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Business Use of a Car

For use in preparing
1995 Returns

Contents

Important Changes for 1995

Standard mileage rate. The standard mileage rate for the cost of operating your car in 1995 is 30 cents per mile for all business miles. See *Standard Mileage Rate.*

Limits on business cars. The total section 179 deduction and depreciation you can take on a car that you use in your business and first place in service in 1995 is $3,060. Your depreciation cannot exceed $4,900 for the second year of recovery, $2,950 for the third year of recovery, and $1,775 for each later tax year. See *Depreciation Limits.*

Important Reminders

Form 2106–EZ. You may be able to use Form 2106–EZ to claim your employee car expenses. See *Form 2106–EZ* under *Completing Forms 2106 and 2106–EZ* in Chapter 5.

Limit on itemized deductions. If you are an employee, you can deduct your business car expenses as a miscellaneous itemized deduction on Schedule A (Form 1040). The deductible amount of your car expenses, along with most of your other miscellaneous deductions, is limited to the amount that exceeds 2% of your adjusted gross income. Your total itemized deductions may be further limited if your adjusted gross income is more than $114,700 ($57,350 if you are married filing separately). For more information, see the instructions for Schedule A.

Introduction

This publication explains the rules for deducting expenses for the business use of your car. These rules apply to employees and self-employed persons who use a car for local business transportation or travel away from home.

To have deductible expenses, you may:

- Use your own car,
- Use a leased car (see Chapter 3), or
- Use an employer-provided car (see *Vehicle Provided by Your Employer* in Chapter 5).

You must choose whether to deduct your car expenses by claiming the standard mileage rate or using actual expenses. In either case, it is important that you keep accurate records of the business use of your car.

Employees use Form 2106 or 2106–EZ and Schedule A (Form 1040) to deduct these expenses. Self-employed persons use Schedule C, Schedule C–EZ, or Schedule F (Form 1040) to deduct these expenses. More information on how to report your business car expenses, including how to treat reimbursements, is provided in Chapter 5. Examples and filled-in forms are also provided to assist you in deducting your own car expenses.

Vehicle provided by employer. If your employer provided you with the use or availability of a vehicle, you received a fringe benefit. Generally, your employer must include the value of such use or availability in your income as compensation. However, there are exceptions if the use of the vehicle qualifies as a working condition fringe benefit or the vehicle is a qualified nonpersonal use vehicle. Employers should see Chapter 4 of Publication 535, *Business Expenses,* for information on fringe benefits.

A ***working condition fringe*** is any property or service provided to you by your employer that you could deduct as an employee business expense if you had paid for the property or service. A ***qualified nonpersonal use vehicle*** is any vehicle that is not likely to be used more than minimally for personal purposes because of the way it is designed.

For information on how to report your car expenses that your employer did not provide or reimburse you for (such as when you pay for gas and maintenance for a car your employer provides), see *Vehicle Provided by Your Employer* in Chapter 5.

Useful Items

You may want to see:

Publication

- ☐ **225** Farmer's Tax Guide
- ☐ **463** Travel, Entertainment, and Gift Expenses
- ☐ **535** Business Expenses

Form (and Instructions)

- ☐ **1040** U.S. Individual Income Tax Return
- ☐ **Schedule A (Form 1040)** Itemized Deductions
- ☐ **Schedule C (Form 1040)** Profit or Loss From Business
- ☐ **Schedule C–EZ (Form 1040)** Net Profit From Business
- ☐ **Schedule F (Form 1040)** Profit or Loss From Farming
- ☐ **2106** Employee Business Expenses
- ☐ **2106–EZ** Unreimbursed Employee Business Expenses
- ☐ **4562** Depreciation and Amortization

Ordering publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). If you have access to TDD equipment, you can call 1–800–829–4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can also get many forms and publications electronically. See *How To Get Forms and Publications* in your income tax package for details.

Asking tax questions. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call 1–800–829–1040 (1–800–829–4059 for TDD users).

1. When Car Expenses Are Deductible

This chapter provides general guidelines on when you may be able to deduct business-related car expenses on your income tax return.

Deductible car expenses include those necessary to drive and maintain a car that you use to go from one workplace to another. They do not include commuting expenses. Commuting expenses are the costs of driving your car between your home and your regular workplace.

There are two types of business use of a car: expenses for travel away from home and local business transportation. This publication discusses how to deduct your business-related car expenses whether you are traveling away from home or using your car for local business transportation. If you have other travel or transportation expenses, see Publication 463.

Travel away from home. You are traveling away from home for business reasons if:

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

Your ***tax home*** is the entire city or general area in which your main place of work or business is located, regardless of where you maintain your family home. For more information about your tax home, see Publication 463.

Local Business Transportation

You can deduct car expenses for local business transportation if they are not commuting expenses. (Commuting is discussed later in this chapter.)

The following discussion applies to you if you have a regular or main job away from your residence. If your principal place of business is in your home, see *Office in the home,* later.

Local business transportation is traveling between two or more workplaces in the same day or between your home and a temporary work location. See *Temporary work location* and *Two places of work,* later. Other examples of deductible local business transportation include the costs of visiting clients or customers or going to a business meeting away from your regular workplace.

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

Temporary work location. If you have one or more regular places of business and commute to a temporary work location, you can deduct the expenses of the daily round-trip transportation between your residence and the temporary location. The temporary work must be irregular or short term (generally a matter of days or weeks).

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 and may have deductible travel expenses. See Chapter 1 of Publication 463 for more information.

If you do not have a regular place of work, but you ordinarily work at different locations in the metropolitan area where you live, you can deduct daily transportation expenses between your home and a temporary work site ***outside*** your metropolitan area. Generally, a metropolitan area includes the area within the city limits and the suburbs that are considered part of that metropolitan area. You cannot deduct daily transportation costs between your home and temporary work sites ***within*** your metropolitan area. These are nondeductible commuting costs.

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

Armed Forces reservists. A meeting of an Armed Forces reserve unit is considered a second place of business if the meeting is held on the same day as your regular job. You can deduct the expense of getting to or from one workplace to the other as just discussed under *Two places of work.* You usually cannot deduct the expense if the meeting is held on a nonworkday for your regular job. In this case, your transportation is generally considered a nondeductible commuting cost.

For reserve meetings held on nonworkdays, you can deduct your daily round-trip transportation expenses only if the location of the meeting is temporary and you have one or more regular places of work.

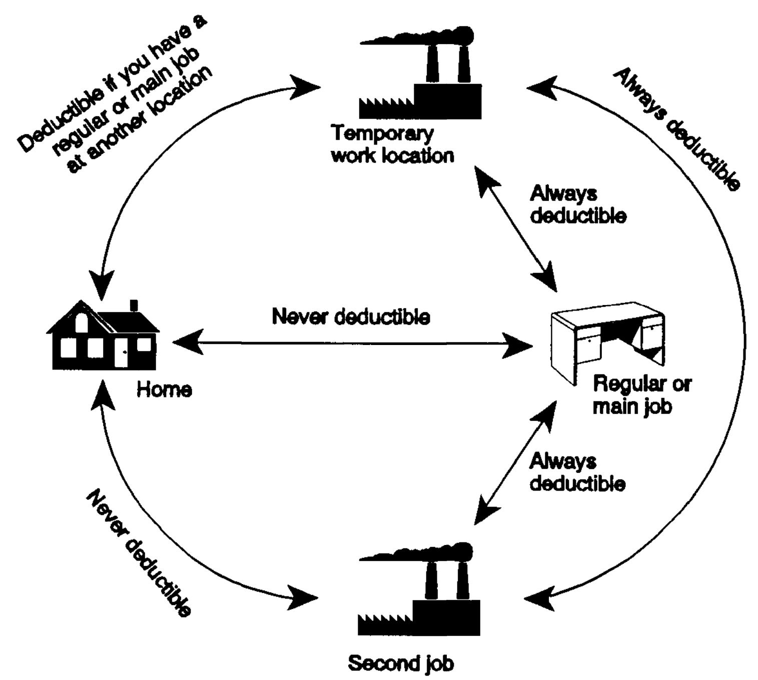
If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your daily transportation expenses.

If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. These include the costs of your meals, lodging, and your round-trip transportation between your home and the meeting site. For more information, see Chapter 1 of Publication 463.

Commuting Expenses

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

Figure A. When Are Local Transportation Expenses Deductible?
(Do not use this chart if your home is your principal place of business. See *Office in the home.*)



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

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

Temporary work location: A place where your work assignment is irregular or short-term, generally a matter of days or weeks. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary location outside your metropolitan area.

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

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

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

Hauling tools or instruments. If you haul tools or instruments in your vehicle while commuting to and from work, this does not make your commuting costs deductible. However, you can deduct additional costs, such as renting a trailer that you tow with your vehicle, for carrying equipment to and from your job.

Advertising display on car. The use of your car to display material that advertises your business does not change the use of your car from personal use to business use. If you use this car for commuting or other personal uses, you cannot deduct your expenses for such uses. Commuting or personal expenses are not deductible.

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, these costs are nondeductible commuting expenses.

Example. You are a banquet waitress who works at several locations in your hometown area. You must appear at the union hall to receive your work assignment for the day. Although you need the union to get the job, you are employed where you work, not where the union hall is located. You cannot deduct the trips from your union hall to your place of work.

Parking fees. You cannot deduct fees you pay to park your car at your place of work. They are nondeductible commuting expenses.

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

If your home office does not qualify as a principal place of business, follow the general rules explained earlier.

Examples of Deductible Local Transportation

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

Example 1. Your office is in the same city as your home. You cannot deduct the cost of transportation between your home and your office; this is a personal commuting expense. You can deduct the cost of round-trip transportation between your office and a client's or customer's place of business.

Example 2. You regularly work in an office in the city where you live. Your employer sends you to a one-week training session at a different office in the same city. You travel directly from your home to the training location and return each day. You can deduct the cost of your daily round-trip transportation between your home and the training location.

Example 3. Your principal place of business is in your home. (The rules for "principal place of business" are discussed in Publication 587, *Business Use of Your Home*.) You can deduct the round-trip business-related local transportation expenses between your qualifying home office and your client's or customer's place of business. You can only deduct expenses for business transportation.

Example 4. You have no regular office, and you do not have an office in your home. In this case, the location of your first business contact is considered your office. Transportation expenses between your home and this first contact are nondeductible commuting expenses. In addition, transportation expenses between your last business contact and your home are also nondeductible commuting expenses. Although you cannot deduct the costs of these trips, you can deduct the costs of going from one client or customer to another.

2. What Car Expenses Are Deductible

This chapter discusses what deductions you can claim for the business use of your car. Most persons can choose to use the standard mileage rate or the actual expenses of operating their car. Both methods are discussed in this chapter.

Whether you use the standard mileage rate or actual expenses, you must maintain records to show the business use and total use of your car as well as its cost. See Chapter 4 for more information on recordkeeping.

Tax incentives for clean-fuel vehicles. You may be entitled to a tax credit for an electric vehicle or a deduction from gross income for a part of the cost of a clean-fuel vehicle if you place one of these vehicles in service after June 30, 1993. The vehicle must meet certain requirements, and you do not have to use it in your business to qualify for the credit or the deduction. However, you must reduce your basis for depreciation of the clean-fuel vehicle property by the amount of the credit or deduction you claim. See *Depreciation Deduction,* later. For more information on clean-fuel vehicles, see Chapter 15 of Publication 535, *Business Expenses.*

Standard Mileage Rate

You may be able to use the standard mileage rate to figure the deductible costs of operating your car, van, pickup, or panel truck for business purposes.

For 1995, the standard mileage rate is ***30 cents a mile*** for all business miles (45 cents a mile for U.S. Postal Service employees with rural routes). These rates are adjusted periodically for inflation.

If you choose to take the standard mileage rate, you ***cannot*** deduct actual operating expenses. These include depreciation, maintenance and repairs, gasoline (including gasoline taxes), oil, insurance, and vehicle registration fees.

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 5 for more information on reimbursements.

Choosing the standard mileage rate. If you want to use the standard mileage rate for a car, you must choose to use it in the first year you place the car in service in business. Then in later years, you can choose to use the standard mileage rate or actual expenses.

If you choose to use the standard mileage rate, you are considered to have made an election not to use the depreciation methods discussed later. This is because the standard mileage rate allows for depreciation. You also cannot claim the section 179 deduction (discussed later). If you change to the actual expenses method in a later year, but before your car is considered fully depreciated, you have to estimate the useful life of the car and use straight line depreciation. See the exception in *Methods of depreciation* under *Depreciation Deduction,* later.

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

1) Do not own the car,
2) Use the car for hire (such as a taxi),
3) Operate two or more cars at the same time (as in fleet operations),
4) Claimed a deduction for the car in an earlier year using:
   a) ACRS or MACRS depreciation (discussed later), or
   b) A section 179 deduction (discussed later).

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

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

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

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

Example 2. Tony uses his own pickup truck in his landscaping business. During 1995, he traded in his old truck for a newer one. Tony can take the standard mileage rate for the business mileage of both the old and the new trucks.

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

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

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

However, if you are self-employed and use your car in your business, you can deduct that part of the interest expense that represents your business use of the car. For example, if you use your car 50% for business, you can deduct 50% of the interest on Schedule C (Form 1040). You cannot deduct the rest of the interest expense.

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

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

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

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

Actual Car Expenses

If you do not choose to use the standard mileage rate, you may be able to deduct your actual car expenses. If you qualify to use both methods, figure your deduction both ways to see which gives you a larger deduction.

Actual car expenses include the costs of:

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

If you have fully depreciated a car that you are still using in your business, you can continue to claim your other operating expenses for the business use of your car. Continue to keep records, as explained later in Chapter 4.

How to report your car expenses is explained 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.

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

Employer-provided vehicle. If you use a vehicle provided by your employer for business purposes, you can deduct your actual unreimbursed car expenses. You cannot use the standard mileage rate if you do not own the car. See *Vehicle Provided by Your Employer* in Chapter 5.

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

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

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

Fines and collateral. Fines and collateral for traffic violations are not deductible.

Casualty and theft losses. If your car is damaged, destroyed, or stolen, you may be able to deduct part of the loss that is not covered by insurance, whether or not you used your car entirely for business. See Chapter 25 in Publication 334, *Tax Guide for Small Business,* for more information on figuring the loss on a car used for business. If your car is used partly for personal purposes, see Publication 547, *Nonbusiness Disasters, Casualties, and Thefts,* for information on deducting the part of the loss for that personal use.

Depreciation. Generally, the cost of a car, plus sales tax, luxury tax, and improvements, is a capital expense. You can recover this cost by claiming a section 179 deduction (the deduction allowed by Section 179 of the Internal Revenue Code) and/or a depreciation deduction. In other words, you recover the cost over more than one year by deducting part of it each year. The section 179 deduction and the depreciation deduction are discussed later.

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

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

Car defined. For depreciation purposes, a car is any four-wheeled vehicle that is made primarily for use on public streets, roads, and highways. It must have an unloaded gross vehicle weight of 6,000 pounds or less. A truck or van is included in the definition only if it has a gross vehicle weight of 6,000 pounds or less. A car includes any part, component, or other item that is physically attached to it or is traditionally included in the purchase price.

A car does not include:

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

If your vehicle does not meet this definition, see Publication 946, *How To Depreciate Property,* for information on how to depreciate your vehicle.

Section 179 Deduction

The section 179 deduction allows you to elect to treat part or all of the business cost of a car as an expense rather than taking depreciation deductions over a specified recovery period. As an expense, the section 179 amount is deductible only in the year the car is placed in service. For this purpose, ''placed in service'' means the year you first use the car for any purpose. A car first used for personal purposes cannot qualify for the deduction in a later year when its use changes to business.

Example. In 1994 you bought a new car and placed it in service for personal purposes. In 1995 you began to use it for business. The fact that you changed its use to business use does not qualify the cost of your car for a section 179 deduction in 1995. However, you can claim a depreciation deduction for the business use of the car in 1995. See *Depreciation Deduction,* later.

Limits. There are limits on:

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

Limit on cost of qualifying property. Generally, you can elect to treat up to $17,500 of the cost of qualifying property as a section 179 deduction in 1995. The yearly limit, however, depends on the percentage of business use, and you must use the property ***more than 50%*** for business in order to claim any section 179 deduction.

Example 1. Peter purchased a car in 1995 for $4,500 and he used it 60% for business. The total cost of Peter's car that qualifies for the section 179 deduction is $2,700 ($4,500 cost × 60% business use). But see *Limit on total section 179 and depreciation deductions,* discussed next.

Example 2. Suzan placed a car in service in 1995 and did not use the car more than 50% for business that year. She is not allowed a section 179 deduction for the car. This is true even if she uses the car more than 50% for business in a later year. See *Car Used 50% or Less for Business,* later in this chapter, for more information.

Limit on total section 179 and depreciation deductions. The total amount of section 179 deduction plus depreciation deduction that you can claim for a car that you place in service in 1995 cannot be more than $3,060. The limit is reduced if your business use of the car is less than 100%. See *Depreciation Limits,* later, for more information.

Example 3. Peter, in *Example 1,* earlier, had a car with a qualifying cost of $2,700 for his section 179 deduction. However, Peter is limited to a total section 179 deduction plus depreciation deduction of $1,836 ($3,060 limit × 60% business use).

Example 4. You buy a car and place it in service on March 1, 1995. You use the car 70% for business. Your total section 179 deduction and depreciation deduction cannot be more than $2,142 (70% × $3,060).

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

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

Generally, electing a section 179 deduction gives you a larger total deduction (depreciation plus section 179 deduction) in the first year. Not electing it gives you a larger depreciation deduction in the subsequent years.

Example. On January 3, 1995, Stella bought a car for $12,000, including sales tax, to use exclusively in her delivery business. She paid $9,000 cash and received $3,000 in trade for her old car (also used in her business). The adjusted basis of her old car was $3,000.

Stella's cost of the new car is $9,000 for purposes of section 179. Her basis for depreciation would be $12,000 if she does not elect section 179. The total of her section 179 and depreciation deductions is limited to $3,060, the first year maximum. If she does not elect section 179, her depreciation deduction, using the MACRS method (discussed later), would be $2,400 [$12,000 basis × 20% (double declining balance rate)] from *Table 1,* explained later.

When to elect. If you want to take the section 179 deduction, you must make the election in the tax year you both purchase the car ***and*** place it in service for business or work. Employees use Form 2106 to make this election and report the section 179 deduction. All others use Form 4562. Make your election by taking the deduction on the appropriate form and file it with your original tax return. You cannot make the election on an amended tax return filed after the due date (including extensions). Once made, the election can be changed only with the consent of the Internal Revenue Service (IRS).

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

Dispositions. If you dispose of a car on which you had claimed the section 179 deduction, the amount of that deduction is treated as a depreciation deduction for recapture purposes. Any gain on the disposition of the property is treated as ordinary income up to the amount of the section 179 deduction and any depreciation you claimed. For information on the disposition of depreciable property, see Chapter 4 of Publication 544, *Sales and Other Dispositions of Assets.*

Depreciation Deduction

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

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

1) The car's basis,
2) The date the car was placed in service, and
3) The method of depreciation you will use.

Basis. The car's basis for figuring depreciation is your original basis reduced by:

1) Any section 179 deduction (discussed earlier in this chapter),
2) Any clean-fuel vehicle deduction (discussed in Publication 535), and
3) Any qualified electric vehicle credit (discussed in Publication 535).

The original basis of property you buy is usually its cost. Additional rules concerning basis are discussed later in this chapter under *Unadjusted Basis.*

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

For purposes of computing depreciation, if you first start using the car entirely for personal use and later convert it to business use, the car is treated as placed in service on the date of conversion. Your basis is the lesser of the fair market value or the car's adjusted basis on the date of conversion.

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

Methods of depreciation. Generally, one depreciation system is available for cars placed in service after 1986: modified accelerated cost recovery system (MACRS). MACRS rules for cars are discussed later in this chapter.

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

To figure the depreciation, 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 to basis is in addition to those basis adjustments described later under *Unadjusted Basis.* You must use the adjusted basis of your car to figure your depreciation deduction. For additional information on how to figure your depreciation under this exception, use the information in Publication 534, *Depreciating Property Placed in Service Before 1987.*

Cars placed in service before 1987. If you are still depreciating a car you placed in service before 1987, continue to follow the rules appropriate for that method. See Publication 534 for more information.

Percentage of use. Generally, you must use a car more than 50% for business or work to qualify for the section 179 deduction and MACRS deduction. If your business use is 50% or less, you must use the straight line method to depreciate your car. See *Car Used 50% or Less for Business,* later, for information on using your car more than 50% for business.

Change in percentage of use. If your business use falls to 50% or less in a later year, you may have to include in your income any excess depreciation. See *Car Used 50% or Less for Business,* later in this chapter, for a discussion of excess depreciation.

Limits. The amount you can claim for section 179 and depreciation deductions may be limited. *Table 2* will help you determine the maximum limits that apply depending on when you placed your car in service. You have to adjust the amounts shown on the chart if you did not use the car exclusively for business.

Unadjusted Basis

Your unadjusted basis for figuring depreciation is your original basis increased or decreased by certain amounts.

To figure your unadjusted basis, begin with the original basis of your car, generally its cost. Cost includes sales and luxury taxes, destination charges, and dealer preparation. Increase your basis by any substantial improvements you make to your car, and decrease it by any deductible casualty loss, diesel fuel tax credit, gas guzzler tax, section 179 deduction, clean-fuel vehicle deduction, and qualified electric vehicle credit. The result is your unadjusted basis for figuring your depreciation using the depreciation chart explained later under *Modified Accelerated Cost Recovery System (MACRS).*

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

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

Effect of trade-in on basis. When you trade an old car for a new one, the transaction is considered a like-kind exchange. In a trade-in situation, the original basis of the new property is generally the adjusted basis of the old property plus any additional payment you make.

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

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

Example 2. In July 1991, Marcia purchased a car for $26,000 and placed it in service for 100% use in her business. She did not elect a section 179 deduction. Marcia's unadjusted basis for the car was $26,000. For 1991 through 1994, Marcia figured her depreciation deduction using the MACRS chart for those years.

On September 20, 1995, Marcia traded that car in and paid $14,200 cash for a new car to be used 100% in her business. Marcia is allowed one-half of the regular depreciation amount for 1995 for her old car. (See *Disposition of a Car,* later.)

Marcia figures her original basis in the new car, $27,617, as follows.

Cost of old car		$26,000
Less: Total depreciation allowed:		
1995—Cost × .1152 × ½ year = $1,498		
Limited to $1,575	$1,498	
1994—Cost × .1152 = $2,995		
Limited to $1,575	1,575	
1993—Cost × .192 = $4,992		
Limited to $2,550	2,550	
1992—Cost × .32 = $8,320		
Limited to $4,300	4,300	
1991—Cost × .20 = $5,200		
Limited to $2,660	2,660	− 12,583
Adjusted basis of old car		$13,417
Plus: Additional cost for new car		+ 14,200
Basis of New Car		$27,617

Traded car used partly in business. If you trade in a car (that you acquired after June 18, 1984) that you used partly in your business for a new car that you will use in your business, you must make a ''trade-in'' adjustment for the personal use of the old car. This adjustment has the effect of reducing the basis of your old car, but not below zero, for purposes of figuring your depreciation deduction for the new car. (This adjustment is not used, however, when you determine the gain or loss on the later disposition of the new car.)

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

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

2) The total of the amounts actually allowable as depreciation during those years.

Example 1. In March, Mark traded his 1992 van for a new 1995 model. He used the old van 75% for business use and he used the new van 75% for business use in 1995. Mark claimed actual expenses for the business use of the old van since 1992. He did not claim a section 179 deduction for the old or the new van.

Mark paid $12,800 for the 1992 van in June 1992. He paid an additional $9,800 when he acquired the 1995 van. Mark was allowed ½ of the depreciation deduction amount for his old van for 1995, the year of disposition, as explained later under *Disposition of a Car.*

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

Cost of old van		$12,800
Less: Total depreciation allowed on the business cost of old van, $9,600 ($12,800 × 75%):		
1995—($9,600 × .1152) × ½ year	$ 553	
(Limit: $1,575 × 75% = $1,181)		
1994—$9,600 × .192	1,843	
(Limit: $2,650 × 75% = $1,988)		
1993—$9,600 × .32	3,072	
(Limit: $4,400 × 75% = $3,300)		
1992—$9,600 × .20	1,920	
(Limit: $2,760 × 75% = $2,070)		− 7,388
Adjusted basis of old van		$ 5,412
Plus: Additional cost for new van		+ 9,800
Basis of new van before trade-in adjustment		$15,212
Trade-in adjustment:		
Depreciation at 100% business use:		
1995—($12,800 × .1152) × ½ year	$ 737	
(Limit: $1,575)		
1994—$12,800 × .192	2,458	
(Limit: $2,650)		
1993—$12,800 × .32	4,096	
(Limit: $4,400)		
1992—$12,800 × .20	2,560	
(Limit: $2,760)		
Total	$9,851	
Less: Actual depreciation allowed	7,388	
Excess of 100% over actual amount	$2,463	
Less: Lesser of Excess amount ($2,463) *or* Adjusted basis of old van ($5,412)		− 2,463
Unadjusted basis of new van for depreciation		**$12,749**

Example 2. Rob paid $15,000 for a new car that he placed in service in 1993. He used it partly for business in 1993 (9,000 business miles of 15,000 total miles) and 1994 (12,000 business miles of 16,000 total miles). He used the standard mileage rate in both years to claim the business use of his car. See *Depreciation adjustment when you used the standard mileage rate* under *Disposition of a Car,* later.

On January 3, 1995, Rob traded in this car and paid an additional $6,000 for his new car. Rob figures the unadjusted basis for his new car as shown next:

Cost of old car		$15,000
Less: Total depreciation allowed:		
1994—12,000 mi. × .12	$1,440	
1993—9,000 mi. × .11½	1,035	− 2,475
Adjusted basis of old car		$12,525
Plus: Additional cost for new car		+ 6,000
Basis of new car before trade-in adjustment		$18,525
Trade-in adjustment:		
Depreciation at 100% business use:		
1994—16,000 mi. × .12	$1,920	
1993—15,000 mi. × .11½	1,725	
Total	$3,645	
Less: Actual depreciation allowed	2,475	
Excess of 100% over actual amount	$1,170	
Less: Lesser of Excess amount ($1,170) *or* Adjusted basis of old car ($12,525)		− 1,170
Unadjusted basis of new car for depreciation		**$17,355**

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. These rules generally apply to cars placed in service after 1986. For information on cars placed in service before 1987, see Publication 534.

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 business car, truck, or van over a period of 6 calendar years. This is because your car is generally treated as placed in service or disposed of in the middle of the year.

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

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

Depreciation methods. There are three methods that you can use to depreciate your car:

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

Note: If you use *Table 1* (discussed later), you do not need to determine in what year your deduction is greater using the straight line method. This is because the chart has the switch to the straight line method built into its rates.

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

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

MACRS depreciation chart. A *MACRS Depreciation Chart* and instructions are included in this section as *Table 1* to make figuring your 1995 depreciation deduction easy. [This chart is for 12-month calendar year filers only. If you file your return on a fiscal year basis or for a short tax year (less than 12 months), use the Depreciation Tables in Publication 946.]

If you use the percentages from the chart, you must continue to use them for the entire recovery period of your car. However, you cannot continue to use the chart if the basis of your car is adjusted because of a casualty. In that case, for the year of adjustment and the remaining recovery period, figure the depreciation without the chart using the car's adjusted basis at the end of the year of adjustment and over the remaining 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 chart. To figure your depreciation deduction, find the percentage in the column of the chart based on the date that you first placed the car in service and the depreciation method that you are using. Multiply the unadjusted basis of your car (defined earlier) by that percentage to determine the amount of your depreciation deduction. If you prefer to figure your depreciation deduction without the help of the chart, see Publication 946.

The unadjusted basis of your car for MACRS depreciation purposes is generally your cost minus any section 179 deduction, any clean-fuel vehicle deduction, and any qualified electric vehicle credit. If the car is used only partly for business, reduce your cost by any clean-fuel vehicle deduction and any qualified electric vehicle credit. Multiply the result by the business use percentage and then subtract the section 179 deduction to arrive at your unadjusted basis. If your business use falls to 50% or less, you may have to include in your income any excess depreciation. See *Car Used 50% or Less for Business,* later in this chapter, for more information.

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

Example 1. Phil bought a used truck in February 1995 to use exclusively in his landscape business. He paid $6,200 for the truck with no trade-in. Phil does not elect any section 179 deduction and he chooses to use the 200%DB method to get the largest depreciation deduction in 1995.

Phil uses *Table 1* to find his percentage. He reads down the first column for the date placed in service and across to the 200%DB column. He multiplies the unadjusted basis of his truck, $6,200, by that percentage, 20%, to figure his 1995 depreciation deduction of $1,240.

Example 2. In February 1991, Edna purchased a car for $12,000 to use 100% in her plant and floral business. At night, she parked the vehicle at her floral shop. She used another vehicle for personal purposes.

Edna did not purchase any other assets for use in her business during that year. She did not claim the section 179 deduction and she chose the 200%DB method of depreciation. For 1991 through 1994, Edna used the MACRS chart for those years to figure her depreciation deductions.

For 1995, Edna uses *Table 1* to find her percentage. She reads down the first column to the date she placed her car in service. She then reads across to the 200%DB column and finds that her percentage for 1995 is 11.52%. Assuming that Edna continued to use her car 100% for business, her 1995 depreciation deduction is $1,382 ($12,000 × 11.52%).

Depreciation Limits

There are limits on the amount you can deduct for depreciation of your car. The maximum amount you can deduct each year depends on the year you place the car in service. These limits are shown in *Table 2.*

The depreciation limits are not reduced if you use a car for less than a full year. This means that you do not reduce the limit when you either place a car in service or dispose of a car during the year.

Example. Marie purchased a car in June 1995 for $16,000 to use exclusively in her business. She does not claim the section 179 deduction and she chooses the 200%DB method of depreciation.

Marie's depreciation from *Table 1* is $3,200 ($16,000 × 20%). However, the maximum amount she can deduct for depreciation (from *Table 2*) is $3,060. (See *Deductions in years after the recovery period,* later.)

Table 1. **MACRS Depreciation Chart**

If you claim actual expenses for your car, use the chart below to find the depreciation method and percentage to use for your 1995 return. If your car was placed in service before 1987, see the depreciation chart in the Form 2106 instructions.

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

For cars placed in service before 1995, you must use the same method you used on last year's return unless a decline in your business use requires you to change to the straight line method. (See *Car Used 50% or Less for Business*.)

Multiply the unadjusted basis of your car by your business use percentage. Multiply the result by the percentage you found in the chart to find the amount of your depreciation deduction for 1995. (Also see *Depreciation Limits*.)

Caution: If you placed your car in service after September of any year and you placed other business property in service during the same year, you may have to use the Jan. 1—Sept. 30 percentage instead of the Oct. 1—Dec. 31 percentage for your car. To find out if this applies to you, determine: 1) the basis of all business property you placed in service after September of that year and 2) the basis of all business property you placed in service during that entire year. If the basis of the property placed in service after September is not more than 40% of the basis of all property placed in service for the entire year, use the percentage for Jan. 1—Sept. 30 for figuring depreciation for your car. See *Conventions* in Publication 946 for more details.

Example. You buy machinery (basis of $22,000) in May 1995 and a new van (basis of $14,000) in October 1995, both used 100% in your business. You use the percentage for Jan. 1—Sept. 30, 1995, to figure the depreciation for your van. This is because the $14,000 basis of the property (van) placed in service after September is not more than 40% of the basis of all property placed in service during the year [40% × ($22,000 + 14,000) = $14,400].

	(a)	(b)	(c)
Date Placed in Service	**200% Declining Balance (200% DB)[1]**	**150% Declining Balance (150% DB)[1]**	**Straight Line (SL)**
Oct. 1 — Dec. 31, 1995	200 DB 5.0%	150 DB 3.75%	SL 2.5%
Jan. 1 — Sept. 30, 1995	200 DB 20.0	150 DB 15.0	SL 10.0
Oct. 1 — Dec. 31, 1994	200 DB 38.0	150 DB 28.88	SL 20.0
Jan. 1 — Sept. 30, 1994	200 DB 32.0	150 DB 25.5	SL 20.0
Oct. 1 — Dec. 31, 1993	200 DB 22.8	150 DB 20.21	SL 20.0
Jan. 1 — Sept. 30, 1993	200 DB 19.2	150 DB 17.85	SL 20.0
Oct. 1 — Dec. 31, 1992	200 DB 13.68	150 DB 16.4	SL 20.0
Jan. 1 — Sept. 30, 1992	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 — Dec. 31, 1991	200 DB 10.95	150 DB 16.41	SL 20.0
Jan. 1 — Sept. 30, 1991	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 — Dec. 31, 1990	200 DB 9.58	150 DB 14.35	SL 17.5
Jan. 1 — Sept. 30, 1990	200 DB 5.76	150 DB 8.33	SL 10.0
Prior to 1990[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*.

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

Example 1. Bill purchased a new car in July 1995 to use for his consulting business. He also used the car for personal and family purposes. He maintained records that indicate 75% of the use of the car was for business. Bill paid a total of $18,000 for the car. There was no trade-in and he did not elect any section 179 deduction. He chooses the 200%DB method to give him the largest depreciation deduction in the early years of the recovery period.

Bill uses *Table 1* to find the depreciation percentage to use. He reads down the first column for the date placed in service and across to the 200%DB column. He multiplies the unadjusted basis of his car, $13,500 ($18,000 cost × 75% business use), by that percentage, 20%, to figure the total depreciation of $2,700.

Bill then uses *Table 2* to determine the limit on his depreciation deduction. The maximum amount for a car placed in service in 1995 is $3,060. Since he used the car only 75% for business, his limit is reduced to $2,295 ($3,060 × 75%). Bill's 1995 depreciation deduction for his car is limited to $2,295.

Example 2. In June 1995, Karl, an outside dental supply salesman, purchased a car for $25,400 to make sales calls in a territory that extends 200 miles around his home base. He uses his car 85% for his business. Karl does not elect to use the section 179 deduction and

Table 2. **Maximum Limits[1]—Cars Placed in Service After 1986**

Placed in Service			
After	**Before**	**Depreciation First Year[2]**	**Depreciation Later Years**
1986	1989	$2,560	$4,100 2nd yr. 2,450 3rd yr. 1,475[3]
1988	1991	$2,660	$4,200 2nd yr. 2,550 3rd yr. 1,475[3]
1990	1992	$2,660	$4,300 2nd yr. 2,550 3rd yr. 1,575[3]
1991	1993	$2,760	$4,400 2nd yr. 2,650 3rd yr. 1,575[3]
1992	1994	$2,860	$4,600 2nd yr. 2,750 3rd yr. 1,675[3]
1993	1995	$2,960	$4,700 2nd yr. 2,850 3rd yr. 1,675[3]
1994	–	$3,060	$4,900 2nd yr. 2,950 3rd yr. 1,775[3]

[1]These amounts must be reduced if the car is used less than 100% for business purposes.
[2]This is the maximum amount of your section 179 deduction and depreciation allowed for the tax year the car is placed in service.
[3]This amount is also the limit on deductions taken in years after the recovery period.

he chooses the 200%DB method to figure his depreciation deduction.

In 1995, Karl computes his MACRS deduction to be $4,318 [($25,400 × 85%) × 20%]. However, Karl's deduction is limited to $2,601. This is the depreciation limit ($3,060) multiplied by the business use percentage (85%).

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

$4,165 ($4,900 × 85%) in 1996,

$2,508 ($2,950 × 85%) in 1997, and

$1,509 ($1,775 × 85%) in 1998 and 1999.

In 2000, Karl's MACRS deduction is $1,244 [($25,400 × 85%) × 5.76%]. Since that amount is less than the depreciation limit of $1,509 ($1,775 × 85%), Karl's depreciation deduction for 2000 is $1,244.

If Karl continues to use his car for business after 2000, he can continue to claim a depreciation deduction for his unrecovered basis. However, he cannot deduct more than $1,775 multiplied by his business use percentage. See *Deductions in years after the recovery period,* later.

Section 179 deduction. The section 179 deduction is treated as a depreciation deduction for the first tax year a car is placed in service. If you place a car in service in 1995 and elect the section 179 deduction, the combined section 179 deduction and depreciation deduction is limited to $3,060 for the first year of the recovery period.

Example. On September 6, 1995, Jack bought a used car for $6,000 and placed it in service. He used it 80% for his business and he elects to take a section 179 deduction for the car.

Before applying the depreciation limit, Jack figures his maximum section 179 deduction to be $4,800. This is the amount of his qualifying property (up to the maximum $17,500 amount) multiplied by his business use ($6,000 × 80%). His unadjusted basis for any depreciation deduction is zero.

Applying the depreciation limit, Jack figures that his section 179 deduction for 1995 is limited to $2,448 (80% of $3,060). He then has an unadjusted basis of $2,352 [($6,000 × 80%) − $2,448] for determining his depreciation deduction. Since he has already reached the maximum limit for 1995, Jack will use the unadjusted basis to figure his depreciation deduction for 1996.

Deductions in years after the recovery period. If the depreciation limits apply to your car, you may have ***unrecovered basis*** in your car at the end of the recovery period. If you have unrecovered basis in your car only because of the depreciation limits, you can deduct that unrecovered basis after the recovery period ends.

Unrecovered basis. This is the unadjusted basis (defined earlier) of the car (not reduced by any section 179 deduction) minus the depreciation deductions (including any section 179 deduction) that would have been allowable if you had used the car 100% for business and investment use.

How to treat unrecovered basis. If you continue to use your car for business after the recovery period, you can claim a depreciation deduction for each succeeding tax year until you recover your full basis in the car. The maximum amount you can deduct is determined by the date you placed the car in service.

The recovery period. For cars placed in service after 1986, your recovery period is 6 calendar years. For a 5-year recovery period, a part year's depreciation is allowed in the 1st calendar year, a full year's depreciation is allowed in each of the next 4 calendar years, and the remainder of the 1st year's depreciation is allowed in the 6th calendar year.

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

Deduction amount after the recovery period. In years after the recovery period, a deduction for the unrecovered basis is allowed only for the business use of the car. If you use your car less than 100% for business, the depreciation deduction will be less than the maximum amount. For example, no deduction is allowed for a year you use your car 100% for personal purposes.

Example. In May 1989, Bob bought and placed in service a car that he used exclusively in his business. The car cost $28,600. Bob did not claim a section 179 deduction for the car. He continued to use the car 100% in his business throughout the recovery period. For those years, Bob used the MACRS Depreciation Chart and Maximum Limits Table (as explained earlier) to compute his depreciation deductions as shown in the following table.

Yr.	MACRS %	MACRS Amount	Maximum Limit	Deprec. Allowed
'89	20.0	$5,720	$2,660	$ 2,660
'90	32.0	9,152	4,200	4,200
'91	19.2	5,491	2,550	2,550
'92	11.52	3,295	1,475	1,475
'93	11.52	3,295	1,475	1,475
'94	5.76	1,647	1,475	1,475
Total				**$13,835**

At the end of 1994, Bob has an unrecovered basis in the car of $14,765. This is the $28,600 original basis of his car less the $13,835 depreciation deductions allowed during the recovery period (1989 through 1994). If he continues to use the car 100% for business in 1995 and later years, Bob can deduct $1,475 in those years until his deductions total the $14,765 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. Bob's unrecovered basis at the beginning of 1995 would still be $14,765 in this example. This is true even if his actual depreciation deduction for any year was less than the maximum amount shown.

Car Used 50% or Less for Business

If you use your car (or other vehicle) 50% or less in a qualified business use (defined later), you cannot take the section 179 deduction, and you must figure depreciation using the straight line method over a 5-year period. (For this purpose, ''car'' was defined earlier under *Actual Car Expenses.*) You must continue to use the straight line method even if your percentage of business use increases to more than 50% in a subsequent year.

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

Example. On May 12, 1995, Dan bought a car for $15,000. He used it 40% for his consulting business. Because he did not use the car more than 50% for business, Dan cannot elect any section 179 deduction, and he must use the straight line method over a 5-year period to recover the cost of his car.

Dan deducts $600 in 1995. This is the lesser of:

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

Business use changes. If you used your car more than 50% in a qualified business use in the year you placed it in service, but 50% or less in a qualified business use in a later year (including the year of disposition), you may have to include ''excess depreciation'' in your income. See *Business use drops to 50% or less in a later year.*

Qualified business use. A qualified business use is any use in your trade or business. Qualified business use does not include use for the production of income (investment use). However, after you have satisfied the 50%-business-use requirement, you may combine your business and investment use to compute any allowable deduction for a tax year.

Use of your car by another person. Any use of your car by another person is not treated as use in a trade or business unless that use:

1) Is directly connected with your business,
2) Is properly reported by you as income to the other person (and, if you have to, you withhold tax on the income), or
3) Results in a payment of fair market rent.

Any payment to you for the use of your car is treated as a payment of rent for purposes of (3) above.

More-than-50%-use test. You meet this test if you use your car more than 50% in a qualified business use for any tax year. If you use your car for more than one purpose during the tax year, you must allocate the use to the various purposes. Property does not cease to be used more than 50% in a qualified business use by reason of a transfer at death.

Allocate the use 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.

You must meet the more-than-50%-use test each year of the recovery period for your car. This is 6 years under MACRS.

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 and you have no records for the time before the change to business use, figure the percentage of business use for the year as follows.

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

Example. You use a car only for personal purposes during the first 6 months of the year. During the last 6 months of the year, you drive the car a total of 15,000 miles of which 12,000 miles are for business. This gives you a business use percentage of 80% (12,000 ÷ 15,000) for that period. Your business use for the year is 40% (80% × 6/12).

Business use drops to 50% or less in a later year. If you use your car more than 50% in a qualified business use in the tax year it is placed in service but not in a later tax year during the recovery period (6 years), you must change to the straight line method. For the year your business use drops to 50% or less and all later years, determine your depreciation for that car using the straight line method over a 5-year recovery period. You determine your depreciation for this tax year and any later tax years as if you had not met the more-than-50%-use test in the year in which it was placed in service.

Example. In June 1992, 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 (1992 through 1994) but failed to meet it in the 4th year (1995). You determine your depreciation for 1995 using 20% (from column (c) of *Table 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 1st tax year in which the car is not used more than 50% in a qualified business use. Use **Form 4797,** *Sales of Business Property,* to report the excess depreciation in your gross income.

Excess depreciation is the excess, if any, of:

1) The amount of the depreciation deductions allowable for the car (including any section 179 deduction claimed) for tax years in which the car was used more than 50% in a qualified business use, over
2) The amount of the depreciation deductions that would have been allowable for those years if the car ***had not*** been used more than 50% in a qualified business use for the year it was placed in service.

Example. On June 25, 1992, you bought a car for $11,000 and placed it in service. You did not elect the section 179 deduction. You used the car exclusively in a qualified business use for 1992, 1993, and 1994. For those years, you used the MACRS chart to figure depreciation deductions totaling $7,832 ($2,200 for 1992, $3,520 for 1993, and $2,112 for 1994).

During 1995, you used the car 50% for business and 50% for personal purposes. Since you did not meet the more-than-50%-use test, you must include in gross income for 1995 your excess depreciation determined as follows:

Total depreciation claimed (MACRS 200%DB method)		$ 7,832
Total depreciation allowable (Straight line method):		
1992—10% of $11,000	$ 1,100	
1993—20% of $11,000	2,200	
1994—20% of $11,000	2,200	5,500
Excess depreciation		**$ 2,332**

In 1995, you must include $2,332 in your gross income using Form 4797. Your adjusted basis for the car is also increased by $2,332. Your 1995 depreciation deduction is $1,100 [$11,000 (unadjusted basis) × 50% (business use percentage) × 20% (from column (c) of *Table 1*)].

Disposition of a Car

If you dispose of your car, you may have a gain or loss on the transaction. The portion of any gain that is due to depreciation (including any section 179 or clean-fuel vehicle deduction) that you claimed on the car will be treated as ordinary income. However, you may not have to recognize a gain if the transaction meets the nonrecognition rules, such as when you trade in one business vehicle for another. For information on how to report the disposition of your car, see Publication 544.

Casualty or theft. For a casualty or theft, a gain results when the insurance or other reimbursement received is more than the adjusted basis of the lost or stolen property. For a car, if all of the proceeds are spent to acquire replacement property (a new car or repairs to the old car) within a specified period of time, no gain is recognized. The basis of the replacement property is its cost minus any gain that is not recognized. See Chapter 25 of Publication 334 for more information.

Trade-in. When you trade in an old car for a new one, the transaction is considered a like-kind exchange. In a trade-in situation, the basis of the new property is generally the adjusted basis of the old property plus any additional payment. (See *Unadjusted Basis,* earlier.) Generally, no gain or loss is recognized on a like-kind exchange. For exceptions, see Chapter 1 of Publication 544.

Depreciation adjustment when you used the standard mileage rate. If you used the standard mileage rate for the business use of your car, depreciation was included in that rate. The rate of depreciation that was allowed in the standard mileage rate is shown in the chart that follows. This depreciation reduces the basis of your car (but not below zero) in figuring its adjusted basis when you dispose of it.

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

Year	Depreciation Rate per Mile
1994 – 1995	12 cents
1992 – 1993	11½ cents
1989 – 1991	11 cents
1988	10½ cents
1987	10 cents
1986	9 cents
1983 – 1985	8 cents
1982	7½ cents
1980 – 1981	7 cents

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

Example. In 1991, you bought a car for exclusive use in your business. The car cost $14,000. From 1991 through 1995, you used the standard mileage rate to figure your car expense deduction. You drove your car 18,750 miles in 1991, 17,200 miles in 1992, 18,100 miles in 1993, 16,300 miles in 1994, and 17,600 miles in 1995. The depreciation allowed is figured as follows:

Year	Miles × Rate	Depreciation
1991	18,750 × .11	$2,063
1992	17,200 × .11½	1,978
1993	18,100 × .11½	2,082
1994	16,300 × .12	1,956
1995	17,600 × .12	2,112
Total depreciation		**$10,191**

At the end of 1995, your adjusted basis in the car is $3,809 ($14,000 − $10,191).

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, first determine the depreciation deduction for the full year using *Table 1.*

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

If you used a *Date Placed in Service* line for *Oct. 1—Dec. 31,* you can deduct a percentage of the regular depreciation amount that is based on 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%

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

3. Leasing a Car

If you lease a car that you use in your business, you can deduct the part of each lease payment that is for the use of the car in your business. You cannot deduct any part of a lease payment that is for commuting to your regular job or for any other personal use of the car. You must spread any advance payments over the entire lease period. You cannot deduct any payments you make to buy a car even if the payments are called lease payments.

Inclusion Amount

If you lease a car that you use in your business for 30 days or more, you may have to include an "inclusion amount" in your income for each tax year you lease the car. For information on reporting inclusion amounts, see *Car rentals* under *Completing Forms 2106 and 2106–EZ* in Chapter 5 if you are an employee. See the instructions for Schedule C (Form 1040) or Schedule F (Form 1040) if you are self-employed.

This ***inclusion amount*** is a percentage of part of the fair market value of the leased car multiplied by the percentage of business and investment use of the car for the tax year. The inclusion amount is prorated for the number of days of the lease term included in the tax year. The effect of adding this amount to income is to limit your deduction for lease payments so that it equals the depreciation deduction you would have on the car if you owned it.

Cars Leased After June 18, 1984, and Before 1987

If you are still leasing a car that you first leased after June 18, 1984, and before 1987, you may have to include an inclusion amount in your gross income for 1995. Figure your inclusion amount using the rules explained next.

Note: Under these rules, you do ***not*** have to include an inclusion amount in your gross income in the last tax year of your lease.

Leases after June 18, 1984, and before April 3, 1985. If the car's fair market value on the first day of the lease was more than $64,500, you must determine an inclusion amount for the 11th tax year of the lease ($70,500 for the 12th year of the lease). For these years, the inclusion amount is 6% of the car's fair market value over these amounts.

Leases after April 2, 1985, and before 1987. If the car's fair market value on the first day of the lease was more than $46,800, you must determine an inclusion amount for the 10th tax year of the lease ($51,600 for the 11th year of the lease). For these years, the inclusion amount is 6% of the car's fair market value over these amounts.

Cars Leased After 1986

If you lease a car after December 31, 1986, for a lease term of 30 days or more, you may have to include an inclusion amount in your gross income. This applies to each tax year that you lease the car if the fair market value (defined next) of the car when the lease began was more than:

- $12,800 for leases beginning in 1987 through 1990,
- $13,400 for leases beginning in 1991,
- $13,700 for leases beginning in 1992,
- $14,300 for leases beginning in 1993,
- $14,600 for leases beginning in 1994, and
- $15,500 for leases beginning in 1995.

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

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

Figuring the inclusion amount. Use the table in the appropriate Appendix (depending on the year you first placed the car in service), included at the end of this publication, to determine the inclusion amount if the fair market value of the car is $100,000 or less. For each tax year during which you lease the car, the inclusion amount is determined as follows:

1) Determine the dollar amount from the table as described below,
2) Prorate the dollar amount from the table for the number of days of the lease term included in the tax year, and
3) Multiply the prorated amount by the percentage of business and investment use for the tax year.

To determine the dollar amount from the table in the appropriate Appendix, use the fair market value of the car on the first day of the lease term to find the correct line of the table. Use the tax year in which the car is used under the lease to find the correct column of the table. However, for the ***last*** tax year of the lease, use the dollar amount for the ***preceding*** year.

Example. On January 17, 1995, 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 $29,250 on the first day of the lease term. You use the car 75% for your 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 E* to arrive at the following amounts to include in your gross income for each year of the lease:

Tax year	Dollar amount	Proration	Business use	Inclusion amount
1995	$148	349/365	75%	$106
1996	324	366/366	75%	243
1997	481	365/365	75%	361
1998	481	16/365	75%	16

4. Recordkeeping

This chapter discusses the rules you should follow when keeping records of the business use of your car or a car provided by your employer.

Car expense records. Whether you use actual expenses or the standard mileage rate, you must keep records to show when you started using your car for business and the cost or other basis of the car. Your records must also show the business miles and the total miles you drove your car during the year.

Actual expenses. If you deduct actual expenses, you must keep records of the costs of operating the car, such as car insurance, interest, taxes, licenses, maintenance, repairs, depreciation, gas, and oil. If you lease a car, you must keep records of that cost.

Records for Business Use of Your Car

To claim a deduction for the expense of a car that you use in your business or work, you must be able to prove (substantiate) certain elements of the expense. You must be able to prove these elements by adequate records or sufficient evidence, either written or oral, that will support your own statement. Estimates or approximations do not qualify as proof of an expense.

Proof of expenses. You must be able to prove:

1) The amount of each expense for a car, including the cost of buying a car and the cost of capital improvements. If you deduct actual car expenses, you must also be able to prove each separate expense for operating the car, such as lease payments, the cost of maintenance and repairs, or other expenses.
2) The mileage for each business or investment use of the car, and the total miles for the tax year.
3) The date of the expense or use.
4) The business or investment reason for the expense or use of the car.

Adequate records. You should keep the proof you need for these items in an account book, diary, log, statement of expense, trip sheet, or similar record supported by adequate documentary evidence (such as receipts, canceled checks, or bills). Written evidence has considerably more value than oral evidence alone.

Timely recordkeeping. You do not have to write down the elements of every expense at the time of the expense. However, a record of the elements of an expense or of a business use made at or near the time of the expense or use, supported by sufficient documentary evidence, has more value than a statement prepared later when generally there is a lack of accurate recall. A log maintained on a weekly basis, which accounts for use during the week, is considered a record made at or near the time of the expense or use. You do not have to record information that duplicates information shown on a receipt as long as your records and receipts complement each other in an orderly manner.

An adequate record contains sufficient information for each element of every business or investment use. The level of detail needed to prove the use may vary depending on the facts and circumstances. For example, if your only business use of a car is to make deliveries to customers of your employer on an established 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.

Uses which can be considered part of a single use, such as a round trip or uninterrupted business use, can be accounted for by a single record. For example, deliveries at several different locations on a route that begins and ends at your employer's business premises and that may include a stop at the business premises between two deliveries can be accounted for by a single record of miles driven. Minimal personal use, such as a stop for lunch on the way between two business stops, is not an interruption of business use.

Generally, an adequate record must be written. However, a record prepared in a computer memory device with the aid of a logging program is considered an adequate record.

Receipts. A receipt is ordinarily the best evidence to prove the amount of an expense.

Canceled check. A canceled check, together with a bill from the payee, ordinarily establishes the cost. However, a canceled check alone does not prove a business expense without other evidence to show that it was for a business purpose.

Business purpose. A written statement of the business purpose of an expense is generally needed. 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, a written explanation is not needed.

Example. A sales representative who calls on customers on an established sales route does not have to submit a written explanation of the business purpose for traveling that route.

Confidential information. Any confidential information relating to an element of a deductible expense, such as the place or business purpose, need not be put in your account book, diary, or other record. However, the information has to be recorded elsewhere at or near the time of the expense and be available to fully prove that element of the expense.

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

1) Your own statement, whether written or oral, containing specific information in detail as to the element, and
2) Other supporting evidence sufficient to establish the element.

In some cases, circumstantial evidence may support the amount of business and investment use. For example, the nature of your work, such as deliveries, provides circumstantial evidence of the fact that you use your car for business purposes. Invoices of deliveries establish when you used the car for business.

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

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

Destroyed records. You can prove a deduction by reconstructing your records or expenses if you cannot produce a receipt for reasons beyond your control, such as fire, flood, or other casualty.

Additional information for the IRS. You may have to provide additional information to the IRS to clarify or establish the accuracy or reliability of information contained in your records, statements, testimony, or documentary evidence before a deduction is allowed.

How long to keep records and receipts. You must keep proof to support your claim to a deduction as long as your income tax return can be examined. Generally, it will be necessary for you to keep your records for 3 years from the date you file the income tax return on which the deduction is claimed. A return filed early is considered as filed on the due date.

You must keep records of the business use of your car for each year of the recovery period. See *More-than-50%-use test* in Chapter 2 under *Car Used 50% or Less for Business.*

Reimbursed for expenses. Employees who give their records and documentation to their employers and are reimbursed for their expenses generally do not have to keep duplicate copies of this information. However, you may have to prove your expenses if:

1) You claim deductions for expenses that are more than reimbursements,

2) Your expenses are reimbursed under a nonaccountable plan,

3) Your employer does not use adequate accounting procedures to verify expense accounts, or

4) You are related to your employer as discussed in Chapter 5 under *Adequate Accounting.*

Reimbursements, adequate accounting, and nonaccountable plans are discussed in Chapter 5, next.

5. How To Report

This chapter explains how to report on your tax return the expenses that are discussed in this publication. It discusses reimbursements, including treatment of accountable and nonaccountable plans, adequate accounting, and mileage allowances. The chapter ends by showing you how to complete Forms 2106 and 2106–EZ.

Where To Report

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

Self-employed. You must report your income and expenses on Schedule C or Schedule C–EZ (Form 1040) if you are a sole proprietor, or on Schedule F (Form 1040) if you are a farmer. If you claim car or truck expenses, you must provide certain information on the use of your vehicle. You provide this information on Schedule C, Schedule C–EZ, or Form 4562.

When you prepare your return, report your business car expenses on one of the following.

1) Schedule C, line 10. Complete Part IV of the form unless you have to file Form 4562 for depreciation or amortization.

2) Schedule C–EZ, line 2. Complete Part III of the form.

3) Schedule F, line 12. Attach Form 4562 and provide information on the use of your car in Part V.

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

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 car and truck expenses for self-employment on Schedule C, Schedule C–EZ, or on Schedule F, as discussed earlier. Report your business car and truck 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 business car expenses. However, you can use Form 2106–EZ instead of Form 2106 if you meet both of the following conditions.

1) You were not reimbursed for your expenses or, if you were reimbursed, the reimbursement was included in your income (box 1 of your Form W–2).

2) 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.

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

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

Unclaimed reimbursement. If you are entitled to a reimbursement from your employer but you do not claim it, you cannot claim a deduction for the expenses to which that reimbursement applies.

Reimbursement for personal expenses. If your employer reimburses you for nondeductible personal expenses, such as for commuting to your regular job, he or she must report the reimbursement as wage income (in box 1 of your Form W–2). You cannot deduct personal expenses.

Vehicle Provided by Your Employer

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

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 entirely 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 what amount was included in your Form W–2, ask your employer.

Full value included in your income. You can deduct the value of the business use of an employer-provided car if your employer reported 100% of the value of the car in your income. On your 1995 Form W–2, *Wage and Tax Statement,* the amount of the value will be included in box 1, *Wages, tips, other compensation,* and box 12, *Benefits included in box 1.*

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

Less than full value included in your income. If less than the full annual lease value of the car was included on your Form W–2, this means that your Form W–2 only includes the value of your personal use of the car. Do not enter this value on your Form 2106; it is not deductible.

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

Reimbursements

This section explains what to do when you receive an advance or reimbursement for the business use of your car.

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

This section explains the two types of plans, how car or mileage allowances simplify proving the amount of your expenses, and the tax treatment of your reimbursements and expenses.

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. It can also be a system used to keep track of amounts you receive from your employer's agent or a third party. Arrangements include mileage allowances. If a single payment includes both wages and an expense reimbursement, the amount of the reimbursement must be specifically identified.

Methods of reimbursement. Your employer has different options for reimbursing you for business-related car expenses. Your employer can reimburse you:

1) For your actual expenses,
2) At the standard mileage rate,
3) At a flat rate or stated schedule, or
4) Under any other method that is acceptable to the IRS.

A mileage allowance paid at a flat rate or stated schedule can be paid periodically at a fixed rate, at a cents-per-mile rate, at a variable rate based on a stated schedule, or any combination of these rates.

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

No reimbursement. If you are paid a salary or commission with the understanding that you will pay your own expenses, you are not reimbursed or given an allowance for your expenses. In this situation, you have no reimbursement or allowance arrangement. Deduct your expenses using Form 2106 or 2106–EZ and Schedule A (Form 1040). You do not have to read this section on reimbursements. Instead, see *Completing Forms 2106 and 2106–EZ,* later in this chapter, for information on completing your tax return.

Accountable Plans

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

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

"Adequate accounting" and "returning excess reimbursements" are discussed later in this chapter.

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. See *Returning Excess Reimbursements* later in this chapter for information on how to handle these excess amounts.

The definition of ***a reasonable period of time*** depends on the facts of your situation. The IRS will consider it reasonable for you to:

1) Receive an advance within 30 days of the time you have an expense,
2) Adequately account for your expenses within 60 days after they were paid or incurred, and
3) Return any excess reimbursement within 120 days after the expense was paid or incurred.

If 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, the IRS will consider the amount adequately accounted for or returned within a reasonable period of time.

Employee meets accountable plan rules. If you meet the three rules for accountable plans, your employer should not include any reimbursements in your income in box 1 of your Form W–2. If your expenses equal your reimbursement, you do not complete Form 2106. You have no deduction since your expenses and reimbursement are equal.

Note. If your employer included reimbursement in box 1 of your Form W–2 and you meet all three rules for an accountable plan, ask your employer for a corrected Form W–2.

Employee does not meet accountable plan rules. You may be reimbursed under your employer's accountable plan but only part of your expenses may meet all three rules.

If your expenses are reimbursed under an otherwise accountable plan but you do not return, within a reasonable period of time, any reimbursement for which you did not adequately account, then only the amount for which you did adequately account is considered as paid under an accountable plan. The remaining expenses are treated as having been reimbursed under a nonaccountable plan (discussed later in this chapter).

If you receive an allowance or advance that is higher than the standard mileage rate, see *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 are not deductible. The reimbursements you receive for the nondeductible expenses are treated as paid under a nonaccountable plan.

Example. Your employer's plan may reimburse you for the business use of your car and for road tolls you pay while commuting to the office. The part of the arrangement that reimburses you for the road tolls is treated as a second arrangement. The payments under this second arrangement are treated as paid under a nonaccountable plan.

Car or mileage allowances. How you report a car or mileage allowance that you received under an accountable plan depends on whether the allowance was more than the standard mileage rate.

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

However, if your actual expenses (or the standard mileage rate) are more than your car or mileage 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 mileage rate, you do not have to prove that amount.

Example 1. Jeremy drives 10,000 miles a year for business. Under his employer's accountable plan, he accounts for the time (dates), place, and business purpose of each trip. His employer pays him a mileage allowance of 30 cents a mile. Jeremy's expenses of operating the car are not more than 30 cents a mile.

Jeremy's employer does not include any of the reimbursement on his Form W–2 because the mileage allowance is not more than the standard mileage rate. Jeremy does not deduct the expenses on his return because his expenses are not more than the allowance he received.

Example 2. The facts in Matt's case are the same as those in *Example 1* above. However, Matt's employer pays him a mileage allowance of only 20 cents a mile.

Matt is reimbursed under an accountable plan. However, since his $3,000 expenses computed under the standard mileage rate (10,000 miles × 30 cents) exceed his $2,000 reimbursement (10,000 miles × 20 cents), Matt itemizes his deductions in order to claim the excess expenses. Matt completes Form 2106 (showing **all** of his expenses and reimbursements) and enters $1,000 ($3,000 − $2,000) on line 20 of Schedule A (Form 1040).

Allowance MORE than the standard mileage rate. If your allowance is more than the standard mileage rate, your employer must include the allowance amount up to the standard mileage rate in box 13 (code **L**) of your Form W–2. This amount is not taxable. However, the car or mileage allowance that is more than the standard mileage rate 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 standard mileage rate, you do not complete Form 2106 or claim any of your expenses on your return.

However, if your actual expenses are more than the standard mileage rate, you can complete Form 2106 and deduct those expenses that are more than the standard mileage rate on Schedule A (Form 1040). You must report on Form 2106 your reimbursements up to the standard mileage rate (as shown in box 13 of your Form W–2) and all your expenses. You should be able to prove these amounts to the IRS.

Example 1. Laura's employer reimburses her 32 cents a mile for the 10,000 business miles she drove in 1995. Her employer includes $200 in box 1 of Laura's Form W–2 as if it were wages. The $200 is the amount of the total reimbursement of $3,200 (10,000 miles × 32 cents) that is more than $3,000 (10,000 miles × 30 cents), the standard mileage rate. The $3,000 is shown with a code **L** in box 13 of her Form W–2. This amount is not included in Laura's income.

Laura does not have to complete Form 2106 if her expenses are not more than $3,000.

Example 2. Joe's employer advanced him 36 cents a mile for the 10,000 business miles Joe was expected to drive in 1995. His total advance was $300 per month ($3,600 annually for the 10,000 miles × 36 cents). However, Joe has records to show that his actual car expenses for 1995 were $4,000. His employer's accountable plan will not pay more than 36 cents a mile so Joe only gives his employer enough records each month to prove that he spent $3,600 ($300 per month).

On Joe's Form W–2, his employer includes $600 in box 1 as if it were wages. The $600 is the amount of the total advance of $3,600 (10,000 miles × 36 cents) that is more than $3,000 (10,000 miles × 30 cents), the standard mileage rate. The $3,000 is shown with a code **L** in box 13 of Joe's Form W–2.

In order to claim his excess expenses, Joe completes Form 2106 and reports his total expenses of $4,000 and his reimbursement of $3,000 shown in box 13 of his Form W–2. Joe will enter $1,000 ($4,000 − $3,000) on line 20 of Schedule A (Form 1040).

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

Adequate Accounting

One of the three rules (listed earlier) for a reimbursement or other expense allowance arrangement to qualify as an accountable plan was that you adequately account to your employer for your expenses. You adequately account by giving your employer documentary evidence of your mileage or other car expenses, along with a statement of expense, an account book, a diary, or a similar record in which you entered the mileage or each expense at or near the time you had it. Documentary evidence includes receipts, canceled checks, and bills. See Chapter 4 for a discussion of the recordkeeping aspects or elements of each expense that you must prove.

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

Car or mileage allowance. You may be able to prove the amount of your expense by using a car or mileage allowance amount. A car or mileage allowance satisfies the adequate accounting requirements for the amount if:

1) Your employer reasonably limits payments of the car expenses to those that are ordinary and necessary in the conduct of the trade or business,
2) The allowance is paid at the standard mileage rate, at another rate per mile, or based on a fixed and variable rate (FAVR) allowance (as described later), and
3) You prove the time (dates), place, and business purpose of using your car to your employer within a reasonable period of time.

However, you have additional recordkeeping requirements if you are related to your employer, as discussed next.

Related to your employer. 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. (This does not preclude your use of the standard mileage rate, discussed in Chapter 2, or a FAVR allowance, discussed later, to adequately account to your employer and the IRS.) You are related to your employer if:

1) Your employer is your brother or sister, half-brother or half-sister, spouse, ancestor, or lineal descendent,
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 fiduciary relationships exist between you and your employer involving grantors, trusts, beneficiaries, etc.

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

Proving your expenses with a car or mileage allowance. If your employer pays for your expenses using a car or mileage allowance, you can generally use the allowance as proof for the amount of your expenses. However, the amount of expense that can be proven this way cannot be more than the standard mileage rate or the amount of the FAVR allowance that your employer does ***not*** include in box 1 of your Form W–2.

Only the amount can be proven under the adequate accounting requirements. You must still prove the time (dates), place, and business purpose for each expense. The most frequently used methods of figuring a car or mileage allowance are discussed here.

Fixed or variable mileage allowance. You can prove the amount of your expenses if your employer reimburses your car expenses at a fixed rate, at a cents-per-mile rate, or at a variable rate based on a stated schedule. However, the amount proven by this method cannot exceed the standard mileage rate.

Fixed and variable rate (FAVR). Your employer may choose to reimburse your car expenses by paying you 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, insurance, etc.). This is called a ***FAVRallowance.*** If your employer chooses to use this method, your employer will request the necessary records from you and will not include any part considered to be paid from an accountable plan in box 1 of your Form W–2. The IRS will consider you to have proven the amount reimbursed by your employer (up to the amount not included in box 1 of your Form W–2).

Returning Excess Reimbursements

Under an accountable plan, you must be required to return any excess reimbursement or other expense allowance for your business car expenses to the person paying the reimbursement or allowance. ***Excess reimbursement*** means any amount for which you did not adequately account within a reasonable period of time. For example, if you received a mileage advance and you did not drive as many business miles as expected, or you do not have proof of all your expenses, you have excess reimbursement.

''Adequate accounting'' and ''reasonable period of time'' were discussed earlier.

Travel advance. If your employer provides you with an expense allowance before you actually have the expense, and the allowance is reasonably calculated not to exceed your expected expenses, you have received a travel advance. Under an accountable plan, you must be required to adequately account to your employer for this advance and be required to return any excess within a reasonable period of time. If you do not adequately account for or do not return any excess advance within a reasonable period of time, the amount you do not account for or return will be treated as having been paid under a nonaccountable plan (discussed later).

Unproven amounts. If you do not prove any or all of the miles for which you received a car or mileage allowance (proving the elements described in Chapter 4), you must return this unproven amount of the travel advance within a reasonable period of time. If you fail to do this, your employer will include as income in box 1 of your Form W–2 the unproven amount of the allowance as excess reimbursement. This unproven amount is considered paid under a nonaccountable plan, discussed later.

Car or mileage allowance more than the standard mileage rate. If your employer's accountable plan pays you a car or mileage allowance that is higher than the standard mileage rate, you do not have to return the difference between the two rates (for the business miles you account for) to your employer. For example, if you receive 32 cents a mile instead of 30 cents a mile, you do not have to return the difference of 2 cents a mile. However, this 2-cent difference will be reported as wages on your Form W–2. This excess amount is considered paid under a nonaccountable plan, discussed later.

Example. At the beginning of January, your employer advanced you $640 (2,000 × 32 cents) for the 2,000 business miles you expected to drive that month. Using the standard mileage rate, you would have received only $600 (2,000 miles × 30 cents). If you provide your employer with adequate proof that you drove 2,000 business miles in January, you do not have to return the $40 difference ($640 − $600). The $40 will, however, be included as wages on your Form W–2.

Nonaccountable Plans

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

In addition, the following payments made under an accountable plan will be treated as being paid under a nonaccountable plan:

1) Excess reimbursements you fail to return to your employer, and
2) Reimbursement of nondeductible expenses related to your employer's business. See *Reimbursement of nondeductible expenses* under *Accountable Plans,* earlier.

An arrangement that repays you for business expenses by reducing the amount reported as your wages, salary, or other compensation will be treated as a nonaccountable plan. This is because you are entitled to receive the full amount of your compensation regardless of whether you incurred any business expenses.

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

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 compensation. 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 on Schedule A (Form 1040) to deduct your business car expenses. Your total employee business expenses will be subject to the 2%-of-adjusted-gross-income limit that applies to most miscellaneous itemized deductions. This 2% limit is figured on line 25 of Schedule A (Form 1040).

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

Kim is being reimbursed under a nonaccountable plan. Her employer will include the $6,000 on Kim's Form W–2 as if it were wages. If Kim wants to deduct her business car expenses, she must itemize her deductions and complete Form 2106 or 2106–EZ. The 2%-of-adjusted-gross-income limit applies to her total employee business expenses.

Part of reimbursement paid under accountable plan. If your expenses are reimbursed under an otherwise accountable plan but you do not return, within a reasonable period of time, any reimbursement for which you do not adequately account, only the amount for which you do not adequately account is considered as paid under a nonaccountable plan. The remainder is treated as having been paid under an accountable plan (as discussed earlier in this chapter).

Completing Forms 2106 and 2106–EZ

This section briefly describes how employees complete Forms 2106 and 2106–EZ. The instructions for the forms have more information on how to complete them.

Table 3 explains what is reported on Form W–2 by the employer and on Form 2106 by the employee.

Form 2106–EZ. You may be able to use Form 2106–EZ to claim your business car expenses. You qualify to use this form if you meet both of the following conditions.

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

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

Car expenses. Figure your deductible car expenses on Part II of Form 2106, and then enter them on line 1, Column A, of Part I of Form 2106. Car expenses using the standard mileage rate can also be figured on Form 2106–EZ by completing Part III and line 1 of Part II.

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 mileage (total, business, commuting, and other personal mileage), percentage of business use, date placed in service, use of other vehicles, after-work use, whether you have evidence to support the deduction, and whether or not the evidence is written. Employees must complete Section A, Part II, Form 2106, or Part III, Form 2106–EZ, to provide this information.

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

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

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

Table 3. **Reporting Car Expenses and Reimbursements**

Type of Reimbursement (or Other Expense Allowance) Arrangement	Employer Reports on Form W–2	Employee Shows on Form 2106[1]
Accountable		
Actual expense reimbursement Adequate accounting and excess returned	Not reported	Not shown if expenses do not exceed reimbursement
Actual expense reimbursement Adequate accounting and return of excess required but excess not returned	Excess reported as wages in box 1. Amount adequately accounted for is reported only in box 13—it is *not* reported in box 1.	All expenses (and reimbursements reported on Form W–2, box 13) *only* if some or all of the excess expenses are claimed.[2] Otherwise, form is not filed.
Mileage allowance (up to standard mileage rate) Adequate accounting and excess returned	Not reported	All expenses and reimbursements *only* if excess expenses are claimed.[2] Otherwise, form is not filed.
Mileage allowance (exceeds standard mileage rate) Adequate accounting up to the standard mileage rate only and excess not returned	Excess reported as wages in box 1. Amount up to the standard mileage rate is reported only in box 13—it is *not* reported in box 1.	All expenses (and reimbursements equal to the standard mileage rate) *only* if expenses in excess of the standard mileage rate are claimed.[2] Otherwise, form is not filed.
Nonaccountable		
Either adequate accounting or return of excess, or both, not required by plan	Entire amount is reported as wages in box 1.	All expenses[2]
No reimbursement	Normal reporting of wages, etc.	All expenses[2]

[1] You may be able to use Form 2106-EZ. See *Completing Forms 2106 and 2106-EZ* in Chapter 5.

[2] Any allowable business expense is carried to line 20 of Schedule A (Form 1040) and deducted as a miscellaneous itemized deduction.

Car rentals. If you claim car rental expenses on line 24a of Form 2106, you may have to include an inclusion amount in your gross income as described in Chapter 3. If so, you can show your car expenses and any inclusion amount as follows:

1) Compute the inclusion amount ***without*** taking into account your business use percentage for the tax year,

2) Report the inclusion amount from (1) above on line 24b, Part II, Form 2106, and

3) Report on line 24c the ***net*** amount of car rental expenses (total car rental expenses minus the inclusion amount computed in (1) above).

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

Other employee business expenses. Follow the Form 2106 or Form 2106–EZ instructions if you have other employee business expenses. Examples include travel away from home, gifts, entertainment, or local transportation (not including car expenses). These expenses are explained in Publication 463. Office in the home and other miscellaneous employee business expenses are explained in Publication 529, *Miscellaneous Deductions.* Educational expenses that you may be able to deduct are explained in Publication 508, *Educational Expenses.*

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

Reimbursed for other business expenses. If you were reimbursed for car expenses and other business expenses and you want to deduct any excess expenses that were not reimbursed, you have to file Form 2106. Report all your business expenses and all your reimbursements on that form, following the form instructions.

You may also have to ***allocate*** your reimbursement. If your employer paid you a single amount that covers both the use of your car and meals or entertainment, you must allocate the reimbursement so that you know how much to enter in Column A and Column B of line 7 of Form 2106. See *Allocating your reimbursement,* under *Completing Forms 2106 and 2106–EZ,* in Chapter 6 of Publication 463 for a worksheet to help you make this allocation.

Schedule A (Form 1040). 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 on line 20 of Schedule A (Form 1040). However, if you are a performing artist or a disabled employee with impairment-related work expenses, see *Special Rules,* later.

Limits on employee business expenses. Your business car expenses may be subject to one or both of the limits described below. They are figured in the following order on the specified form.

1. Limit on employee car expenses. If you are an employee, deduct your business car expenses (as figured on Form 2106 or 2106–EZ) on line 20 of Schedule A (Form 1040). Most miscellaneous itemized deductions, including employee business expenses, are subject to a 2%-of-adjusted-gross-income limit. This limit is figured on line 25 of Schedule A.

2. Limit on total itemized deductions. If your adjusted gross income (line 32 of Form 1040) is more than $114,700 ($57,350 if you are married filing separately), the total of certain itemized deductions, including employee car expenses, may be limited. See the instructions for Schedule A (Form 1040) for more information on how to determine the limit.

Special Rules

This section discusses special rules that apply only to performing artists and to disabled employees with impairment-related work expenses.

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

1) During the tax year, you perform services in the performing arts for at least two employers.

2) You receive at least $200 each from any two of these employers.

3) Your related performing-arts business expenses (including car expenses) are more than 10% of your gross income from the performance of such services.

4) Your adjusted gross income is not more than $16,000 before deducting these business expenses.

Special rules for married persons. If you are married, you must file a joint return unless you lived apart from your spouse at all times during the tax year.

If you file a joint return, you must figure requirements (1), (2), and (3) separately for both you and your spouse. However, requirement (4) applies to your and your spouse's combined adjusted gross income.

Where to report. If you meet all of the requirements, you should first complete Form 2106 or 2106–EZ. Then you include your performing-arts-related expenses from line 10 of Form 2106 or line 6 of Form 2106–EZ in the total on line 30 of Form 1040. Write ''QPA'' and the amount of your performing-arts-related expenses on the dotted line next to line 30 of Form 1040.

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

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

Impairment-related work expenses are your allowable expenses for attendant care at your workplace and other expenses in connection with your workplace that are necessary for you to be able to work. For more information, see Publication 502, *Medical and Dental Expenses.*

Examples

The following examples and forms illustrate the reporting of car and transportation expenses on Forms 2106 and 2106–EZ. Other employee business expenses are not shown in these examples. Publication 463 contains examples that show how to report other employee business expenses.

Example 1. David Pine purchased a car for $18,500 (including sales tax) on January 6, 1995. In 1995, he used the car 70% for business purposes. A sample page from David's logbook is illustrated in *Table 4.* He records his business mileage (but not his personal miles) and expenses daily.

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

His depreciation deduction normally would be $2,590 [$18,500 (unadjusted basis) × 70% (business use) × 20% (from *Table 1*)]. However, it is limited in the first year to $2,142 [$3,060 (from *Table 2*) × 70%]. He enters these amounts in Section D, Part II.

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

His other transportation expenses for parking fees, tolls, and taxis were $1,190. He enters this amount on line 2, Part I.

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

Example 2. Virginia Rose purchased a car on May 20, 1992. She chose to use the standard mileage rate to claim her business car expenses for 1992 through 1994. She chooses to use that method again for 1995.

As a salesperson, Virginia uses her car to call on customers and make deliveries. She has records to show she drove 18,000 business miles in 1995. Her records also show that she paid some parking fees and tolls in connection with her business transportation.

Virginia's employer paid her a 20¢-per-mile reimbursement during 1995 for the number of miles she was expected to drive each month. These payments were from a nonaccountable plan and were included in her income in box 1 of her Form W–2. Since the reimbursement she received is included in her income, Virginia decides to use **Form 2106–EZ** to claim her 1995 business car expenses.

Virginia completes Parts II and III of Form 2106–EZ, as shown on her illustrated form. She enters her business car expenses of $5,400 (figured at 30 cents per mile for her 18,000 business miles) on line 1, Part II. She enters her expenses for parking and tolls, $295, on line 2, Part II.

Virginia enters her total deductible expenses, $5,695, on line 6, Part II. She also enters this $5,695 on line 20 of Schedule A (Form 1040). These expenses are subject to the 2%-of-adjusted-gross-income limit, figured on line 25 of Schedule A.

If she did not itemize her deductions for 1995, Virginia could not deduct these expenses.

Appendices

The appendices that follow the illustrated forms are the tables that you may need if you lease a car for 30 days or more. They show the inclusion amounts that you may need to include in income. (See Chapter 3.)

Table 4. **Daily Business Mileage and Expense Log** **Name:** *David Pine*

Date	Destination (City, Town, or Area)	Business Purpose	Odometer Readings Start	Stop	Miles this trip	Expenses Type (Gas, oil, tolls, etc.)	Amount
4/2/95							
4/3/95	*Local (St. Louis)*	*Sales calls*	*8,097*	*8,188*	*91*	*Gas*	*$ 18.25*
4/4/95	*Indianapolis*	*Sales calls*	*8,211*	*8,486*	*275*	*Parking*	*2.00*
4/5/95	*Louisville*	*See Bob Smith (Pot. Client)*	*8,486*	*8,599*	*113*	*Gas/Repair flat tire*	*16.50 8.00*
4/6/95	*Return to St. Louis*		*8,599*	*8,875*	*276*	*Gas*	*17.25*
4/7/95	*Local (St. Louis)*	*Sales calls*	*8,914*	*9,005*	*91*		
4/8/95							
//////////////////////////////	**Weekly Total**	//////////////////////////////	*8,097*	*9,005*	*846*	//////////////////////////////	*$62.00*
Total Year-to-Date		//////////////////////////////	//////////////////////////////	//////////////////////////////	*6,236*	//////////////////////////////	*$993.00*

Form **2106**

Department of the Treasury
Internal Revenue Service (T)

Employee Business Expenses

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040-T.

OMB No. 1545-0139

1995

Attachment Sequence No. **54**

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

Part I **Employee Business Expenses and Reimbursements**

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

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

STEP 2 Enter Amounts Your Employer Gave You for Expenses Listed in STEP 1

7 Enter amounts your employer gave you that were **not** reported to you in box 1 of Form W-2. Include any amount reported under code "L" in box 13 of your Form W-2 (see instructions)	7	2,940	

STEP 3 Figure Expenses To Deduct on Schedule A (Form 1040) or Form 1040-T, Section B

8 Subtract line 7 from line 6	8	2,548	
Note: *If both columns of line 8 are zero, stop here. If Column A is less than zero, report the amount as income on Form 1040, line 7, or Form 1040-T, line 1.*			
9 In Column A, enter the amount from line 8 (if zero or less, enter -0-). In Column B, multiply the amount on line 8 by 50% (.50)	9	2,548	
10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20, or Form 1040-T, Section B, line n.** (Qualified performing artists and individuals with disabilities, see the instructions for special rules on where to enter the total.) ▶	10	2,548	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (1995)

Part II **Vehicle Expenses** (See instructions to find out which sections to complete.)

Section A.—General Information

			(a) Vehicle 1	(b) Vehicle 2
11	Enter the date vehicle was placed in service	11	1 / 6 / 95	/ /
12	Total miles vehicle was driven during 1995	12	20,000 miles	miles
13	Business miles included on line 12	13	14,000 miles	miles
14	Percent of business use. Divide line 13 by line 12	14	70 %	%
15	Average daily round trip commuting distance	15	10 miles	miles
16	Commuting miles included on line 12	16	2,400 miles	miles
17	Other personal miles. Add lines 13 and 16 and subtract the total from line 12	17	3,600 miles	miles

18 Do you (or your spouse) have another vehicle available for personal purposes? ☐ Yes ☑ No

19 If your employer provided you with a vehicle, is personal use during off-duty hours permitted? ☐ Yes ☐ No ☑ Not applicable

20 Do you have evidence to support your deduction? ☑ Yes ☐ No

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

Section B.—Standard Mileage Rate (Use this section only if you own the vehicle.)

22	Multiply line 13 by 30¢ (.30). Enter the result here and on line 1. (Rural mail carriers, see instructions.)	22	

Section C.—Actual Expenses

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

Section D.—Depreciation of Vehicles (Use this section only if you own the vehicle.)

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

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Page 22 Chapter 5 **HOW TO REPORT**

Form **2106-EZ**

Department of the Treasury
Internal Revenue Service (T)

Unreimbursed Employee Business Expenses

▶ See instructions on back.

▶ Attach to Form 1040 or Form 1040-T.

OMB No. 1545-1441

1995

Attachment Sequence No. **54A**

Your name	Social security number	Occupation in which expenses were incurred
Virginia Rose	303 00 1234	Sales

Part I **General Information**

You May Use This Form ONLY If All of the Following Apply:

- You are an employee deducting expenses attributable to your job.
- You **do not** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense,
  - a You own your vehicle, and
  - b You are using the standard mileage rate for 1995 **and** also used it for the year you first placed the vehicle in service.

Part II **Figure Your Expenses**

1	Vehicle expense using the standard mileage rate. Complete Part III and multiply line 8a by 30¢ (.30)	1	5,400
2	Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel	2	295
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3	
4	Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4	
5	Meals and entertainment expenses: $ ________ x 50% (.50)	5	
6	**Total expenses.** Add lines 1 through 5. Enter here and **on line 20 of Schedule A (Form 1040), or Form 1040-T, Section B, line n.** (Qualified performing artists and individuals with disabilities, see the instructions for special rules on where to enter this amount.)	6	5,695

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

7 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 5 / 20 / 92

8 Of the total number of miles you drove your vehicle during 1995, enter the number of miles you used your vehicle for:

a Business 18,000 b Commuting 3,000 c Other 5,000

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

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

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

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

For Paperwork Reduction Act Notice, see back of form. Cat. No. 20604Q Form **2106-EZ** (1995)

Appendix A. **Inclusion Amounts for Cars First Leased in 1987 through 1991**

Fair Market Value		Tax Year of Lease*			
		For Lease Term Beginning in 1987 or 1988	For Lease Term Beginning in 1989 or 1990	For Lease Term Beginning in 1991	
		5th and Later	5th and Later	4th	5th and Later
Over	**Not Over**				
$ 12,800	$ 13,100	$ 9	$ 2	$ 0	$ 0
13,100	13,400	28	9	0	0
13,400	13,700	47	26	6	6
13,700	14,000	65	45	18	18
14,000	14,300	84	64	29	32
14,300	14,600	103	83	41	45
14,600	14,900	122	101	52	58
14,900	15,200	140	120	64	71
15,200	15,500	159	139	75	85
15,500	15,800	178	158	87	98
15,800	16,100	196	176	98	112
16,100	16,400	215	195	110	124
16,400	16,700	234	213	121	138
16,700	17,000	253	232	133	151
17,000	17,500	277	258	147	169
17,500	18,000	309	289	167	191
18,000	18,500	340	319	186	213
18,500	19,000	371	351	205	235
19,000	19,500	402	382	224	257
19,500	20,000	433	413	243	279
20,000	20,500	465	445	263	301
20,500	21,000	496	476	282	323
21,000	21,500	527	507	301	345
21,500	22,000	558	538	319	368
22,000	23,000	605	585	348	401
23,000	24,000	667	647	387	445
24,000	25,000	729	709	425	489
25,000	26,000	792	772	463	534
26,000	27,000	854	834	502	578
27,000	28,000	917	897	540	622
28,000	29,000	979	959	578	666
29,000	30,000	1,041	1,021	617	710
30,000	31,000	1,104	1,084	655	755
31,000	32,000	1,166	1,146	693	799
32,000	33,000	1,228	1,209	732	843
33,000	34,000	1,291	1,270	769	888
34,000	35,000	1,353	1,333	808	931
35,000	36,000	1,415	1,396	846	976
36,000	37,000	1,478	1,458	885	1,020
37,000	38,000	1,540	1,520	923	1,064
38,000	39,000	1,602	1,583	961	1,109
39,000	40,000	1,665	1,664	1,000	1,153
40,000	41,000	1,727	1,707	1,038	1,197
41,000	42,000	1,789	1,770	1,076	1,241
42,000	43,000	1,852	1,832	1,115	1,285
43,000	44,000	1,914	1,894	1,153	1,330
44,000	45,000	1,976	1,956	1,191	1,374
45,000	46,000	2,039	2,019	1,230	1,418
46,000	47,000	2,101	2,081	1,268	1,462
47,000	48,000	2,164	2,144	1,306	1,506
48,000	49,000	2,226	2,205	1,344	1,551
49,000	50,000	2,288	2,268	1,383	1,595
50,000	51,000	2,351	2,331	1,421	1,639
51,000	52,000	2,413	2,393	1,459	1,684
52,000	53,000	2,475	2,455	1,498	1,727

Appendix A. *(Continued)*

Fair Market Value		Tax Year of Lease*			
		For Lease Term Beginning in 1987 or 1988	For Lease Term Beginning in 1989 or 1990	For Lease Term Beginning in 1991	
		5th and Later	5th and Later	4th	5th and Later
Over	**Not Over**				
$ 53,000	$ 54,000	$ 2,538	$ 2,517	$1,536	$1,772
54,000	55,000	2,600	2,580	1,574	1,816
55,000	56,000	2,662	2,643	1,613	1,860
56,000	57,000	2,725	2,705	1,650	1,905
57,000	58,000	2,787	2,767	1,689	1,949
58,000	59,000	2,849	2,829	1,727	1,993
59,000	60,000	2,912	2,892	1,766	2,037
60,000	62,000	3,005	2,985	1,824	2,103
62,000	64,000	3,130	3,110	1,900	2,192
64,000	66,000	3,255	3,235	1,977	2,280
66,000	68,000	3,379	3,360	2,053	2,369
68,000	70,000	3,504	3,484	2,130	2,457
70,000	72,000	3,629	3,609	2,206	2,546
72,000	74,000	3,753	3,733	2,283	2,634
74,000	76,000	3,878	3,858	2,359	2,723
76,000	78,000	4,003	3,983	2,436	2,811
78,000	80,000	4,128	4,107	2,512	2,900
80,000	85,000	4,346	4,325	2,647	3,054
85,000	90,000	4,658	4,638	2,838	3,276
90,000	95,000	4,969	4,949	3,029	3,497
95,000	100,000	5,281	5,261	3,221	3,718

* For the last tax year of the lease, use the dollar amount for the preceding year.

Appendix B. **Inclusion Amounts for Cars First Leased in 1992**

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 13,700	$ 14,000	$ 0	$ 2	$ 2	$ 2	$ 4
14,000	14,300	3	7	10	13	15
14,300	14,600	5	13	18	23	26
14,600	14,900	8	18	27	32	38
14,900	15,200	11	23	35	43	49
15,200	15,500	13	29	44	52	61
15,500	15,800	16	35	51	62	72
15,800	16,100	18	40	60	72	84
16,100	16,400	21	46	68	82	95
16,400	16,700	23	52	76	92	106
16,700	17,000	26	57	84	102	118
17,000	17,500	29	65	95	115	133
17,500	18,000	33	74	109	132	152
18,000	18,500	38	83	123	148	171
18,500	19,000	42	92	137	164	190
19,000	19,500	46	102	150	181	209
19,500	20,000	50	111	164	198	228
20,000	20,500	55	120	178	214	247
20,500	21,000	59	129	192	230	267
21,000	21,500	63	139	205	247	285
21,500	22,000	67	148	219	263	305
22,000	23,000	74	162	239	288	333
23,000	24,000	82	180	268	321	371
24,000	25,000	90	199	295	354	409
25,000	26,000	99	217	323	387	447
26,000	27,000	107	236	350	420	485
27,000	28,000	116	254	378	453	523
28,000	29,000	124	273	405	486	561
29,000	30,000	133	291	433	518	600
30,000	31,000	141	310	460	552	637
31,000	32,000	150	328	488	584	676
32,000	33,000	158	347	515	618	713
33,000	34,000	167	365	543	650	752
34,000	35,000	175	384	570	684	789
35,000	36,000	184	402	598	716	828
36,000	37,000	192	421	625	750	865
37,000	38,000	200	440	652	783	904
38,000	39,000	209	458	680	816	942
39,000	40,000	217	477	707	849	980
40,000	41,000	226	495	735	882	1,018
41,000	42,000	234	514	762	915	1,056
42,000	43,000	243	532	790	948	1,094
43,000	44,000	251	551	817	981	1,132
44,000	45,000	260	569	845	1,013	1,171
45,000	46,000	268	588	872	1,047	1,208
46,000	47,000	277	606	900	1,079	1,247
47,000	48,000	285	625	927	1,113	1,284
48,000	49,000	293	644	955	1,145	1,323
49,000	50,000	302	662	982	1,179	1,360
50,000	51,000	310	681	1,010	1,211	1,399
51,000	52,000	319	699	1,037	1,245	1,436
52,000	53,000	327	718	1,065	1,277	1,475
53,000	54,000	336	736	1,092	1,311	1,513
54,000	55,000	344	755	1,120	1,343	1,551
55,000	56,000	353	773	1,147	1,377	1,589
56,000	57,000	361	792	1,175	1,409	1,627
57,000	58,000	370	810	1,202	1,442	1,666
58,000	59,000	378	829	1,230	1,475	1,703
59,000	60,000	386	848	1,257	1,508	1,741
60,000	62,000	399	875	1,299	1,557	1,799

Appendix B. *(Continued)*

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 62,000	$ 64,000	$ 416	$ 912	$ 1,354	$ 1,623	$ 1,875
64,000	66,000	433	949	1,409	1,689	1,951
66,000	68,000	450	987	1,463	1,755	2,027
68,000	70,000	467	1,024	1,518	1,821	2,103
70,000	72,000	484	1,061	1,573	1,887	2,179
72,000	74,000	501	1,098	1,628	1,953	2,255
74,000	76,000	518	1,135	1,683	2,019	2,331
76,000	78,000	535	1,172	1,738	2,085	2,407
78,000	80,000	551	1,209	1,794	2,150	2,484
80,000	85,000	581	1,274	1,889	2,267	2,617
85,000	90,000	623	1,367	2,027	2,431	2,807
90,000	95,000	666	1,459	2,165	2,595	2,998
95,000	100,000	708	1,552	2,302	2,761	3,188

* For the last tax year of the lease, use the dollar amount for the preceding year.

Appendix C. **Inclusion Amounts for Cars First Leased in 1993**

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 14,300	$ 14,600	$ 1	$ 1	$ 2	$ 2	$ 3
14,600	14,900	3	5	7	9	9
14,900	15,200	4	9	13	15	17
15,200	15,500	6	13	18	22	25
15,500	15,800	8	16	24	29	32
15,800	16,100	9	20	30	35	40
16,100	16,400	11	24	35	42	48
16,400	16,700	13	27	41	49	55
16,700	17,000	14	32	46	55	63
17,000	17,500	17	36	54	64	73
17,500	18,000	20	42	63	75	87
18,000	18,500	22	49	72	86	99
18,500	19,000	25	55	82	97	112
19,000	19,500	28	61	91	108	125
19,500	20,000	31	67	100	120	137
20,000	20,500	34	74	109	130	150
20,500	21,000	37	80	118	142	163
21,000	21,500	39	86	128	153	175
21,500	22,000	42	92	138	163	189
22,000	23,000	47	101	151	181	207
23,000	24,000	52	114	170	202	233
24,000	25,000	58	127	187	225	259
25,000	26,000	64	139	206	247	285
26,000	27,000	69	152	224	270	310
27,000	28,000	75	164	243	292	335
28,000	29,000	81	176	262	313	362
29,000	30,000	86	189	280	336	387
30,000	31,000	92	201	299	358	412
31,000	32,000	98	214	317	380	438
32,000	33,000	103	226	336	402	464
33,000	34,000	109	239	354	424	490
34,000	35,000	115	251	373	446	515
35,000	36,000	120	264	391	469	540
36,000	37,000	126	276	410	491	566
37,000	38,000	132	288	429	513	591
38,000	39,000	137	301	447	535	617
39,000	40,000	143	314	465	557	643
40,000	41,000	149	326	484	579	669
41,000	42,000	154	339	502	601	695
42,000	43,000	160	351	521	623	720
43,000	44,000	166	363	539	646	746
44,000	45,000	171	376	558	668	771
45,000	46,000	177	388	577	690	796
46,000	47,000	183	401	594	713	822
47,000	48,000	189	413	613	735	847
48,000	49,000	194	426	631	757	874
49,000	50,000	200	438	650	779	899
50,000	51,000	206	450	669	801	925
51,000	52,000	211	463	687	824	950
52,000	53,000	217	475	706	846	975
53,000	54,000	223	488	724	867	1,002
54,000	55,000	228	501	742	890	1,027
55,000	56,000	234	513	761	912	1,052
56,000	57,000	240	525	780	934	1,078
57,000	58,000	245	538	798	956	1,104
58,000	59,000	251	550	817	978	1,130
59,000	60,000	257	563	835	1,000	1,155
60,000	62,000	265	581	863	1,034	1,194
62,000	64,000	277	606	900	1,078	1,245
64,000	66,000	288	631	937	1,123	1,295

Appendix C. *(Continued)*

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 66,000	$ 68,000	$ 299	$ 656	$ 974	$ 1,167	$ 1,347
68,000	70,000	311	681	1,011	1,211	1,398
70,000	72,000	322	706	1,048	1,255	1,450
72,000	74,000	333	731	1,085	1,300	1,500
74,000	76,000	345	756	1,121	1,345	1,551
76,000	78,000	356	781	1,158	1,389	1,603
78,000	80,000	367	806	1,195	1,434	1,654
80,000	85,000	387	849	1,261	1,510	1,744
85,000	90,000	416	911	1,353	1,622	1,871
90,000	95,000	444	974	1,445	1,733	1,999
95,000	100,000	472	1,036	1,538	1,843	2,128

* For the last tax year of the lease, use the dollar amount for the preceding year.

Appendix D. **Inclusion Amounts for Cars First Leased in 1994**

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 14,600	$ 14,900	$ 0	$ 1	$ 1	$ 2	$ 2
14,900	15,200	2	5	6	9	11
15,200	15,500	4	9	14	17	20
15,500	15,800	6	14	21	25	30
15,800	16,100	8	19	27	34	39
16,100	16,400	10	24	34	42	49
16,400	16,700	12	28	41	51	58
16,700	17,000	14	33	48	59	68
17,000	17,500	17	39	57	70	81
17,500	18,000	21	47	68	84	97
18,000	18,500	24	55	80	97	113
18,500	19,000	28	62	92	111	129
19,000	19,500	31	70	104	124	145
19,500	20,000	35	78	115	138	161
20,000	20,500	39	85	127	152	176
20,500	21,000	42	93	138	166	193
21,000	21,500	46	101	149	180	208
21,500	22,000	49	109	161	193	225
22,000	23,000	54	121	178	214	248
23,000	24,000	62	136	201	242	280
24,000	25,000	69	151	224	270	312
25,000	26,000	76	167	247	297	344
26,000	27,000	83	182	270	325	376
27,000	28,000	90	198	293	352	408
28,000	29,000	97	213	317	379	440
29,000	30,000	104	229	339	408	471
30,000	31,000	111	244	363	435	503
31,000	32,000	118	260	385	463	535
32,000	33,000	125	276	408	490	567
33,000	34,000	132	291	431	518	599
34,000	35,000	139	307	454	545	631
35,000	36,000	146	322	478	573	662
36,000	37,000	153	338	500	601	694
37,000	38,000	161	353	523	628	726
38,000	39,000	168	368	547	656	757
39,000	40,000	175	384	569	684	790
40,000	41,000	182	399	593	711	822
41,000	42,000	189	415	615	739	854
42,000	43,000	196	431	638	766	886
43,000	44,000	203	446	661	794	918
44,000	45,000	210	462	684	821	950
45,000	46,000	217	477	708	849	981
46,000	47,000	224	493	730	877	1,013
47,000	48,000	231	508	754	904	1,045
48,000	49,000	238	524	776	932	1,077
49,000	50,000	245	539	800	959	1,109
50,000	51,000	252	555	822	987	1,141
51,000	52,000	260	570	845	1,015	1,172
52,000	53,000	267	585	869	1,042	1,204
53,000	54,000	274	601	892	1,069	1,236
54,000	55,000	281	617	914	1,097	1,268
55,000	56,000	288	632	938	1,125	1,299
56,000	57,000	295	648	960	1,153	1,331
57,000	58,000	302	663	984	1,180	1,363
58,000	59,000	309	679	1,006	1,208	1,395
59,000	60,000	316	694	1,030	1,235	1,427
60,000	62,000	327	717	1,065	1,276	1,475
62,000	64,000	341	748	1,111	1,332	1,538
64,000	66,000	355	780	1,156	1,387	1,602
66,000	68,000	369	811	1,202	1,442	1,666

Appendix D. *(Continued)*

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 68,000	$ 70,000	$ 383	$ 842	$ 1,248	$ 1,497	$ 1,730
70,000	72,000	397	873	1,294	1,553	1,793
72,000	74,000	412	903	1,341	1,608	1,857
74,000	76,000	426	935	1,386	1,663	1,921
76,000	78,000	440	966	1,432	1,718	1,985
78,000	80,000	454	997	1,478	1,774	2,048
80,000	85,000	479	1,051	1,559	1,870	2,160
85,000	90,000	514	1,129	1,674	2,008	2,319
90,000	95,000	550	1,206	1,789	2,146	2,478
95,000	100,000	585	1,284	1,904	2,284	2,637

*For the last tax year of the lease, use the dollar amount for the preceding year.

Appendix E. **Inclusion Amounts for Cars First Leased in 1995**

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 15,500	$ 15,800	$ 4	$ 8	$ 11	$ 13	$ 14
15,800	16,100	7	15	21	25	28
16,100	16,400	10	22	31	37	43
16,400	16,700	13	28	42	50	56
16,700	17,000	16	35	52	62	71
17,000	17,500	20	45	65	78	89
17,500	18,000	26	56	82	98	113
18,000	18,500	31	67	99	119	136
18,500	19,000	36	79	116	139	159
19,000	19,500	21	90	133	159	184
19,500	20,000	46	102	150	179	207
20,000	20,500	52	113	167	200	230
20,500	21,000	57	124	184	220	254
21,000	21,500	62	136	201	240	277
21,500	22,000	67	147	218	261	301
22,000	23,000	75	164	244	291	336
23,000	24,000	86	187	277	332	383
24,000	25,000	96	210	311	373	429
25,000	26,000	106	233	345	413	477
26,000	27,000	117	256	378	454	524
27,000	28,000	127	279	412	495	570
28,000	29,000	138	301	447	535	617
29,000	30,000	148	324	481	575	665
30,000	31,000	159	347	514	616	711
31,000	32,000	169	370	548	657	758
32,000	33,000	179	393	582	698	804
33,000	34,000	190	416	616	738	851
34,000	35,000	200	439	650	778	899
35,000	36,000	211	461	684	819	946
36,000	37,000	221	484	718	860	992
37,000	38,000	232	507	751	901	1,039
38,000	39,000	242	530	785	942	1,086
39,000	40,000	253	552	820	982	1,133
40,000	41,000	263	576	853	1,022	1,180
41,000	42,000	273	599	887	1,063	1,227
42,000	43,000	284	621	921	1,104	1,274
43,000	44,000	294	644	955	1,145	1,320
44,000	45,000	305	667	989	1,185	1,367
45,000	46,000	315	690	1,022	1,226	1,415
46,000	47,000	326	712	1,057	1,266	1,462
47,000	48,000	336	735	1,091	1,307	1,508
48,000	49,000	346	759	1,124	1,347	1,556
49,000	50,000	357	781	1,158	1,388	1,603
50,000	51,000	367	804	1,192	1,429	1,649
51,000	52,000	378	827	1,226	1,469	1,696
52,000	53,000	388	850	1,260	1,510	1,743
53,000	54,000	399	872	1,294	1,551	1,790
54,000	55,000	409	895	1,328	1,591	1,837
55,000	56,000	419	919	1,361	1,632	1,884
56,000	57,000	430	941	1,395	1,673	1,931
57,000	58,000	440	964	1,429	1,714	1,977
58,000	59,000	451	987	1,463	1,754	2,024
59,000	60,000	461	1,010	1,497	1,794	2,072
60,000	62,000	477	1,044	1,548	1,855	2,142
62,000	64,000	498	1,089	1,616	1,937	2,235
64,000	66,000	519	1,135	1,683	2,018	2,330
66,000	68,000	539	1,181	1,751	2,100	2,423
68,000	70,000	560	1,227	1,819	2,180	2,517
70,000	72,000	581	1,272	1,887	2,262	2,611
72,000	74,000	602	1,318	1,955	2,343	2,704

Appendix E. *(Continued)*

Fair Market Value		Tax Year of Lease*				
		1st	2nd	3rd	4th	5th and Later
Over	**Not Over**					
$ 74,000	$ 76,000	$ 623	$ 1,364	$ 2,022	$ 2,424	$ 2,799
76,000	78,000	644	1,409	2,090	2,506	2,892
78,000	80,000	665	1,455	2,158	2,586	2,986
80,000	85,000	701	1,535	2,277	2,729	3,150
85,000	90,000	753	1,650	2,445	2,932	3,385
90,000	95,000	806	1,763	2,616	3,315	3,619
95,000	100,000	858	1,878	2,784	3,339	3,853

*For the last tax year of the lease, use the dollar amount for the preceding year.

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553 Highlights of 1995 Tax Changes
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910 Guide to Free Tax Services

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503 Child and Dependent Care Expenses
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596SP Crédito por Ingreso del Trabajo
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- Sch A Itemized Deductions
- Sch B Interest and Dividend Income
- Sch C Profit or Loss From Business
- Sch C–EZ Net Profit From Business
- Sch D Capital Gains and Losses
- Sch E Supplemental Income and Loss
- Sch EIC Earned Income Credit
- Sch F Profit or Loss From Farming
- Sch H Household Employment Taxes
- Sch R Credit for the Elderly or the Disabled
- Sch SE Self-Employment Tax

1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040A U.S. Individual Income Tax Return
- Sch 1 Interest and Dividend Income for Form 1040A Filers
- Sch 2 Child and Dependent Care Expenses for Form 1040A Filers
- Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers

1040–ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return
2106 Employee Business Expenses
2106–EZ Unreimbursed Employee Business Expenses
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2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts
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