records [25](#)
Advertising:
 Car display [15](#)
 Expenses [12](#)
 Signs, display racks, or other promotional material to be used on recipient's business premises [14](#)
Airline clubs [13](#)
Allocating costs [4, 12, 27](#)
Allowance (See Reimbursements)
Armed forces:
 Assigned overseas [3](#)
Assistance (See Tax help)
Associated entertainment [10](#)
Athletic clubs [13](#)

B

Basis of car [18](#)
 (See also Depreciation of car)
Bona fide business purpose [5](#)
Box seats at entertainment events [12](#)
Business travel [6](#)
 Outside U.S. [7](#)
Business use of car [16](#)
 More-than-50%-use test. [19](#)
 Qualified business use [19](#)

C

Canceled checks:
 As evidence of business expenses [25](#)
Car, defined [17](#)
Car, truck, or van rentals [23, 24](#)
Car expenses [15-24](#)
 Actual expenses [16](#)
 Allowances for [30-32](#)
 Business and personal use [16](#)
 Combining expenses [27](#)
 Disposition of car [24](#)
 Fixed and variable rate (FAVR) allowance [31](#)
 Form 2106 [34](#)
 Leasing a car, truck, or van [23, 24](#)
 Mileage rate (See Standard mileage rate)
 Taxes paid on car [17](#)
 Traffic tickets [17](#)
Car pools [15](#)
Car rentals [24](#)
 Form 2106 [34](#)
Casualty and theft losses:
 Cars [17](#)
 Depreciation [24](#)

Charitable organizations:

Benefit events for [12](#)
 Sports events to benefit [12](#)
Club dues [13](#)
Commuting expenses [15](#)
Conventions [9, 10](#)
Country clubs [13](#)
Cruise ships [9](#)

D

Daily business mileage and expense log (Table 6-2) [27](#)
Depreciation of car [17](#)
 (See also Section 179 deductions)
Depreciation of Car:
 Adjustment for using standard mileage rate [24](#)
 Basis:
 Sales taxes [17](#)
 Unrecovered basis [21](#)
 Casualty or theft, effect [24](#)
 Deduction [17, 24](#)
 Excess depreciation [23](#)
 Modified Accelerated Cost Recovery System (MACRS) [20](#)
 Section 179 deduction [21](#)
 Trade-in, effect [19, 24](#)
 Trucks and vans [21](#)

Directly-related

entertainment [10](#)

Disabled employees:

Impairment-related work expenses [35](#)

Documentary evidence [25](#)**E**

Employer-provided vehicles [16](#)
 Reporting requirements [29](#)

Entertainment

expenses [10-12, 14](#)
 50% limit [11](#)
 Determination of applicability (Figure A) [11](#)
 Associated test [10](#)
 Deductible [12, 13](#)
 Summary (Table 2-1) [12](#)
 Directly-related test [10](#)
 Entertainment, defined [12](#)
 Form 2106 [34](#)
 Tickets (See Tickets)

Entertainment facilities:

Expenses for use of [13](#)

Estimates of expenses [25](#)**Exceptions to the 50% Limit** [11](#)**Excess**

reimbursements (See Reimbursements)

Extravagant expenses [5, 12](#)**F**

Fair market value of car [23](#)
Farmers:
 Form 1040, Schedule F [27](#)

Federal crime investigations or prosecutions:

Federal employees engaged in [4](#)

Federal rate for per diem [6, 30](#)

Fee-basis officials [35](#)

Fees you pay [15](#)

Fixed and variable rate (FAVR) allowance [31](#)

Form 1040, Schedule C [27](#)

Form 1040, Schedule F [27, 29](#)

Form 2106 [18, 29, 33, 34](#)

Form 2106-EZ [34](#)

Form 4562 [29](#)

Form 4797 [23](#)

Form W-2:

Employer-provided vehicles [29](#)
 Reimbursement of personal expenses [29](#)
 Statutory employees [29](#)

G

Gifts [13, 14](#)
 \$25 limit [14](#)
 Combining for recordkeeping purposes [27](#)
 Reporting requirements [29](#)
Golf clubs [13](#)

H

Hauling tools [15](#)
High-low method:
 Introduction [33](#)
 Transition rules [33](#)
High-low rate method [31](#)
Home office [15](#)
Hotel clubs [13](#)

I

Identity theft [36](#)
Impairment-related work expenses [35](#)
Incidental expenses:
 Defined [5](#)
 Gifts [14](#)
 No meals, incidentals only [5](#)
Income-producing property [29](#)
Incomplete records [25](#)
Indefinite job assignment [4](#)
Independent contractors [33](#)
Interest on car loans [16](#)
Itinerants [3](#)

L

Lavish or extravagant expenses [5, 12](#)
Leasing a car, truck, or van [23, 24](#)
Luxury private boxes at entertainment events [12](#)
Luxury water travel [8](#)

M

MACRS (Modified Accelerated Cost Recovery System) [20](#)
 2016 chart (Table 4-1) [22](#)

Main place of business or work [3](#)

Married taxpayers:

Performing artists [35](#)

Meal expenses [5](#)

50% limit [11](#)
 Determination of applicability (Figure A) [11](#)
 Exceptions [11](#)
 Actual cost method [5](#)
 Form 2106 [34](#)
 Major cities with higher allowances [6](#)
 Standard meal allowance [5, 6, 31](#)

Meals,

entertainment-related [12](#)

Mileage rate (See Standard mileage rate)

Military (See Armed forces)

Missing children, photographs of [2](#)

Modified Accelerated Cost Recovery System (MACRS) [20](#)
 2016 chart (Table 4-1) [22](#)

N

Nonaccountable plans [32](#)

O

Office in the home [15](#)
Officials paid on fee basis [35](#)
Overseas travel:
 Conventions [9](#)
 Meal allowance [6](#)
 Part of trip outside U.S. [6](#)

P

Parking fees [15, 16](#)
Per diem allowances [30-32](#)
 Defined [29](#)
 Federal rate for [30](#)
Per diem rates:
 High-cost localities [33](#)
 High-low method [33](#)
 Regular federal method [33](#)
 Standard rate for unlisted localities [33](#)
 Transition rules [33, 34](#)
Performing artists [35](#)
Personal property taxes [16, 17](#)
Personal trips [6](#)
 Outside U.S. [8](#)
Placed in service, cars [18](#)
Probationary work period [4](#)
Proving business purpose [25](#)
Publications (See Tax help)
Public transportation:
 Outside of U.S. travel [7](#)

R

Recordkeeping

requirements [25-27](#)

Adequate records [25](#)

Daily business mileage and expense log (Table 6-2) [27](#)

Destroyed records [26](#)

How to prove expenses (Table 5-1) [26](#)

Incomplete records [25](#)

Reimbursed expenses [27](#)

Sampling to prove expenses [26](#)

Separating and combining expenses [26, 27](#)

Three-year period of retention [27](#)

Weekly travel expense and entertainment record (Table 6-3) [28](#)

Regular federal method:

Introduction [33](#)

Transition rules [34](#)

Reimbursements [29-33](#)

Accountable plans [30](#)

Excess [32](#)

Form 2106 [34](#)

Nonaccountable plans [32](#)

Nondeductible expenses [30](#)

Personal expenses [29](#)

Recordkeeping [27](#)

Reporting (Table 6-1) [32](#)

Unclaimed [29](#)

Reporting requirements [27](#)

Per diem or car allowance [31](#)

Reimbursements [29-33](#)

Reservists:

Transportation expenses [15](#)

Traveling more than 100 miles from home [35](#)

Returning excess

reimbursements [32](#)

Rural mail carriers [15](#)

S

Section 179 deduction:

Amended return [18](#)

Deduction [17](#)

Limits [17](#)

Self-employed persons [11](#)

Reporting requirements [27](#)

Skyboxes [12](#)

Spouse, expenses for [4, 13](#)

Standard meal allowance [5, 6, 31](#)

Standard mileage rate [2, 15, 31](#)

Depreciation adjustment for using [24](#)

Form 2106 [34](#)

Statutory employees [29](#)

T

Tables and figures:

50% limit determination (Figure A) [11](#)

Daily business mileage and expense log (Table 6-2) [27](#)

Entertainment expenses, determination of deductibility (Table 2-1) [10](#)

Maximum depreciation deduction for cars table [21](#)

Modified Accelerated Cost Recovery System (MACRS) 2016 chart (Table 4-1) [22](#)

Proving expenses (Table 5-1) [26](#)

Reporting reimbursements (Table 6-1) [32](#)

Transportation expenses, determination of deductibility (Figure B) [14](#)

Travel expenses, determination of deductibility (Table 1-1) [5](#)

Weekly travel expense and entertainment record (Table 6-3) [28](#)

Tax help [36](#)

Tax home, determination of [3](#)

Temporary job assignments [4](#)

Temporary work location [14](#)

Tickets [12, 14](#)

Season or series tickets [27](#)

Traffic violations [17](#)

Tools:

Hauling tools [15](#)

Trade association meetings [12](#)

Trade-in of car [19, 24](#)

Traffic tickets [17](#)

Transients [3](#)

Transition rules [33](#)

Example:

High-low method [33](#)

High-low method [33](#)

Regular federal method [34](#)

Transportation expenses [14-25](#)

Car expenses [15-24](#)

Deductible (Figure B) [14](#)

five or more cars [16](#)

Form 2106 [34](#)

Transportation workers [6, 12](#)

Travel advance [29, 32](#)
(See also Reimbursements)

Travel expenses [3-9](#)

Another individual accompanying taxpayer [4](#)

Away from home [3](#)

Deductible [4, 9](#)

Summary of (Table 1-1) [5](#)

Defined [3](#)

Going home on days off [4](#)

In U.S. [6](#)

Lodging [6](#)

Luxury water travel [8](#)

Outside U.S. [7](#)

Travel to family home [3](#)

Trucks and vans:

Depreciation [21](#)

Transportation workers [12](#)

Transportation workers' expenses [6](#)

Two places of work [15](#)

U

Unclaimed reimbursements [29](#)

Unions:

Trips from union hall to place of work [15](#)

Unrecovered basis of car [21](#)

V

Volunteers [2](#)

W

Weekly travel expense and entertainment record (Table 6-3) [28](#)
