January 2018

On behalf of the more than 22,000 members of the Pennsylvania Institute of Certified Public Accountants (PICPA), I am pleased to provide you with the 2017 Pennsylvania Legislator Tax Guide, a publication uniquely tailored to assist members of the Pennsylvania General Assembly with their federal income tax filing.

This guide answers basic questions specific to the treatment of travel and other expenses that you incurred last year as an elected official. It does not address any tax issue pertaining to matters outside the scope of your official office. If you have questions regarding specific personal income tax filings that are not included in this guide, those questions should be directed to your tax professional.

Please note that while federal-level tax reform was enacted in 2017, it has no impact on your 2017 filing. There will be changes in store for 2018 which will be outlined in next year’s guide.

We hope the 2017 Pennsylvania Legislator Tax Guide is useful in assisting you in the filing of your unique personal income tax return.

As always, please do not hesitate to contact the PICPA Government Relations Team at (717) 232-1821 if we can be of additional assistance.

Sincerely,

Peter N. Calcura, CAE
Vice President - Government Relations
pcalcara@picpa.org
# Table of Contents

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Introduction</td>
</tr>
<tr>
<td>03</td>
<td>Expense Reimbursements</td>
</tr>
<tr>
<td></td>
<td>4 Automobile and Transportation Expenses</td>
</tr>
<tr>
<td></td>
<td>8 Living Expenses</td>
</tr>
<tr>
<td></td>
<td>12 Entertainment and Meal Expenses</td>
</tr>
<tr>
<td></td>
<td>14 Telephone Expenses</td>
</tr>
<tr>
<td></td>
<td>15 Advertising Expenses</td>
</tr>
<tr>
<td></td>
<td>16 Home Office Expenses</td>
</tr>
<tr>
<td></td>
<td>19 Education and Related Expenses</td>
</tr>
<tr>
<td></td>
<td>20 Other Expenses</td>
</tr>
<tr>
<td>21</td>
<td>Record Keeping</td>
</tr>
<tr>
<td>23</td>
<td>Tax Deduction or Credit for Political Contributions</td>
</tr>
<tr>
<td>24</td>
<td>Tax Treatment of Campaign Contributions and Expenditures</td>
</tr>
<tr>
<td>27</td>
<td>Pennsylvania Income Taxes</td>
</tr>
<tr>
<td>28</td>
<td>Pennsylvania Local Income Taxes</td>
</tr>
<tr>
<td>29</td>
<td>Appendices</td>
</tr>
<tr>
<td></td>
<td>A1 Section 162(h) of the IRS Code on Travel Expenses</td>
</tr>
<tr>
<td></td>
<td>A2 IRS Regulation Section 1.162-24: Travel Expenses of State Legislators</td>
</tr>
<tr>
<td></td>
<td>A3 Annual Election Statement for IRC Section 162(h)</td>
</tr>
<tr>
<td></td>
<td>A4 General Substantiation Rules for Travel – Entertainment and Other Deductions</td>
</tr>
<tr>
<td></td>
<td>A5 Revenue Ruling 79-12: Campaign Funds – Delegate’s Political Convention Expenses</td>
</tr>
<tr>
<td></td>
<td>A6 Revenue Ruling 79-13: Surplus Political Campaign Funds – Voter Research Expenses</td>
</tr>
<tr>
<td>43</td>
<td>IRS and PA Dep’t. of Revenue Forms</td>
</tr>
<tr>
<td></td>
<td>2106 Employee Business Expenses</td>
</tr>
<tr>
<td></td>
<td>8829 Expenses for Business Use of Your Home</td>
</tr>
<tr>
<td></td>
<td>1120-POL U.S. Income Tax Return for Certain Political Organizations</td>
</tr>
<tr>
<td></td>
<td>PA-UE Pennsylvania Schedule of Allowable Employee Business Expenses</td>
</tr>
</tbody>
</table>
Introduction

The 2017 Pennsylvania Legislator Tax Guide covers only those tax matters relevant to your position as an elected state official. It is not intended to cover all tax matters. Items of a personal nature and tax matters unrelated to your position as a member of the state legislature are not included. We encourage you to contact a certified public accountant tax professional with specific questions. A question and answer format is used throughout the guide to provide answers to common questions concerning state, local, and federal income tax laws and how they relate to your position.

For the most part, legislators do not have to concern themselves with additional tax reporting for the majority of their business expenses, since they are reimbursed under an accountable expense reimbursement plan, as discussed in the section of this guide entitled “Expense Reimbursements.” Unique to most state legislators, however, is the option to choose their legislative district as their tax home, and therefore treat most expenses incurred while in Harrisburg as deductible “travel expenses while away from home.” These rules are discussed in the “Living Expenses” section of this guide.

Under current guidelines, members of the Pennsylvania legislature may receive a per diem allowance for lodging, meals, and incidental expenses incurred in the performance of legislative duties. If a per diem allowance is received, he or she will be deemed to have appropriately expended for living expenses an amount equal to the appropriate rate under either the federal General Services Adminis-
tation regulations or under the IRS High-Low Substantiation Method. Changes to these rates are typically effective as of Oct. 1 each year. The rates for the two methods were as follows:

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Federal GSA</th>
<th>High/Low Substantiation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lodging</td>
<td>M&amp;IE</td>
</tr>
<tr>
<td>1/1/2017-09/30/2017</td>
<td>110.00</td>
<td>69.00</td>
</tr>
<tr>
<td>10/1/2017-12/31/2017</td>
<td>114.00</td>
<td>69.00</td>
</tr>
</tbody>
</table>

If using the GSA method, expenses incurred in excess of the per diem allowance may be deductible, provided the appropriate substantiation and record keeping rules are followed. The burden of proving compliance is on the taxpayer. Therefore, it is imperative that detailed records be kept by the legislator. Failure to keep adequate documentation can result in disallowance of the expense.

If using the IRS High/Low Substantiation method, expenses incurred in excess of the per diem allowance may not be deducted on your tax return. In addition, a legislator choosing the High/Low method may not switch to the GSA method or actual expenses during the calendar year.

Since almost all legislative expenses are reimbursable through the House or Senate, there will generally be very few additional legislative expense deductions on the legislator’s tax return, other than those deductions provided through Section 162(h) of the Internal Revenue Code. In other words, if the expense would generally be reimbursable by the House or Senate, but you choose not to seek reimbursement, you may not deduct the expense on your income tax return. *Deductions that may be available on your federal tax return through the provisions of Section 162(h) of the Internal Revenue Code are not available on your Pennsylvania or local income tax returns.*

For federal income tax purposes, the answers in this guide, except for a few noted exceptions, assume that legislators who live more than 50 miles from Harrisburg make the annual election provided for in Section 162(h) of the Internal Revenue Code to consider their legislative district as their tax home. Thus, the answers will not apply to legislators who reside and work in the general vicinity of Harrisburg, or to those whose “tax home” is Harrisburg. You may wish to consult your certified public accountant or other tax advisor to assess your situation and determine the treatment of these expenses in your particular case.

*Please note that the rates listed above are specifically for Dauphin County, not including Hershey. Federal GSA rates vary, with different rates depending upon the area. GSA per diem rates may be found in Federal Register Document 2-15-21597, then clicking on www.gsa.gov/perdiem. The high/low method may be found in IRS Notice 2016-58 and IRS Notice 2017-54.*
Expense Reimbursements

Under an accountable expense reimbursement plan, legislators do not have to concern themselves with deducting business expenses if all of the following are true:

- The expense is accounted to the employer. This includes documentation of the date, place, business purpose, and amount of the expense.
- Full reimbursement is received for expenses.
- Excess reimbursements, if any, are returned to the employer.

Legislators who receive expense allowances from the House or Senate, and who are not required to provide a full accounting to the House or Senate with respect to their use of the funds, are considered to have been part of a nonaccountable expense reimbursement plan. These legislators should maintain appropriate records to offset the income, which the employer is supposed to include on Form W-2.

Most expenses incurred by Pennsylvania legislators are considered reimbursed under an accountable expense reimbursement plan. Consult with the financial officer of your respective chamber to confirm whether you have any expenses paid under a nonaccountable expense reimbursement plan.
Automobile and Transportation Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Q. How do I report my mileage or automobile expenses on my tax return?
A. Mileage and automobile expenses are reported on Form 2106, Employee Business Expenses. Form 2106 is included in this guide to assist you in properly reporting your tax-deductible information on your annual federal income tax return.

Q. How much can I deduct for the auto mileage I incur traveling to and from Harrisburg?
A. The House or Senate pays each legislator specified allowances for expenses. To assure compliance with IRS regulations, you should prepare a statement with your tax return (Form 2106, Part I) showing the total allowances received and expenses incurred. Any excess of allowances over expenses is includable in income, while any excess of expenses over allowances may be included in computing your itemized deductions on Form 1040, Schedule A, as an unreimbursed business expense. (See Form 2106, Part I, Lines 8 and 10). If there is neither excess allowance nor excess expense, this statement does not need to be filed with the return.

See Form 2106, Part I, and its instructions for more details.

The business standard mileage method may be used for an automobile you own or lease. You may claim an amount equal to either the business standard mileage rate, 53.5 cents per mile from 1/1/2017 through 12/31/2017, multiplied by the number of business miles traveled or the actual costs paid/incurred that are allocable to traveling those business miles, as compared to reimbursements received. However, if the mileage method is elected for a leased automobile, it must be used for all years of the entire lease. Additionally, the business standard mileage rate may not be used for an automobile for which you had previously claimed accelerated depreciation (including ACRS or MACRS methods), Section 179 expenses deduction or bonus first-year

See Form 2106, Part II and its instructions for more details.
depreciation under Section 168. Finally, when the business standard mileage method is used, a portion of the allowance (25 cents per mile in 2017, and 24 cents per mile in 2016 and 2015) is treated as depreciation that reduces your basis (but not below zero)\(^1\).

To calculate actual expenses, total the automobile expenses (depreciation or rental expenses, gas and oil, repairs and maintenance, insurance, etc.) and apply your business percentage. Interest paid to purchase a vehicle may no longer be included in this computation by an employee; however, interest paid on a loan secured by a residence may be deductible under other provisions. The business percentage is computed by dividing your total business miles by total miles driven during the year. (See Form 2106, Part II). Expenses for which you receive reimbursement that are not included as compensation in box 10 on Form W-2 may be deducted from these reimbursements, and any excess of such expenses must be deducted as miscellaneous deductions on Schedule A (Form 1040). Any expenses for which reimbursements were included in box 10 of Form W-2 may only be deducted on Schedule A. Unreimbursed business expenses, together with other expenses shown on Lines 19 and 20 of Schedule A, are subject to a nondeductible floor of 2 percent of your adjusted gross income. Also, if you lease a vehicle, you may be required to reduce your rental expense by an amount called an “inclusion amount” if the cost of the vehicle represents a “luxury automobile.”

Members of the Pennsylvania Senate and the House of Representatives have the option of obtaining a vehicle through the Pennsylvania Department of General Services. Specific treatment of this option should be discussed with the Comptroller of the House or Chief Clerk of the Senate.

**Q.** What other mileage expenses may I deduct?

**A.** A member of the legislature usually incurs a great deal of mileage expense while in his or her legislative district. The legislator may be required to travel several miles from one town to another to attend civic functions or other meetings related to his or her legislative duties. All travel to meetings where you speak or are important that you attend because of your position as a legislator is claimable toward a tax deduction. A written record of this mileage must be maintained to provide a log of your automobile use. This mileage can become substantial, particularly for those individuals whose districts are geographically widespread. You may deduct the cost of nonreimbursed transportation between two places of business (state legislature or another business or occupation), provided such trips are necessary in discharging business at both locations. In addition, mileage incurred in making an investigation to ascertain facts concerning possible legislation is deductible.

---

\(^1\) Rev. Proc. 2010-51
What about mileage expenses incurred while going to meetings during a political campaign? Although I am running for re-election, it is incumbent upon me to attend these meetings to explain the activities of the legislature to my constituents.

The Internal Revenue Code specifically states that campaign expenses are not tax deductible. It is very important for the legislator to distinguish between expenses that are directly related to a campaign and those that are directly attributable to serving the legislator’s constituency.

If I use another mode of transportation, such as a train or airplane, to get to Harrisburg or between two places of business, may I deduct these expenses in addition to mileage expense?

A deduction is allowed for ordinary and necessary traveling expenses incurred (paid) by you. Accordingly, you cannot claim both the mileage you would have incurred had you driven an automobile for business and the cost of the train fare or airplane ticket. If you use a train, airplane, or other means of transportation, these expenses may only be deducted if the House or Senate does not allow reimbursement, and they should then be detailed on Form 2106, Part I, Line 2 or 3. You would report the amount of reimbursement you received for the travel on Form 2106, Part I, Line 7. The result will be that the expenses incurred in excess of reimbursement will be deductible, or the reimbursement in excess of such expenses will be taxable income to you.

On occasion, I ride with another person to Harrisburg. Can I still claim a tax deduction for the mileage for that particular day, although I did not drive my own car?

When you ride with someone else, and do not incur any transportation expense yourself, you may not claim any mileage expense for that day's travel.

While away from home, I stay at a hotel in Harrisburg for the legislative session and drive or take a taxi to the Capitol each day. May I deduct these travel costs as business expenses?

Yes. When Harrisburg is not considered your tax home, business transportation between your hotel and the Capitol is not considered commuting. Consequently, you may deduct this transportation expense.

I have an office in my home district. May I deduct mileage expense from my home to this office?

The mileage from your residence to your place of business is not deductible. This is considered a nondeductible commuting expense.

See Form 2106, Part I and its instructions for more details.
Q. The IRS allows me to deduct a standard mileage allowance or to itemize all my automobile expenses and then take a deduction for a portion of those expenses based on the percentage that my business mileage bears to the total mileage during the year. Which method results in the greater deduction?

A. There is no simple answer to this question. If you lease your vehicle, you must use the method elected in the initial year of the lease for the entire life of the lease. If you own your car, you should compute the deduction under each method to determine which will generate a higher deduction. If you operate more than one car at the same time or claimed a deduction for depreciation in an earlier year under either the ACRS or MACRS method of depreciation, a deduction under Section 179, or any bonus depreciation under Section 168, you cannot use the mileage method. In certain situations, you may not change methods, i.e., actual or mileage.

Q. If I itemize all my automobile expenses, which expenses am I allowed to deduct?

A. You are permitted to deduct gasoline, oil, lubrication, repairs and maintenance (including car washes), lease fees, tires, supplies, insurance, tags and licenses, as well as tolls and parking for business purposes. Interest payments may not be included here, but may be deductible if the loan was secured by a lien against a residence. Depreciation is permitted for the business portion of a vehicle. Sales tax must be included in the cost of a purchased vehicle or with the cost of the lease on a leased vehicle.

Q. If I use the mileage method, may I deduct any other expenses?

A. Yes. Parking fees and tolls for business purposes may also be deducted (See form 2106, Part I, Line 2).

Q. May I deduct the cost of meals consumed while traveling to and from Harrisburg or elsewhere on business?

A. Yes, provided your round trip includes at least one night spent away from your tax home. However, as changed by the Internal Revenue Code of 1986, only 50 percent of nonreimbursed meal costs are allowable as a business expense.
Living Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Q. What may I deduct for living expenses incurred in a hotel, motel, apartment, or camper while attending sessions in Harrisburg?

A. You have two options available for deducting living expenses incurred while attending sessions in Harrisburg.

1. State legislators have a special election they can make to deduct a prescribed amount for each “legislative day,” provided they live more than 50 miles from Harrisburg [Internal Revenue Code Section 162(h)]. The amount is the greater of these two options:

   • The daily per diem allowed for federal employees traveling within the United States (See rate schedule on page 2).

   • The daily allowance allowed by the state (limited to 110 percent of the above per diems). Pennsylvania has no official statewide per diem allowance.

A “legislative day” is any day during the taxable year when the legislature is in session in which the members of the legislature are expected to attend and participate as an assembled body of the legislature, including up to four consecutive days between two session days (such as weekends or short holiday breaks). Also, a legislative day (1) includes any day that the legislature is not in session, but the legislator’s physical presence is formally recorded at a committee meeting or (2) the taxpayer’s attendance at any session of the legislature that only a limited number of members are expected to attend (such as a pro forma session) is formally recorded. For purposes of 162(h), a committee of the legislature is any group that includes one or more legislators and that is charged with conducting business of the legislature. Committees of the legislature include, but are not limited to, committees to which the legislature refers bills for consideration, committees that the legislature has
authorized to conduct inquiries into matters of public concern, and commit-
tees charged with the internal administration of the legislature. For purposes
of this section, groups that are not considered committees of the legislature
include, but are not limited to, groups that promote particular issues, raise
campaign funds, or are caucuses of members of a political party.2

2. If you make the election prescribed in Internal Revenue Code Section
162(h) and your “tax home” is greater than 50 miles from the Capitol,
you can deduct living expenses if the expenses are both reasonable and
necessary and are related to legislative business. You may deduct rental
payments, including any taxes, service charges, utilities, and the like, that
you may have incurred. If facilities are shared with others, you may deduct
your share of these expenses. This is the case even if the facility is not used
during a part of the month (year), as long as it is maintained to fulfill your
duties as a member of the legislature. The expenses need to be supported
by documentary evidence.

Expenses other than lodging that are deductible include the cost of breakfast,
lunch, dinner, and snacks while in Harrisburg overnight. If you prepare your
own meals, the cost of groceries is a deductible expense. Note, all meal
expenses are subject to a 50 percent allowance rule. Incidental expenses,
such as laundry and cleaning, are also deductible. Again, maintain adequate
records with documentary support.

Q. My principal employment is that of being a state legislator, and I have no other
substantial source of income. I reside in Harrisburg a fair portion of the year,
but I represent a district 150 miles from Harrisburg and maintain my personal
family residence there. The time I devote to my employment while at home
is considerable, but less than the time I spend working in Harrisburg. What
expenses may I deduct?

A. You may elect Internal Revenue Code Section 162(h), whereby your “tax home”
is considered to be within your legislative district, enabling you to deduct living
expenses while in Harrisburg, as previously discussed. If you do not make the
election, or if you live within 50 miles of Harrisburg, no living expenses may be
deducted unless you can show that your “tax home” is other than Harrisburg. If
your “tax home” is other than Harrisburg, the cost of transportation between Harris-
burg and your district is deductible only when incurred for legislative purposes.

Q. May I deduct the expense of meals I purchase for constituents and others who
come to Harrisburg when legislative business is involved?

A. Yes. The cost of meals paid by you is an allowable deduction, as long as that
expense is related to your legislative business. However, only 50 percent of the
cost of such meals is deductible.

Q. Because I am in Harrisburg for long periods of time, I have my spouse and
children visit me occasionally. May I deduct the cost of their transportation to
Harrisburg, motel costs, and cost of their meals?

A. No. Your spouse’s and children’s transportation, housing, and meal costs are
not deductible.

2 IRS Regulation 1.162-24
Q. While in Harrisburg on certain special occasions, such as St. Patrick’s Day, I will have a gathering of fellow legislators and other individuals connected with the legislature. May I deduct the expense of this gathering as a business expense?

A. If the gathering can be shown to have a business purpose, then it would qualify as a business deduction. You should maintain adequate records with documentary support, indicating the purpose of the gathering and the persons in attendance. Any portion of this type of expense that is considered to be lavish or extravagant is nondeductible, and must be eliminated from the cost prior to applying the 50 percent rule.

Q. On traditional holidays or at the end of the session, if fellow legislators and I take administrative assistants, who have worked long hours during the session, out to dinner or if we buy them small gifts, would these be deductible expenses?

A. Expenses that are ordinary and necessary for the conduct of your business are deductible. Generally, the expense in question would qualify under these criteria. Business gifts are limited to $25 per donee per year, unless the gift is an item of tangible personal property that costs less than $400 and is awarded by reason of length of service, productivity, or safety achievement (a special award). In this case, the cost of the gift is deductible. The cost of meals would be subject to the 50 percent allowable rule.

Q. While in Harrisburg, I stay and take many of my meals at a private club. May I deduct the cost of my dues, meals, lodging, and related expenses?

A. Private club dues can no longer be deducted. Meals are subject to the previously mentioned 50 percent rule, and lodging is fully deductible.

Q. Do any special rules apply to the deduction of club dues and expenses?

A. Yes. For social, athletic, and sporting clubs, there is a two-fold rule:

First, all club dues are no longer deductible. Second, meals and entertainment incurred at clubs that are “directly related” to the active conduct of one’s business are deductible, subject to the 50 percent rule described above.

PENNSYLVANIA TAX TIP

For Pennsylvania Personal Income Tax Purposes, travel expenses for a spouse, dependent, or other individual accompanying the taxpayer on a business trip are not allowed as a business expense deduction unless such person is an employee of the person paying/reimbursing the expenses or the travel of such a person serves a bona fide business purpose.

PENNSYLVANIA TAX TIP

Although club dues may still be claimed for Pennsylvania personal income tax purposes if incurred in the conduct of the taxpayer’s business and is in accordance with generally accepted accounting principles and practices, their dues cannot be claimed as an unreimbursed employee business expense.
Q. Are there days that constitute deductible days for tax purposes, beyond session and meeting days?
A. Yes. If there are four or fewer consecutive days between sessions, each day is defined as a legislative day.

Q. How do I make the election on my tax return to use the provisions of Section 162(h) of the Internal Revenue Code?
A. Please see Appendix 3 for information on how to make the election and recommended language for the election.
Entertainment and Meal Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Q. What are the limitations on the amount of the deduction for entertainment and related meal expenses?

A. There are three limitations on the amount of the deduction for unreimbursed entertainment and related meal expenses:

1. Only 50 percent of the cost of these expenses, with limited exceptions, is deductible. Cab fare or other costs of transporting your guests to a restaurant, theater, club, or arena are 100 percent deductible.

2. Unreimbursed entertainment and related meal expenses may be deducted as itemized miscellaneous deductions, and only to the extent that they, along with your other miscellaneous itemized deductions, exceed two percent of your adjusted gross income.

3. The portion of meal or entertainment expenses deemed to be lavish and/or extravagant must be deducted from the total cost before applying the 50 percent and two percent limitations.

Q. I often meet with constituents regarding a legislative problem, and sometimes we have lunch or some other meal together. If I pick up the check, is this a deductible expense?

A. Yes, but the amount of the deduction is subject to limitations (see above). Make an entry in your expense diary as to who, why, where, and how much, and retain receipts for any expenditure of $75 or more.
Q. I occasionally entertain other elected officials—such as city council members, mayors, and congressmen—for the purpose of maintaining communication and to explore common problems. May I deduct this expense?

A. Yes, but the amount of the deduction is subject to limitations (see previous page). The criteria for deducting entertainment costs are that such expenditures have a business purpose and that you and the individuals entertained have a business relationship. If the business discussion does not take place during the entertainment, it must at least directly precede or follow the entertainment. Observe the substantiation rules described above, and if the entertainment involves anything other than a meal in surroundings conducive to a business discussion, include in your diary the time, place, duration, and a description of the nature of the business discussion.

Q. How do I handle reimbursements for the above expenditures received from the Commonwealth?

A. Reimbursements made under a nonaccountable expense reimbursement plan are reported on your Form W-2 as an income item in the year received. To the extent the associate expense is deductible, it should be shown on Form 2106. Reimbursements reduce the cost of entertainment and related meal expenses dollar-for-dollar before application of the limitations detailed above. Reimbursements made under an accountable expense reimbursement plan do not need to be reported, and the original expenses should not be shown as deductions.
Telephone Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Q. May I deduct the cost of the telephone in my personal residence in my district? I use it for calling and receiving calls from constituents and for other state business.

A. The basic cost of the telephone is an expense that you would incur whether or not you were a member of the legislature, and is therefore a nondeductible expense.

If you have a second telephone line installed exclusively for business use, the entire cost of this telephone would be deductible. Separately billed long distance telephone charges that relate to legislative business are also a deductible expense. An answering service or recording device for telephone messages is also deductible if related directly to the business. Excise taxes and/or sales taxes related to specific business charges are also deductible. If you maintain another residence in Harrisburg, similar rules would apply. In the end, though, the basic cost of a telephone line to any residence is deemed a personal, nondeductible expenditure.
Advertising Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Q. May I deduct the cost of advertisements in publications?
A. Yes. It is necessary for a public official to support business and community enterprises in their districts. Ads for campaigns, though, should be paid for by campaign contributions, and are not deductible on your personal income tax return.

Q. May I deduct the cost of tickets to dinners and other functions in my district?
A. Yes, if the amount paid to attend a dinner is not for the direct or indirect support of a political candidate or party. You may also deduct related costs such as travel and parking. Meals and entertainment are subject to the federal 50 percent allowance rule.

Q. May I deduct the costs of pens, calendars, magnets, or similar items bearing my address and phone number on them that I pass out to constituents?
A. Yes. It is important for legislators to encourage constituents to contact them so they can be of service.
Home Office Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Home office deductions have always been a confusing and controversial aspect of many legislators’ tax returns. The following questions touch on the issues you need to keep in mind. This section will also help you provide the information necessary to your certified public accountant so you can receive the maximum tax benefit available under the home office deduction rules.

Q. Under what circumstances may I claim the expenses of my home as a business expense?

A. To qualify as a deductible expense, a portion of your home must be “exclusively used on a regular basis” for activities connected to work as a legislator. The following circumstances will qualify for home office deductions:

• A home office must be a place where constituents meet or deal with you as their legislator regarding legislative affairs on a regular basis. Telephone conversations can satisfy this requirement, but occasional contact is not enough.

• The space in your home must be exclusively used for legislative business. This space cannot be used for personal activities.

The U.S. Supreme Court case Comr. v. Soliman placed heavy emphasis on the relative importance of the functions at each business location, as well as the time spent at each place of business in determining whether a taxpayer is entitled to a home office deduction. The IRC was amended in 1997 to ease the deduction of home offices for certain administrative and managerial activities, but after 1998, employees have to meet a “convenience of the employer” test to claim the deduction if they fail the above tests.

If the initial tests are met, the legislature may reimburse the legislator for the office in the home.
What expenses are deductible as home office expenses?

There are three general types of expenses related to home offices:

- Expenses that are generally deductible without regard to home office rules, subject to other deductibility limitations. Examples include mortgage interest, real estate taxes, and casualty losses.

- Expenses that are deductible only for the business portion of your home. Examples include insurance, utilities, depreciation, and house maintenance.

- Expenses that are not deductible. They include costs that would have been spent regardless of whether you had a home office or not.

Is there a limit to how much I may deduct for my home office?

Expenses that qualify for deduction may not exceed the net income from your activity. Any expenses in excess of the income limitation may be carried over to subsequent years.

If your income is earned as an employee, home office deductions should be taken on Form 2106, and are subject to the miscellaneous deduction limitations. If your income is earned as an independent contractor, home office deductions must be taken on Form 8829.

May I deduct the cost of computers and other equipment used in my home?

You can deduct equipment depreciation to the extent of business use. Therefore, location is irrelevant. The important factor is the percentage of the time that the equipment is used for business activities. Because of the complexity of this area, we encourage you to seek the advice of a certified public accountant tax professional.

May I deduct wages paid for administrative and clerical help or legislative assistants?

Yes. You also may be required to file federal and state payroll tax returns. The only exception to this requirement is if your help is an independent contractor. The test for determining the treatment of an individual as an independent contractor versus an employee is complicated, and should be reviewed with your certified public accountant prior to classification.
Q. Is there a simplified optional method to figure the home office deduction?

A. Yes. Beginning with the 2013 tax year, each year you may elect to use a less complex option to simplify the calculation and record keeping requirements to claim the home office deduction.

- $5 per square foot of home used for business (300 square feet maximum) is the standard deduction.

- Allowable home-related itemized deductions are claimed in full on Schedule A only. For example, mortgage interest and real estate taxes are Schedule A items.

- No home depreciation deduction can be claimed, therefore, no later depreciation recapture is required for the years that the simplified option is used.


PENNSYLVANIA TAX TIP

The Department of Revenue permits a deduction for an office in the home only if it is the principal business location. Additionally, Pennsylvania will not be following the new safe harbor for home office deduction, accepting only submissions of actually incurred home office expenses.
Education and Related Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

Certain education expenses you incur may be deductible as a business expense if the education either maintains or improves skills required by your position as an elected official (including refresher courses, current development courses, continuing professional education, academic, or vocational expenses), or meets the express requirements of the employer or the laws or regulations imposed for a bona fide business purpose of the employer, as a condition to the retention of the established employment relationship, status, or rate of compensation. Unreimbursed expenses for items such as tuition, books, fees, dues for professional societies, or fees and subscriptions to professional journals are deducted as itemized deductions subject to the two percent floor.
Other Expenses

The questions and answers that follow apply to expenses that are not reimbursable by the House or Senate and for reconciling actual incurred expenses against reimbursements and per diems. If an expense is reimbursable by the House or Senate and the legislator chooses not to seek reimbursement, he or she may not take a deduction for that expense on his or her tax return.

**Q.** What other expenses may I claim on my tax return?

**A.** Some other deductible expenses you are likely to incur as a member of the legislature are as follows:

1. Stationery, postage, and office supplies.
2. Dues to organizations you have joined because they are helpful to you as a state legislator.
3. Publications including books, newspapers, and magazines that assist you in your work as a legislator. Expenses of this nature incurred for personal reasons are not deductible.
4. The cost of holiday greeting cards for persons with a business relationship to you.
5. Fees paid to certified public accountants and others for services relating to income tax returns and related planning.

The above expenses are subject to the rule that total miscellaneous itemized deductions may only be deducted to the extent they exceed two percent of adjusted gross income. Depending upon the amount of your taxable income, there may be a further reduction of all your itemized deductions.

Any of these expenses that are reimbursable must be reduced by the amount of such potential reimbursement, regardless of whether reimbursement has been requested or received. The IRS has been successful in not allowing deductions when taxpayers have chosen not to request reimbursement.
Adequate record keeping is the basis for preparing an accurate income tax return. Without good records, items included in the return may not be substantiated when needed, or items that should have been included in the return may be overlooked. All items of expense should be documented by canceled checks, receipts, or paid invoices. Review the adequacy of your record keeping procedures with your certified public accountant at the beginning of your term.

The Deficit Reduction Act of 1984 and subsequent legislation have made significant changes in the record keeping requirements. Taxpayers are required to keep adequate records to substantiate deductions in the following areas:

- Travel expenses (including meals and lodging while away from home as well as local travel) related to trade or business.
- Entertainment expenses.
- Business gifts.
- Any investment tax credit or MACRS deduction claimed for business use of listed properties.
If the taxpayer does not have adequate records, no credit or deduction is allowed for that item. These records must substantiate the business use of property, and indicate the following:

- The amount of the expense.
- The date and place of the travel, entertainment, recreation, or amusement.
- The business purpose giving rise to the travel, entertainment, recreation, or amusement.
- The business relationship of the person or persons being entertained or receiving a business gift.

A more detailed discussion of the general substantiation rules for travel, entertainment, and other deductions is included in Appendix 4.

**Q. What problems result from inadequate documentation?**

**A.** If underpayment of tax results from claiming credits or deductions not supported by adequate records, the taxpayer could be subject to negligence and/or fraud penalties.
Tax Deduction or Credit for Political Contributions

The Tax Reform Act of 1986 eliminated any tax benefit for making a political contribution, effective for tax years beginning after 1986. An individual, therefore, cannot deduct or claim a credit for any political contributions.
Campaign expenses paid from a candidate’s private resources are considered nondeductible personal expenses, regardless of the result of the election. Such expenses would include the cost of attending political conventions, contributions to the party which sponsored the candidacy, expenses of campaign travel, campaign advertising, expenses of successfully defending a contested election, filing fees, or the cost of legal fees paid in litigation over redistricting.

Q. Are campaign receipts and expenditures subject to IRS examination and possible recharacterization?
A. Yes. The IRS has ruled that campaign contributions and political gifts used solely for the expenses of an election campaign or similar purpose are not taxable income to the candidate. Any contributions that are used for personal purposes must be included in the candidate’s taxable income.

Q. Is it permissible to commingle political funds with personal funds?
A. No. If funds are commingled so as to make tracing impractical, the entire fund will be presumed devoted to personal use and deemed taxable income to the candidate.

Q. How are proceeds derived from fundraising dinners or testimonial dinners accounted for?
A. The accounting and reporting for dinner proceeds are the same as for campaign contributions.
Q. Are contributions of property, such as stocks or bonds, recorded the same as cash?
A. Yes. The fair market value on the date of the contribution should be acknowledged as the amount of the contribution.

Q. Are dividends, interest, rents, royalties, and capital gains earned by a candidate’s campaign contribution fund subject to reporting and tax?
A. Yes. If income exceeds $100 it must be reported on a U.S. Income Tax Return for Certain Political Organizations (Form 1120-POL), and the appropriate tax must be paid. A return is not required to be filed, nor any tax paid, if there is no “taxable income.”

Q. When is Form 1120-POL due?
A. The return is due on the 15th day of the third month following the close of each taxable year. A six-month extension of the due date may be obtained by filing Form 7004 prior to the original due date accompanied by any anticipated tax due.

Q. Besides recognized campaign expenses, can other types of expenditures be paid from campaign contributions?
A. Other expenditures properly payable from campaign contributions include the following:

- Contributions to the national, state, or local committee of the candidate’s party and to other qualified political organizations.

- Contributions to qualified charitable organizations.

- Transfers of unexpended funds to the general fund of federal, state, or local governments. No tax deductions are available for such charitable or governmental transfers.

Q. What is the tax status of newsletter funds?
A. A public official’s newsletter fund is treated as a separate political organization. Form 1120-POL must be filed if it has any taxable income. The specific deduction of $100 is not allowed for newsletter funds. Contributions to the fund are not taxable, and expenditures must be strictly limited to the preparation and circulation of the newsletter.

See Form 1120-POL and its instructions for more details.
What reporting is required of a political committee, organization, club, or other association formed to manage campaign contributions and expenses of a candidate?

These entities must file Form 1120-POL if they have any “taxable income.”

What accounting records are required for political funds?

Detailed substantiating records must be kept by the candidate to account accurately for the receipt and disbursement of political funds. Otherwise, receipts may be taxable to the individual candidate, even though campaign expenses would be nondeductible. If political funds are commingled with the personal funds of the political candidate so as to render tracing or identification impracticable, the political funds will be presumed to have been diverted to personal use at the time of commingling.

What is the tax rule regarding presumption against unrestricted gifts?

The IRS presumes, in the absence of evidence to the contrary, that contributions to a political candidate are political funds, which are not intended for the unrestricted personal use of the recipient. If, in fact, the funds were intended for the unrestricted personal use of the political candidate, he or she must be able to substantiate this claim.
Pennsylvania Income Taxes

Federal personal income tax principles and regulations do not govern application of the Pennsylvania personal income tax. Accordingly, Pennsylvania’s guidance for the above described expenses differs in some instances. Specifically, for example, deductions that may be available on your Federal tax return through the provisions of Section 162(h) of the Internal Revenue Code are not available on your Pennsylvania tax return.

Pennsylvania allows the exclusion of employee business expenses from compensation provided the following six-point criteria are met:

(1) the expense must be ordinary, meaning that it is customary and accepted in the occupation as an elected state official.

(2) the expense must be incurred by you in the performance of the duties of your employment.

(3) the expense must be reasonable in amount.

(4) the expense must be necessary to enable you to properly perform those duties.

(5) the expense must be directly related to the performance of these duties.

(6) the expense must be unreimbursed.

You may wish to consult your certified public accountant or other tax advisor to assess your situation and determine the treatment of these expenses for your Pennsylvania individual income tax.
Pennsylvania, through two general enabling acts, has granted local jurisdictions powers to tax. These acts are The Sterling Act (applies to the City of Philadelphia) and Act 511 (applies to all other classes of political subdivisions, except counties and both the Philadelphia and Pittsburgh school districts).

Philadelphia City does not require an annual individual income tax return. Residents earnings wages from which Philadelphia city wage taxes have been withheld may file a Wage Tax Refund Petition to claim qualifying net unreimbursed employee business expenses. Federal Form 2106 and all supporting schedules must be provided for those deductions claimed qualifying under the Philadelphia Income Tax Regulations.

Act 511 jurisdictions, as clarified by Act 166, define earned income and related claimable unreimbursed employee business expense deductions as defined by Pennsylvania Individual Income Tax regulations. Accordingly, those qualifying expenses claimable for Pennsylvania UE may also be claimed for Act 511 earned income tax return purposes.

In all cases, the burden of substantiation rests entirely on the taxpayer.
Appendices
Appendix 1
Section 162(h) of the Internal Revenue Code

(h) State Legislators’ Travel Expenses Away from Home

(1) In General. For purposes of subsection (a), in the case of any individual who is a state legislator at any time during taxable year, and who makes an election under this subsection for the taxable year …

(A) the place of residence of such individual within the legislative district which he represented shall be considered his home,

(B) he shall be deemed to have expended for living expenses (in connection with his trade or business as a legislator) an amount equal to the sum of the amount determined by multiplying each legislative day of such individual during the taxable year by the greater of …

(i) the amount generally allowable with respect to such day to employees of the state of which he is a legislator for per diem while away from home, to the extent such amount does not exceed 110 percent of the amount described in clause (ii) with respect to such day, or

(ii) the amount generally allowable with respect to such day to employees of the executive branch of the federal government for per diem while away from home, but serving in the United States, and

(C) he shall be deemed to be away from home in the pursuit of a trade or business on each legislative day.

(2) Legislative Days. For purposes of paragraph (i), a legislative day during any taxable year, for any individual, shall be any day during such year in which …

(A) the legislature was in session (including any day in which the legislature was not in session for a period of four consecutive days or less), or

(B) the legislature was not in session, but the physical presence of the individual was formally recorded at a meeting of a committee of such legislature.

(3) Election. An election under this subsection for any taxable year shall be made at such time and in such manner as the secretary shall, by regulations, prescribe.

(4) Section Not to Apply to Legislators Who Reside Near Capitol. For taxable years beginning after Dec. 31, 1980, this subsection shall not apply to any legislator whose place or residence within the legislative district which he represents is 50 or fewer miles from the capitol building of the state.
Appendix 2
IRS Regulation Section 1.162-24
Travel Expenses of State Legislators

(a) In general. For purposes of Section 162(a), in the case of any taxpayer who is a state legislator at any time during the taxable year and who makes an election under Section 162(h) for the taxable year—

(1) The taxpayer’s place of residence within the legislative district represented by the taxpayer is the taxpayer’s home for that taxable year;

(2) The taxpayer is deemed to have expended for living expenses (in connection with the taxpayer’s trade or business as a legislator) an amount determined by multiplying the number of legislative days of the taxpayer during the taxable year by the greater of—

(i) The amount generally allowable with respect to those days to employees of the state of which the taxpayer is a legislator for per diem while away from home, to the extent the amount does not exceed 110 percent of the amount described in paragraph (a)(2)(ii) of this section; or

(ii) The federal per diem with respect to those days for the taxpayer’s state capital; and

(3) The taxpayer is deemed to be away from home in the pursuit of a trade or business on each legislative day.

(b) Legislative day. For purposes of Section 162(h)(1) and this section, for any taxpayer who makes an election under Section 162(h), a legislative day is any day on which the taxpayer is a state legislator and—

(1) The legislature is in session;

(2) The legislature is not in session for a period that is not longer than four consecutive days, without extension for Saturdays, Sundays, or holidays;

(3) The taxpayer’s attendance at a meeting of a committee of the legislature is formally recorded; or

(4) The taxpayer’s attendance at any session of the legislature that only a limited number of members are expected to attend (such as a pro forma session), on any day not described in paragraph (b)(1) or (b)(2) of this section, is formally recorded.

(c) Fifty mile rule. Section 162(h) and this section do not apply to any taxpayer who is a state legislator and whose place of residence within the legislative district represented by the taxpayer is 50 or fewer miles from the Capitol building of the state. For purposes of this paragraph (c), the distance between the taxpayer’s place of residence within the legislative district repre-
sented by the taxpayer and the capitol building of the state is the shortest of
the more commonly traveled routes between the two points.

(d) Definitions and special rules. The following definitions apply for purposes of
Section 162(h) and this section.

(1) State legislator. A taxpayer becomes a state legislator on the day the
taxpayer is sworn into office and ceases to be a state legislator on the day
following the day on which the taxpayer’s term in office ends.

(2) Living expenses. Living expenses include lodging, meals, and incident-
tal expenses. Incidental expenses has the same meaning as in 41 CFR
300-3.1.

(3) In session—
   (i) In general. For purposes of this section, the legislature of which a
taxpayer is a member is in session on any day if, at any time during
that day, the members of the legislature are expected to attend and
participate as an assembled body of the legislature.

   (ii) Examples. The following examples illustrate the rules of this paragraph
(d)(3): Example 1. B is a member of the legislature of State X. On
Day 1, the State X legislature is convened and the members of the
legislature are expected to attend and participate. On Day 1, the
State X legislature is in session within the meaning of paragraph (d)
(3)(i) of this section. B does not attend the session of the State X
legislature on Day 1. However, Day 1 is a legislative day for B for
purposes of Section 162(h)(2)(A) and paragraph (b)(1) of this section.
Example 2. C, D, and E are members of the legislature of State X.
On Day 2, the State X legislature is convened for a limited session in
which not all members of the legislature are expected to attend and
participate. Thus, on Day 2 the legislature is not in session within
the meaning of paragraph (d)(3)(i) of this section, and Day 2 is not a legis-
larive day under paragraph (b)(1) of this section. In addition, Day 2 is
not a day described in paragraph (b)(2) of this section. C and D are the
only members who are called to, and do, attend the limited session
on Day 2, and their attendance at the session is formally recorded. E
is not called and does not attend. Therefore, Day 2 is a legislative day
for C and D under Section 162(h)(2)(B) and paragraph (b)(4) of this
section. Day 2 is not a legislative day as to E.

(4) Committee of the legislature. A committee of the legislature is any group
that includes one or more legislators and that is charged with conduct-
ing business of the legislature. Committees of the legislature include,
but are not limited to, committees to which the legislature refers bills for
consideration, committees that the legislature has authorized to conduct
inquiries into matters of public concern, and committees charged with
the internal administration of the legislature. For purposes of this section,
groups that are not considered committees of the legislature include, but
are not limited to, groups that promote particular issues, raise campaign
funds, or are caucuses of members of a political party.
(5) Federal per diem. The federal per diem for any city and day is the maximum amount allowable to employees of the executive branch of the federal government for living expenses while away from home in pursuit of a trade or business in that city on that day. See 5 U.S.C. 5702 and the regulations under that section.

(e) Election—

(1) Time for making election. A taxpayer’s election under Section 162(h) must be made for each taxable year for which the election is to be in effect and must be made no later than the due date (including extensions) of the taxpayer’s federal income tax return for the taxable year.

(2) Manner of making election. A taxpayer makes an election under Section 162(h) by attaching a statement to the taxpayer’s income tax return for the taxable year for which the election is made. The statement must include—

(i) The taxpayer’s name, address, and taxpayer identification number;

(ii) A statement that the taxpayer is making an election under Section 162(h); and

(iii) Information establishing that the taxpayer is a state legislator entitled to make the election, for example, a statement identifying the taxpayer’s state and legislative district and representing that the taxpayer’s place of residence in the legislative district is not 50 or fewer miles from the state capitol building.

(3) Revocation of election. An election under Section 162(h) may be revoked only with the consent of the commissioner. An application for consent to revoke an election must be signed by the taxpayer and filed with the submission processing center with which the election was filed, and must include—

(i) The taxpayer’s name, address, and taxpayer identification number;

(ii) A statement that the taxpayer is revoking an election under section 162(h) for a specified year; and

(iii) A statement explaining why the taxpayer seeks to revoke the election.
(f) Effect of election on otherwise deductible expenses for travel away from home—

(1) Legislative days—

(i) Living expenses. For any legislative day for which an election under section 162(h) and this section is in effect, the amount of an electing taxpayer’s living expenses while away from home is the greater of the amount of the living expenses—

(A) Specified in paragraph (a)(2) of this section in connection with the trade or business of being a legislator; or

(B) Otherwise allowable under Section 162(a)(2) in the pursuit of any trade or business of the taxpayer.

(ii) Other expenses. For any legislative day for which an election under Section 162(h) and this section is in effect, the amount of an electing taxpayer’s expenses (other than living expenses) for travel away from home is the sum of the substantiated expenses, such as expenses for travel fares, telephone calls, and local transportation, that are otherwise deductible under Section 162(a)(2) in the pursuit of any trade or business of the taxpayer.

(2) Non-legislative days. For any day that is not a legislative day, the amount of an electing taxpayer’s expenses (including amounts for living expenses) for travel away from home is the sum of the substantiated expenses that are otherwise deductible under section 162(a)(2) in the pursuit of any trade or business of the taxpayer.

(g) Cross references. See Section 1.62-1T(e)(4) for rules regarding allocation of unreimbursed expenses of state legislators and Section 274(n) for limitations on the amount allowable as a deduction for expenses for, or allocable to, meals.

(h) Effective/applicability date. This section applies to expenses paid or incurred, or deemed expended under Section 162(h), in taxable years beginning after April 8, 2010.
Appendix 3
Annual Election Statement for IRC
Section 162(h)

This election statement must be filed annually with a timely federal income tax return. The IRS may disallow the election and use of Section 162(h) if the statement is not attached to your original return but is later filed with an amended return.

Name ______________________________________________________________

Address _____________________________________________________________

Taxable Year Ended __________________________________________________

Social Security Number______________________________________________

Election Under Section 162(h) of the Internal Revenue Code

Taxpayer elects, under the above section, to designate his place of residence within the legislative district which he represents as his tax home.

Taxpayer was a Pennsylvania State Legislator representing __________________________ (Legislative District) for the calendar year ______ or the period beginning ___________ and ending ___________. There were ___ legislative days* within this period.

The distance from taxpayer’s home to the state capitol building is __________ miles.

*As defined in IRC Section 162(h)(2)
Appendix 4
General Substantiation Rules for Travel — Entertainment and Other Deductions

A deduction generally will be allowed for any expense that can be shown to be ordinary, necessary, and reasonable in the conduct of a trade or business for the production of income. The scope of what can qualify is enormous. The common requirement for a deduction, however, is that the business purpose be proven. For deductions on account of travel, entertainment, gifts, and the use of certain property, substantiation requires, records to be maintained that include at a minimum the following information for each expenditure:

- The amount of each separate expenditure
- The time, date, and place of the expenditure
- The business purpose of the expenditure
- The business relationship to the taxpayer of each person entertained, using the property or facility, or receiving a gift

IRS regulations provide further detail depending on the nature of the expenditure.

Travel
For business travel away from home, the taxpayer must record the following:

- The amount of each separate expenditure, though meals and incidental expenses may be aggregated into reasonable categories
- The dates of departure and return for each trip and the number of days spent on business
- Destinations or locality of travel by name
- The business reason for travel or the nature of business benefits obtained or expected

Other Transportation Expenses
To substantiate deductions for the use of an automobile or other transportation property, the regulations require taxpayers to keep a record for each use, specifying these items:

- The date
- The name of the person using the automobile
- The number of miles driven
- The business purpose of the trip
It is not necessary to make estimates for nonbusiness trips if the overall use of the automobile is determined by odometer readings taken at the beginning and end of the year.

If an automobile is used exclusively for business purposes, generally the entire cost of maintaining and operating the automobile (including depreciation) is deductible. If the automobile is used partially for business and partially for personal purposes, the expenses must be allocated between business and personal use, and only the portion attributable to business use is deductible.

If the deductions are claimed for actual operating expenses, records must be kept to substantiate the costs of gasoline, oil, repairs, insurance, and other related expenditures. In lieu of deducting actual expenses, generally a standard mileage rate deduction may be claimed, 53.5 cents per mile from 1/1/2017 through 12/31/2017, business miles.

**Entertainment**

An expenditure for entertainment that is not directly related to the active conduct of the taxpayer’s trade or business is not deductible unless it meets the following requirements:

- It was associated with the active conduct of a trade or business, and
- The entertainment directly preceded or followed a substantial, and bona fide, business discussion.

An expenditure is considered associated with the active conduct of the taxpayer’s trade or business if the taxpayer establishes that he or she had a clear business purpose for the expenditure, such as to obtain new business or to encourage the continuation of an existing business relationship. If a taxpayer claims a deduction for entertainment directly preceding or following a bona fide business discussion, the records must include the amount, date, duration, place, participants, and their business relationship and nature of the business discussion.

For example: A taxpayer entertains business associates or prospective customers attending business meetings at a convention, between, or in the evening after, such meetings. To substantiate the entertainment expenses the taxpayer must document the participants, their business relationship, and business purpose of the meeting.

**Use of Property**

Taxpayers who claim deductions for the business use of an entertainment facility (country club, yacht, hunting lodge, etc.) or for a computer are required to keep records for each use of the property. If the overall use (personal and business combined) cannot definitely be determined by some others means, it is necessary to record both personal and business uses. The record must include these items:

- The date of the use
- The name(s) of the person(s) using the property
• The amount of time the property was used

• The nature of the business use, or if the overall use cannot be separately determined, the fact that it was a personal use.

Adequate Records
To meet the “adequate records” requirement a taxpayer is required to maintain an “account book, diary, statement of expense, or similar record and documentary evidence which, in combination, are sufficient to establish each element of an expenditure.” Recording of expenditures should be made “at or near the time of the expenditure,” when the taxpayer has full knowledge. An expense account report submitted by an employee, which is a transcription of an account book, diary, or similar record, maintained by the employee, shall be an adequate record for the taxpayer.

Documentary Evidence
Documentary evidence, such as receipts, paid bills, or similar evidence, to support an expenditure is required for the following:

• Any expenditure for lodging while traveling away from home

• Any other expenditure of $75 or more

Note: The dollar threshold for receipts necessary for reimbursement through House or Senate accounts are generally less than the IRS threshold.

Documentary evidence will be considered adequate to support an expenditure if it includes sufficient information to establish the amount, date, place, and nature of the expenditure. For example, a restaurant receipt is sufficient to support an expenditure for a business meal if it contains the following: name and location of the restaurant, the date and amount of the expenditure, and if a charge is made for something other than meals and beverages, an indication that such is the case. In addition, however, to substantiate the deduction, the business purpose and business relationship of the parties also must be documented, preferably in a diary. A canceled check, together with a bill, ordinarily would establish the element of cost. In contrast, a canceled check, payable to a named payee, would not by itself support an expenditure.
Appendix 5
Revenue Ruling 79-12:
Campaign Funds – Delegate’s Political Convention Expenses

Amounts expended by an elected legislator to attend a political party's national convention as a delegate, which are paid from surplus funds from an earlier campaign maintained in a separate bank account qualifying as a political organization, are not includible in the legislator's gross income.

Issue
Are the amounts expended from surplus political campaign funds to defray expenses incurred from attending a convention of a political party includible in a taxpayer’s gross income under the circumstances described below?

Facts
An elected legislator attended a political party's national convention as a delegate. The purpose of the convention was to select and nominate candidates for president and vice president of the United States. Payment of the taxpayer’s expenses while attending the convention was made from surplus political campaign funds that were available from the taxpayer’s earlier successful political campaign and maintained in a separate bank account. The fund maintained in the separate account qualifies as a political organization. See Rev. Rul. 79-11.

Law and Analysis
Section 527(a) of the Internal Revenue Code provides, in part, that a political organization shall be considered an organization exempt from income taxes for the purpose of any law that refers to organizations exempt from income taxes. Section 527(e)(1) of the Code defines the term “political organization” as a party, committee, association, fund, or other organization organized and operated primarily for the purpose of accepting contributions or making expenditures, or both, for an exempt function.

Section 527(e)(2) of the Code defines the term “exempt function” as the function of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office or office in a political organization, or the election of presidential or vice presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.

Because the amounts expended to attend the convention are incurred in attempting to influence the selection and nomination of candidates for political office, they are exempt function expenditures.

Holdings
The amounts expended from surplus political campaign funds to attend the political convention are not includible in the taxpayer’s gross income.
Appendix 6
Revenue Ruling 79-13:
Surplus Political Campaign Funds —
Voter Research Expenses

Amounts expended for voter research, public opinion polls, and voter canvasses on behalf of an elected legislator who becomes a candidate for another political office and are paid from surplus funds from an earlier campaign maintained in a separate bank account are not includible in the legislator’s gross income.

Issue
Are the amounts expended from surplus political campaign funds to defray expenses incurred for voter research, public opinion polls, and voter canvasses includible in gross income under the circumstances described below?

Facts
An elected legislator became a candidate for another elective public office. In connection with such candidacy, the legislator incurred expenses for voter research, public opinion polls, and voter canvasses. Payment for these expenses was made from surplus political campaign funds that were available from an earlier successful political campaign and maintained in a separate bank account. The funds maintained in the separate account qualified as a political organization. See Rev. Rul. 79-11.

Law and Analysis
Section 527(a) of the Internal Revenue Code provides, in part, that a political organization shall be considered an organization exempt from income taxes for the purpose of any law that refers to organizations exempt from income taxes. Section 527(d)(1) of the Code provides that if any political organization contributes any amount to, or for the use of, any political organization that is treated as exempt from tax under Section 527(a), such amount shall be treated as an amount not diverted for the personal use of the candidate or any other person.

Section 527(e)(1) of the Code defines the term “political organization” as a party, committee, association, fund, or other organization operated primarily for the purpose of accepting contributions or making expenditures, or both, for an exempt function.
Section 527(e)(2) of the Code defines the term “exempt function” as the function of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office or office in a political organization, or the election of presidential or vice presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.

Because the amounts expended for voter research, public opinion polls, and voter canvasses are incurred in attempting to influence the selection, nomination, election, or appointment of a candidate for political office, they are exempt function expenditures.

**Holdings**
The amounts expended from surplus political campaign funds for voter research, public opinion polls, and voter canvasses are not includible in the taxpayer’s gross income.
IRS and PA Dep’t. of Revenue Forms
Employee Business Expenses
# Employee Business Expenses

**Step 1 Enter Your Expenses**

<table>
<thead>
<tr>
<th></th>
<th>Column A Other Than Meals and Entertainment</th>
<th>Column B Meals and Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Parking fees, tolls, and transportation, including train, bus, etc., that didn't involve overnight travel or commuting to and from work</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Don't include meals and entertainment</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Business expenses not included on lines 1 through 3. Don't include meals and entertainment</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Meals and entertainment expenses (see instructions)</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td><strong>Total expenses.</strong> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5</td>
<td>6</td>
</tr>
</tbody>
</table>

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

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Enter reimbursements received from your employer that weren't reported to you in box 1 of Form W-2. Include any reimbursements reported under code “L” in box 12 of your Form W-2 (see instructions).</td>
</tr>
</tbody>
</table>

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8).</td>
</tr>
</tbody>
</table>

**Note:** If both columns of line 8 are zero, you can't deduct employee business expenses. Stop here and attach Form 2106 to your return.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.)</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 or on Schedule A (Form 1040NR), line 7. (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total).</td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions.
### Part II Vehicle Expenses

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

<table>
<thead>
<tr>
<th></th>
<th>(a) Vehicle 1</th>
<th>(b) Vehicle 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Enter the date the vehicle was placed in service</td>
<td>/</td>
</tr>
<tr>
<td>12</td>
<td>Total miles the vehicle was driven during 2017</td>
<td>miles</td>
</tr>
<tr>
<td>13</td>
<td>Business miles included on line 12</td>
<td>miles</td>
</tr>
<tr>
<td>14</td>
<td>Percent of business use. Divide line 13 by line 12.</td>
<td>%</td>
</tr>
<tr>
<td>15</td>
<td>Average daily roundtrip commuting distance</td>
<td>miles</td>
</tr>
<tr>
<td>16</td>
<td>Commuting miles included on line 12</td>
<td>miles</td>
</tr>
<tr>
<td>17</td>
<td>Other miles. Add lines 13 and 16 and subtract the total from line 12</td>
<td>miles</td>
</tr>
<tr>
<td>18</td>
<td>Was your vehicle available for personal use during off-duty hours?</td>
<td>Yes</td>
</tr>
<tr>
<td>19</td>
<td>Do you (or your spouse) have another vehicle available for personal use?</td>
<td>Yes</td>
</tr>
<tr>
<td>20</td>
<td>Do you have evidence to support your deduction?</td>
<td>Yes</td>
</tr>
<tr>
<td>21</td>
<td>If “Yes,” is the evidence written?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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

Multiply line 13 by 53.5¢ (0.535). Enter the result here and on line 1.

<table>
<thead>
<tr>
<th></th>
<th>(a) Vehicle 1</th>
<th>(b) Vehicle 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Section C—Actual Expenses

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

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

<table>
<thead>
<tr>
<th></th>
<th>(a) Vehicle 1</th>
<th>(b) Vehicle 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>Enter cost or other basis (see instructions)</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Enter section 179 deduction and special allowance (see instructions)</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)</td>
<td>32</td>
</tr>
<tr>
<td>33</td>
<td>Enter depreciation method and percentage (see instructions)</td>
<td>33</td>
</tr>
<tr>
<td>34</td>
<td>Multiply line 32 by the percentage on line 33 (see instructions)</td>
<td>34</td>
</tr>
<tr>
<td>35</td>
<td>Add lines 31 and 34</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>Enter the applicable limit explained in the line 36 instructions</td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Multiply line 36 by the percentage on line 14</td>
<td>37</td>
</tr>
<tr>
<td>38</td>
<td>Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 56. Also enter this amount on line 26 above</td>
<td>38</td>
</tr>
</tbody>
</table>
Instructions for Form 2106
**2017 Instructions for Form 2106**

**Employee Business Expenses**

Section references are to the Internal Revenue Code unless otherwise noted.

**Future Developments**

For the latest developments related to Form 2106 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form2106](https://www.irs.gov/Form2106).

**What’s New**

Standard mileage rate. The 2017 rate for business use of your vehicle is 53.5 cents (0.535) a mile.

Depreciation limits on vehicles. For 2017, the first-year limit on depreciation is $11,560 ($3,560 if you elect to use the special depreciation allowance). Depreciation is based on the purchase price of the vehicle. For trucks and vans, the first-year limit is $11,560 (or $3,560 if you elect not to claim the special depreciation allowance). For more details, see the discussion under Section D, later. Also, for vehicles purchased and placed in service after September 27, 2017, you may be able to take a special depreciation allowance of 100% and you may apply the deduction to used vehicles.

**General Instructions**

**Purpose of Form**

Use Form 2106 if you were an employee deducting ordinary and necessary expenses for your job. See the flowchart below to find out if you must file this form.

An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense doesn’t have to be required to be considered necessary.

**Form 2106-EZ**. You can file Form 2106-EZ, Unreimbursed Employee Business Expenses, provided you were an employee deducting ordinary and necessary expenses for your job and you:

- Use the standard mileage rate (if claiming vehicle expense), and
- Were not reimbursed by your employer for any expense (amounts your employer included in box 1 of your Form W-2, Wage and Tax Statement, aren’t considered reimbursements for this purpose).

**Who Must File Form 2106**

A. Were you an employee during the year?  
   - Yes  
   - No  

B. Did you have job-related business expenses?  
   - Yes  
   - No  

C. Were you reimbursed for any of your business expenses (count only reimbursements your employer didn’t include in box 1 of your Form W-2)?  
   - Yes  
   - No  

D. Are you claiming job-related vehicle, travel, transportation, meals, or entertainment expenses?  
   - Yes  
   - No  

E. Are you a reservist, a qualified performing artist, a fee-basis state or local government official, or an individual with a disability claiming impairment-related work expenses? See the line 10 instructions for definitions.  
   - Yes  
   - No  

F. Did you use a vehicle in your job in 2017 that you also used for business in a prior year?  
   - Yes  
   - No  

G. Are your deductible expenses more than your reimbursements (count only reimbursements your employer didn’t include in box 1 of your Form W-2)? For rules covering employer reporting of reimbursed expenses, see the instructions for line 7.  
   - Yes  
   - No  

H. Is either (1) or (2) true?  
   1. You owned this vehicle and used the actual expense method in the first year you used the vehicle for business.  
   2. You used a depreciation method other than straight line for this vehicle in a prior year.  
   - Yes  
   - No  

**Notes**

- Generally, employee expenses are deductible only on line 21 of Schedule A (Form 1040), line 22 of Schedule A (Form 1040NR), line 7. These expenses include business gifts, tuition and books, charitable donations, home office, trade publications, etc.

- Don’t file Form 2106 if none of your expenses are deductible because of the 2% limit on miscellaneous itemized deductions.
Recordkeeping
You can’t deduct expenses for travel (including meals unless you used the standard meal allowance),
etertainment, gifts, or use of a car or
other listed property unless you keep
records to prove the time, place,
business purpose, business
relationship (for entertainment and
gifts), and amounts of these
expenses. Generally, you must also
have receipts for all lodging expenses
(regardless of the amount) and any
other expense of $75 or more.

Additional Information
For more details about employee
business expenses, see the following.
• Pub. 463, Travel, Entertainment,
Gift, and Car Expenses.
• Pub. 529, Miscellaneous
Deductions.
• Pub. 587, Business Use of Your
Home (Including Use by Daycare
Providers).
• Pub. 946, How To Depreciate
Property.

Specific Instructions
Part I—Employee
Business Expenses and
Reimbursements
Fill in all of Part I if you were
reimbursed for employee business
expenses. If you weren’t reimbursed
for your expenses, complete steps 1
and 3 only.

Step 1—Enter Your Expenses
Line 1. If you were a rural mail
carrier, you can treat the amount of
qualified reimbursement you received
as the amount of your allowable
expense. Because the qualified
reimbursement is treated as paid
under an accountable plan, your
employer shouldn’t include the
amount of reimbursement in your
income.

You were a rural mail carrier if you
were an employee of the United
States Postal Service (USPS) who
performed services involving the
collection and delivery of mail on a
rural route.

Qualified reimbursements.
These are the amounts paid by the
USPS as an equipment maintenance
allowance under a collective
bargaining agreement between the
USPS and the National Rural Letter
Carriers’ Association, but only if such
amounts don’t exceed the amount that
would have been paid under the 1991
collective bargaining agreement
(adjusted for changes in the

If you were a rural mail carrier and
your vehicle expenses were:
• Less than or equal to your qualified
reimbursements, don’t file Form 2106
unless you have deductible expenses
other than vehicle expenses. If you
deductible expenses other than
vehicle expenses, skip line 1 and
don’t include any qualified
reimbursements in column A on line 7.
• More than your qualified
reimbursements, first complete Part II
of Form 2106. Enter your total vehicle
expenses from line 29 on line 1 and
the amount of your qualified
reimbursements in column A on line 7.

If you are a rural mail carrier and
received a qualified reimbursement, you can’t use
the standard mileage rate.

Line 2. The expenses of commuting
to and from work aren’t deductible.
See the line 15 instructions for the
definition of commuting.

Line 3. Enter lodging and
transportation expenses connected
with overnight travel away from your
tax home (defined next). Don’t include
expenses for meals and
entertainment. For more details,
including limits, see Pub. 463.

Tax home. Generally, your tax
home is your regular or main place
of business or post of duty regardless of
where you maintain your family home.
If you don’t have a regular or main
place of business because of the
nature of your work, then your tax
home may be the place where you
regularly live. If you don’t have a
regular or a main place of business or
post of duty and there is no place
where you regularly live, you are
considered an itinerant (a transient)
your tax home is wherever you
work. As an itinerant, you are never
away from home and can’t claim a
travel expense deduction. For more
details on the definition of a tax home,
see Pub. 463.

Generally, you can’t deduct any
expenses for travel away from your
tax home for any period of temporary
employment of more than 1 year.

Incidental expenses. The term
“incidental expenses” means fees and
tips given to porters, baggage
 carriers, hotel staff, and staff on ships.

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

You can use an optional method
(instead of actual cost) for deducting
incidental expenses only. The amount
of the deduction is $5 a day. You can
use this method only if you didn’t pay
or incur any meal expenses. You can’t
the method on any day you use
the standard meal allowance (defined
later in the instructions for line 5).

Line 4. Enter other job-related
expenses not listed on any other line
of this form. Include expenses for
business gifts, education (tuition, fees,
and books), home office, trade
publications, etc. For details, including
limits, see Pub. 463 and Pub. 529.

If you are deducting home office
expenses, see Pub. 587 for special
instructions on how to report these
expenses.

If you are deducting depreciation or
claiming a section 179 deduction, see
Form 4562, Depreciation and
Amortization, to figure the
depreciation and section 179
deduction to enter on Form 2106,
line 4.

Don’t include on line 4 any (a)
educator expenses you deducted on
Form 1040, line 23, or Form 1040NR,
line 24; or (b) tuition and fees you
deducted on Form 1040, line 34.
At the time these instructions went to print, the tuition and fees deduction formerly claimed on line 34 had expired. To find out if legislation extended the deduction so you can claim it on your 2017 return, go to IRS.gov/Extenders.

You may be able to take a credit for your educational expenses instead of a deduction. See Form 8863, Education Credits, for details.

Don’t include expenses for meals and entertainment, taxes, or interest on line 4. Deductible taxes are entered on Schedule A (Form 1040), Itemized Deductions, lines 5 through 9; or Schedule A (Form 1040NR), line 1. Employees can’t deduct car loan interest.

Note. If line 4 is your only entry, don’t complete Form 2106 unless you are claiming:
- Performing-arts-related business expenses as a qualified performing artist,
- Expenses for performing your job as a fee-basis state or local government official, or
- Impairment-related work expenses as an individual with a disability.

See the line 10 instructions. If you aren’t required to file Form 2106, enter your expenses directly on Schedule A (Form 1040), line 21 (or Schedule A (Form 1040NR), line 7).

Line 5. Enter your allowable meals and entertainment expense. Include meals while away from your tax home overnight and other business meals and entertainment.

Standard meal allowance. Instead of actual cost, you may be able to claim the standard meal allowance for your daily meals and incidental expenses (M&E) while away from your tax home overnight. Under this method, instead of keeping records of your actual meal expenses, you deduct a specified amount, depending on where you travel.

However, you must still keep records to prove the time, place, and business purpose of your travel.

The standard meal allowance is the federal M&E rate. For most small localities in the United States, this rate is $51 a day. Most major cities and many other localities in the United States qualify for higher rates. You can find the rates that applied during 2017 on the Internet at GSA.gov/perdiem. At the Per Diem Overview page, select “2017” for the rates in effect for the period January 1, 2017—September 30, 2017. Select “Fiscal Year 2018” for the period October 1, 2017—December 31, 2017. However, you can apply the rates in effect before October 1, 2017, for expenses of all travel within the United States for 2017 instead of the updated rates. For the period October 1, 2017—December 31, 2017, you must consistently use either the rates for the first 9 months of 2017 or the updated rates.

For locations outside the continental United States, the applicable rates are published each month. You can find these rates on the Internet at State.gov/travel and select the option for “Foreign Per Diem Rates.”

See Pub. 463 for details on how to figure your deduction using the standard meal allowance, including special rules for partial days of travel and transportation workers.

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

Line 7. Enter reimbursements received from your employer (or third party) for expenses shown in Step 1 that weren’t reported to you in box 1 of your Form W-2. This includes reimbursements reported under code “L” in box 12 of Form W-2. Amounts reported under code “L” are reimbursements you received for business expenses that weren’t included as wages on Form W-2 because the expenses met specific IRS substantiation requirements.

Generally, when your employer pays for your expenses, the payments shouldn’t be included in box 1 of your Form W-2 if, within a reasonable period of time, you:
- Accounted to your employer for the expenses; and
- Were required to return, and did return, any payment not spent (or considered not spent) for business expenses.

If these payments were incorrectly included in box 1, ask your employer for a corrected Form W-2.

Accounting to your employer. This means that you gave your employer documentary evidence and an account book, diary, log, statement of expenses, trip sheets, or similar statement to verify the amount, time, place, and business purpose of each expense. You are also treated as having accounted for your expenses if either of the following applies.
- Your employer gave you a fixed travel allowance that is similar in form to the per diem allowance specified by the federal government and you verified the time, place, and business purpose of the travel for that day.
- Your employer reimbursed you for vehicle expenses at the standard mileage rate or according to a flat rate or stated schedule, and you verified the date of each trip, mileage, and business purpose of the vehicle use.

See Pub. 463 for more details.

Allocating your reimbursement. If your employer paid you a single amount that covers meals and entertainment as well as other business expenses, you must allocate the reimbursement so that you know how much to enter in Column A and Column B of line 7. Use the following worksheet to figure this allocation.  

Instructions for Form 2106 (2017)
### Reimbursement Allocation Worksheet
(keep for your records)

1. Enter the total amount of reimbursements your employer gave you that weren’t reported to you in box 1 of Form W-2.

2. Enter the total amount of your expenses for the periods covered by this reimbursement.

3. Enter the part of the amount on line 2 that was your total expense for meals and entertainment.

4. Divide line 3 by line 2. Enter the result as a decimal (rounded to three places).

5. Multiply line 1 by line 4. Enter the result here and in Column B, line 7.

6. Subtract line 5 from line 1. Enter the result here and in Column A, line 7.

---

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

**Line 9.** Generally, you can deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. However, if you were an employee subject to the DOT hours of service limits, that percentage is increased to 80% for business meals consumed during, or incident to, any period of duty for which those limits are in effect.

Employees subject to the DOT hours of service limits include certain air transportation employees, such as pilots, crew, dispatchers, mechanics, and control tower operators; interstate truck operators and interstate bus drivers; certain railroad employees, such as engineers, conductors, train crews, dispatchers, and control operations personnel; and certain merchant mariners.

**Line 10.** If you are one of the individuals discussed below, special rules apply to deducting your employee business expenses. Any part of the line 10 total that isn’t deducted according to the special rules should be entered on Schedule A (Form 1040), line 21 (or Schedule A (Form 1040NR), line 7).

#### Ministers
Before entering your total expenses on line 10, you must reduce them by the amount allocable to your tax-free allowance(s). See Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers, for more information.

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

If you qualify, complete Form 2106 and include the part of the line 10 amount attributable to the expenses for travel more than 100 miles away from home in connection with your performance of services as a member of the reserves on Form 1040, line 24, and attach Form 2106 to your return. The amount of expenses you can deduct on Form 1040, line 24, is limited to the regular federal per diem rate (for lodging, meals, and incidental expenses) and the standard mileage rate (for car expenses), plus any parking fees, ferry fees, and tolls. These reserve-related travel expenses are deductible whether or not you itemize deductions. See Pub. 463 for additional details on how to report these expenses.

#### Fee-basis state or local government official
You are a qualifying fee-basis official if you are employed by a state or political subdivision of a state and are compensated, in whole or in part, on a fee basis.

If you qualify, include the part of the line 10 amount attributable to the expenses you incurred for services performed in that job on Form 1040, line 24, and attach Form 2106 to your return. These employee business expenses are deductible whether or not you itemize deductions.

#### Qualified performing artist
You are a qualified performing artist if you:

1. Performed services in the performing arts as an employee for at least two employers during the tax year.
2. Received from at least two of those employers wages of $200 or more per employer.
3. Had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and
4. Had adjusted gross income of $16,000 or less before deducting expenses as a performing artist.

In addition, if you are married, you must file a joint return unless you lived apart from your spouse for all of 2017. 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 the combined adjusted gross income of both you and your spouse.

If you meet all the requirements for a qualified performing artist, include the part of the line 10 amount attributable to performing-arts-related expenses in the total on Form 1040, line 24 (or Form 1040NR, line 35), and attach Form 2106 to your return. Your performing-arts-related business expenses are deductible whether or not you itemize deductions.

#### Disabled employee with impairment-related work expenses
Impairment-related work expenses are the allowable expenses of an individual with physical or mental disabilities for attendant care at his or her place of employment. They also include other expenses in connection with the place of employment that enable the employee to work. See Pub. 463 for more details.

If you qualify, enter the part of the line 10 amount attributable to impairment-related work expenses on Schedule A (Form 1040), line 28 (or Schedule A (Form 1040NR), line 14). These expenses aren’t subject to the 2% limit that applies to most other employee business expenses.

#### Part II—Vehicle Expenses
There are two methods for figuring vehicle expenses—the standard mileage rate and the actual expense...
method. You can use the standard mileage rate for 2017 only if:

- You owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

You can't use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

If you have the option of using either the standard mileage rate or actual expense method, you should figure your expenses both ways to find the method most beneficial to you. But when completing Form 2106, fill in only the sections that apply to the method you choose.

If you were a rural mail carrier and received an equipment maintenance allowance, see the line 1 instructions.

For more information on the standard mileage rate and actual expenses, see Pub. 463.

Section A—General Information

If you used two vehicles for business during the year, use a separate column in Sections A, C, and D for each vehicle. If you used more than two vehicles, complete and attach a second Form 2106, page 2.

Line 11. Date placed in service is generally the date you first start using your vehicle. However, if you first start using your vehicle for personal use and later convert it to business use, the vehicle is treated as placed in service on the date you start using it for business.

Line 12. Enter the total number of miles you drove each vehicle during 2017.

Change from personal to business use. If you converted your vehicle during the year from personal to business use (or vice versa) and you don't have mileage records for the time before the change to business use, enter the total number of miles driven after the change to business use.

Line 13. Don't include commuting miles on this line; commuting miles aren't considered business miles. See Instructions for Form 2106 (2017) for the line 15 instructions for the definition of commuting.

Line 14. Divide line 13 by line 12 to figure your business use percentage.

Change from personal to business use. If you entered on line 12 the total number of miles driven after the change to business use, multiply the percentage you figured by the number of months you drove the vehicle for business and divide the result by 12.

Line 15. Enter your average daily round trip commuting distance. If you went to more than one work location, figure the average.

Commuting. Generally, commuting is travel between your home and a work location. However, travel that meets any of the following conditions isn't commuting:

- You have at least one regular work location away from your home and the travel is to a temporary work location in the same trade or business, regardless of the distance. Generally, a temporary work location is one where your employment is expected to last 1 year or less. See Pub. 463 for more details.
- The travel is to a temporary work location outside the metropolitan area where you live and normally work.
- Your home is your principal place of business under section 280A(c)(1)(A) (for purposes of deducting expenses for business use of your home) and the travel is to another work location in the same trade or business, regardless of whether that location is regular or temporary and regardless of distance.

Line 16. If you don't know the total actual miles you used your vehicle for commuting during the year, figure the amount to enter on line 16 by multiplying the number of days during the year that you used each vehicle for commuting by the average daily round trip commuting distance in miles. However, if you converted your vehicle during the year from personal to business use (or vice versa), enter your commuting miles only for the period you drove your vehicle for business.

Section C—Actual Expenses

Line 23. Enter your total annual expenses for gasoline, oil, repairs, insurance, tires, license plates, and similar items. Don't include state and local personal property taxes or interest expense you paid. Deduct state and local personal property taxes on Schedule A (Form 1040), line 7. (Personal property taxes aren't deductible on Form 1040NR.)

If you are claiming the standard mileage rate for mileage driven in more than one business activity, you must figure the deduction for each business on a separate form or schedule (for example, Form 2106, Schedule C (Form 1040), Profit or Loss From Business; Schedule C-EZ (Form 1040), Net Profit From Business; Schedule E (Form 1040), Supplemental Income and Loss; or Schedule F (Form 1040), Profit or Loss From Farming).

Section B—Standard Mileage Rate

You may be able to use the standard mileage rate instead of actual expenses to figure the deductible costs of operating a passenger vehicle, including a van, sport utility vehicle (SUV), pickup, or panel truck.

If you want to use the standard mileage rate for a vehicle you own, you must do so in the first year you place your vehicle in service. In later years, you can deduct actual expenses instead, but you must use straight line depreciation.

If you lease your vehicle, you can use the standard mileage rate, but only if you use the rate for the entire lease period (except for the period, if any, before January 1, 1998).

If you use more than two vehicles, complete and attach a second Form 2106, page 2, providing the information requested in lines 11 through 22. Be sure to include the amount from line 22 of both pages in the total on Form 2106, line 1.

You can also deduct state and local personal property taxes. Enter these on Schedule A (Form 1040), line 7. (Personal property taxes aren't deductible on Form 1040NR.)

If you are claiming the standard mileage rate for mileage driven in more than one business activity, you must figure the deduction for each business on a separate form or schedule (for example, Form 2106, Schedule C (Form 1040), Profit or Loss From Business; Schedule C-EZ (Form 1040), Net Profit From Business; Schedule E (Form 1040), Supplemental Income and Loss; or Schedule F (Form 1040), Profit or Loss From Farming).

Line 24a. If during 2017 you rented or leased instead of using your own vehicle, enter the cost of renting. Also, include on this line any temporary rentals, such as when your car was being repaired, except for amounts included on line 3.
Line 24b. If you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction for vehicle lease payments by an amount called the inclusion amount. You may have an inclusion amount for a passenger automobile if:

**Passenger Automobiles (Except Trucks and Vans)**

And the vehicle’s fair market value on the first day of the lease term exceeded:

<table>
<thead>
<tr>
<th>Year</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$19,500</td>
</tr>
<tr>
<td>2014</td>
<td>$19,500</td>
</tr>
<tr>
<td>2015</td>
<td>$19,500</td>
</tr>
<tr>
<td>2016</td>
<td>$19,500</td>
</tr>
<tr>
<td>2017</td>
<td>$19,500</td>
</tr>
</tbody>
</table>

If the lease term began before 2013, see Pub. 463 to find out if you have an inclusion amount.

You may have an inclusion amount for a truck or van if:

**Trucks and Vans**

And the vehicle’s fair market value on the first day of the lease term exceeded:

<table>
<thead>
<tr>
<th>Year</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$19,000</td>
</tr>
<tr>
<td>2014</td>
<td>$19,000</td>
</tr>
<tr>
<td>2015</td>
<td>$19,000</td>
</tr>
<tr>
<td>2016</td>
<td>$19,000</td>
</tr>
<tr>
<td>2017</td>
<td>$19,000</td>
</tr>
</tbody>
</table>

If the lease term began before 2013, see Pub. 463 to find out if you have an inclusion amount.

See Pub. 463 to figure the inclusion amount.

Line 25. If during 2017 your employer provided a vehicle for your business use and included 100% of its annual lease value in box 1 of your Form W-2, enter this amount on line 25. If less than 100% of the annual lease value was included in box 1 of your Form W-2, skip line 25.

Line 28. If you completed Section D, enter the amount from line 36. If you used Form 4562 to figure your depreciation deduction, enter the total of the following amounts:
- Depreciation allocable to your vehicle (from Form 4562, line 28).
- Any section 179 deduction allocable to your vehicle(s) (from Form 4562, line 29).

**Section D—Depreciation of Vehicles**

Depreciation is an amount you can deduct to recover the cost or other basis of your vehicle over a certain number of years. In some cases, you can elect to claim a special depreciation allowance or to expense, under section 179, part of the cost of your vehicle in the year of purchase. For details, see Pub. 463.

**Vehicle trade-in.** If you traded in one vehicle (the “old vehicle”) for another vehicle (the “new vehicle”) in 2017, there are two ways you can treat the transaction.
1. You can elect to treat the transaction as a tax-free disposition of the old vehicle and the purchase of the new vehicle. If you make this election, you treat the old vehicle as disposed of at the time of the trade-in. The depreciable basis of the new vehicle is the adjusted basis of the old vehicle (figured as if 100% of the vehicle’s use had been for business purposes) plus any additional amount you paid for the new vehicle. You then figure your depreciation deduction for the new vehicle beginning with the date you placed it in service. You make this election by completing Form 2106, Part II, Section D.
2. If you don’t make the election described in (1), you must figure depreciation separately for the remaining basis of the old vehicle and for any additional amount you paid for the new vehicle. You must apply two depreciation limits. The limit that applies to the remaining basis of the old vehicle generally is the amount that would have been allowed had you not traded the old vehicle. The limit that applies to the additional amount you paid for the new vehicle generally is the limit that applies for the tax year it was placed in service, reduced by the depreciation allowance for the remaining basis of the old vehicle. You must use Form 4562 to figure your depreciation deduction. You can’t use Form 2106, Part II, Section D.

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

Line 30. Enter the vehicle’s actual cost or other basis. Don’t reduce your basis by any prior year’s depreciation. However, you must reduce your basis by any deductible casualty loss, deduction for clean-fuel vehicle, gas guzzler tax, alternative motor vehicle credit, or qualified plug-in electric vehicle credit you claimed. Increase your basis by any sales tax paid (unless you deducted sales taxes in the year you purchased your vehicle) and any substantial improvements to your vehicle.

If you traded in your vehicle, your basis is the adjusted basis of the old vehicle (reduced by depreciation figured as if 100% of the vehicle’s use had been for business purposes) plus any additional amount you paid for the new vehicle. See Pub. 463 for more information.

If you converted the vehicle from personal use to business use, your basis for depreciation is the smaller of the vehicle’s adjusted basis or its fair market value on the date of conversion.

**Line 31.** Enter the amount of any section 179 deduction and, if applicable, any special depreciation allowance claimed for this year.

**Section 179 deduction.** If 2017 is the first year your vehicle was placed in service and the percentage on line 14 is more than 50%, you can elect to deduct as an expense a portion of the cost (subject to a yearly limit). To figure this section 179 deduction, multiply the part of the cost of the vehicle that you choose to expense by the percentage on line 14. The total of your depreciation and section 179 deduction generally can’t be more than the percentage on line 14 multiplied by the applicable limit explained in the instructions. Your section 179 deduction for the year can’t be more than the income from your job and any other active trade or business on your Form 1040.

**Note.** For section 179 purposes, the cost of the new vehicle doesn’t include the adjusted basis of the vehicle you traded in.
### Example.

Cost including taxes .......... $25,000
Adjusted basis of trade-in .......... -3,000
Section 179 basis .......... $22,000
Limit on depreciation and section 179 deduction .......... $11,160*

**Smaller of:**

Section 179 basis, or limit on depreciation .......... $11,160
Percentage on line 14 ..........  x 0.75
Section 179 deduction .......... $8,370

*If selecting out of the special depreciation allowance or not qualified property.

#### Limit for sport utility and certain other vehicles.

For sport utility and certain other vehicles placed in service in 2017, the portion of the vehicle's cost taken into account in figuring your section 179 deduction is limited to $25,000. This rule applies to any 4-wheeled vehicle primarily designed or used to carry passengers over public streets, roads, or highways that isn't subject to any of the passenger automobile limits explained in the [line 36 instructions](#) and is rated at no more than 14,000 pounds gross vehicle weight. However, the $25,000 limit doesn't apply to any vehicle:

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

#### Special depreciation allowance.

The special depreciation allowance applies only for the first year a vehicle is placed in service. Further, while it applies for a new vehicle regardless of the date in 2017 when it was placed in service, it applies to a used vehicle only if the vehicle was purchased and placed in service after September 27, 2017. To qualify for the special depreciation allowance, the new vehicle must be qualified property (see Pub. 463, chapter 4, for more information). The special allowance is an additional first year depreciation deduction of 50%. This allowance is increased to 100% if the vehicle was purchased and placed in service after September 27, 2017. Your total section 179 deduction, special depreciation allowance, and regular depreciation deduction can't be more than $11,160 for cars and $11,560 for trucks and vans, whichever is higher.

#### Worksheet for the Special Depreciation Allowance

(*keep for your records*)

1. Enter the total amount from Form 2106, line 30
2. Multiply line 1 by the percentage on Form 2106, line 14, and enter the result
3. Enter any section 179 deduction
4. Subtract line 3 from line 2
5. Multiply the applicable limit explained in the line 36 instructions by the percentage on Form 2106, line 14, and enter the result
6. Subtract line 3 from line 5
7. Enter the smaller of line 4 or line 6. Add the result to any section 179 deduction (line 3 above) and enter the total on Form 2106, line 31

### More information.

See Pub. 463, chapter 4, for more information on the special depreciation allowance.

#### Line 32.

To figure the basis for depreciation, multiply line 30 by the percentage on line 14. From that result, subtract the total amount of any section 179 deduction and special depreciation allowance claimed this year (see line 31) or any section 179 deduction and special depreciation allowance claimed in any previous year for this vehicle.

#### Line 33.

If you used the standard mileage rate in the first year the vehicle was placed in service and now elect to use the actual expense method, you must use the straight line method of depreciation for the vehicle's estimated useful life. Otherwise, use the Depreciation Method and Percentage Chart, later, to find the depreciation method and percentage to enter on line 33.

The chart, first find the date you placed the vehicle in service (line 11). Then, select the depreciation method and percentage from column (a), (b), or (c). For example, if you placed a car in service on July 1, 2017, and you use the method in column (a), enter “200 DB 20%” on line 33.

For vehicles placed in service before 2017, the same method you used on last year's return unless a change to the straight line method. For vehicles placed in service during 2017, select the depreciation method and percentage after reading the explanation for each column.

#### Column (a)—200% declining balance method.

You can use column (a) only if the business use percentage on line 14 is more than 50%. Of the three depreciation methods, the 200% declining balance method may give you the largest depreciation deduction for the first 3 years (after considering the
Depreciation Method and Percentage Chart—Line 33

<table>
<thead>
<tr>
<th>Date Placed in Service</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1 – Dec. 31, 2017</td>
<td>200 DB 5.0 %</td>
<td>150 DB 3.75%</td>
<td>SL 2.5%</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2017</td>
<td>200 DB 20.0</td>
<td>150 DB 15.0</td>
<td>SL 10.0</td>
</tr>
<tr>
<td>Oct. 1 – Dec. 31, 2016</td>
<td>200 DB 38.0</td>
<td>150 DB 28.88</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2016</td>
<td>200 DB 32.0</td>
<td>150 DB 25.5</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Oct. 1 – Dec. 31, 2015</td>
<td>200 DB 22.8</td>
<td>150 DB 20.21</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2015</td>
<td>200 DB 19.2</td>
<td>150 DB 17.85</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2014</td>
<td>200 DB 11.52</td>
<td>150 DB 16.66</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2013</td>
<td>200 DB 11.52</td>
<td>150 DB 16.66</td>
<td>SL 20.0</td>
</tr>
<tr>
<td>Jan. 1 – Sept. 30, 2012</td>
<td>200 DB 7.76</td>
<td>150 DB 8.33</td>
<td>SL 10.0</td>
</tr>
<tr>
<td>Prior to 2012^2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

^1You can use this column only if the business use of your car is more than 50%.
^2If 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 Pub. 463 for more information.

---

depreciation limit for your vehicle).
See the depreciation limit tables, later.

**Column (b)—150% declining balance method.** You can use column (b) only if the business use percentage on line 14 is more than 50%. The 150% declining balance method may give you a smaller depreciation deduction than in column (a) for the first 3 years. However, you won't have a "depreciation adjustment" on this vehicle for the alternative minimum tax. This may result in a smaller tax liability if you must file Form 6251, Alternative Minimum Tax—Individuals.

**Column (c)—straight line method.** You must use column (c) if the business use percentage on line 14 is 50% or less. The method for these vehicles is the straight line method over 5 years. The use of this column is optional for these vehicles if the business use percentage on line 14 is more than 50%.

**Note.** If your vehicle was used more than 50% for business in the year it was placed in service and used 50% or less in a later year, part of the depreciation, section 179 deduction, and special depreciation allowance previously claimed may have to be added back to your income in the later year. Figure the amount to be included in income in Part IV of Form 4797, Sales of Business Property.

**More information.** For more information on depreciating your vehicle, see Pub. 463.

**CAUTION** If you placed other business property in service in the same year you placed your vehicle in service or you used your vehicle mainly within an Indian reservation, you may not be able to use the chart. See Pub. 546 to figure your depreciation.

**Line 34.** If you sold or exchanged your vehicle during the year, use the following instructions to figure the amount to enter on line 34.

If your vehicle was placed in service:
1. Before 2012, enter the result of multiplying line 32 by the percentage on line 33;
2. After 2011, from January 1 through September 30, enter the amount figured by multiplying the result in (1) by 50%; or
3. After 2011, from October 1 through December 31, enter the amount figured by multiplying the result in (1) by the percentage shown below for the month you disposed of the vehicle.

<table>
<thead>
<tr>
<th>Month of Disposal</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan., Feb., March</td>
<td>12.5%</td>
</tr>
<tr>
<td>April, May, June</td>
<td>37.5%</td>
</tr>
<tr>
<td>July, Aug., Sept.</td>
<td>62.5%</td>
</tr>
<tr>
<td>Oct., Nov., Dec.</td>
<td>87.5%</td>
</tr>
</tbody>
</table>

**Line 36.** Using the applicable chart for your type of vehicle, find the date you placed your vehicle in service. Then, enter on line 36 the corresponding amount from the "Limit" column. Before using the charts, please read the following definitions.

- A passenger automobile is a 4-wheeled vehicle manufactured primarily for use on public roads that is rated at 6,000 pounds unloaded gross vehicle weight or less. Certain vehicles, such as ambulances, hearses, and taxicabs, aren't considered passenger automobiles and aren't subject to the line 36 limits. See Pub. 463 for more details.
- A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van, and that is rated at 6,000 pounds gross vehicle weight or less.

If your vehicle isn't subject to any of the line 36 limits, skip lines 36 and 37, and enter the amount from line 35 on line 36.
### Limits for Passenger Automobiles (Except Trucks and Vans)

<table>
<thead>
<tr>
<th>Date Vehicle Was Placed in Service</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 – Dec. 31, 2017</td>
<td>$11,160*</td>
</tr>
<tr>
<td>Jan. 1 – Dec. 31, 2016</td>
<td>5,100</td>
</tr>
<tr>
<td>Jan. 1 – Dec. 31, 2015</td>
<td>3,050</td>
</tr>
<tr>
<td>Jan. 1, 2006 – Dec. 31, 2011</td>
<td>1,775</td>
</tr>
<tr>
<td>Jan. 1, 2004 – Dec. 31, 2005</td>
<td>1,675</td>
</tr>
</tbody>
</table>

*If you elect not to claim the special depreciation allowance for the vehicle or the vehicle is not qualified property, the limit is $3,160.

---

### Limits for Trucks and Vans

<table>
<thead>
<tr>
<th>Date Vehicle Was Placed in Service</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 – Dec. 31, 2017</td>
<td>$11,560*</td>
</tr>
<tr>
<td>Jan. 1 – Dec. 31, 2016</td>
<td>5,700</td>
</tr>
<tr>
<td>Jan. 1 – Dec. 31, 2009</td>
<td>1,775</td>
</tr>
<tr>
<td>Jan. 1, 2004 – Dec. 31, 2008</td>
<td>1,875</td>
</tr>
<tr>
<td>Jan. 1 – Dec. 31, 2003</td>
<td>1,975</td>
</tr>
<tr>
<td>Jan. 1, 1995 – Dec. 31, 2002</td>
<td>1,775</td>
</tr>
</tbody>
</table>

*If you elect not to claim the special depreciation allowance for the vehicle or the vehicle isn’t qualified property, the limit is $3,550.

---

**Paperwork Reduction Act Notice.**

For the Paperwork Reduction Act Notice, see your tax return instructions.
Expenses for Business Use of Your Home
**Part I**  
**Part of Your Home Used for Business**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Total area of home</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Divide line 1 by line 2. Enter the result as a percentage</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Multiply days used for daycare during year by hours used per day</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Total hours available for use during the year (365 days x 24 hours) (see instructions)</td>
<td></td>
<td>8,760 hr.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Divide line 4 by line 5. Enter the result as a decimal amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Part II**  
**Figure Your Allowable Deduction**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home, minus any loss from the trade or business not derived from the business use of your home (see instructions)</td>
<td></td>
<td>8</td>
</tr>
</tbody>
</table>

See instructions for columns (a) and (b) before completing lines 9-21.

<table>
<thead>
<tr>
<th></th>
<th>(a) Direct expenses</th>
<th>(b) Indirect expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Casualty losses (see instructions)</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Deductible mortgage interest (see instructions)</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Real estate taxes (see instructions)</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Add lines 9, 10, and 11</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Multiply line 12, column (b), by line 7</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Add line 12, column (a), and line 13</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Subtract line 14 from line 8. If zero or less, enter 0-</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Excess mortgage interest (see instructions)</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Rent</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Repairs and maintenance</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Other expenses (see instructions)</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Add lines 16 through 21</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Multiply line 22, column (b), by line 7</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Carryover of prior year operating expenses (see instructions)</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Add line 22, column (a), line 23, and line 24</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Allowable operating expenses. Enter the smaller of line 15 or line 25</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Limit on excess casualty losses and depreciation. Subtract line 26 from line 15</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Excess casualty losses (see instructions)</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Depreciation of your home from line 41 below</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Carryover of prior year excess casualty losses and depreciation (see instructions)</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Add lines 28 through 30</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Allowable excess casualty losses and depreciation. Enter the smaller of line 27 or line 31</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Add lines 14, 26, and 32</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Casualty loss portion, if any, from lines 14 and 32. Carry amount to Form 4684 (see instructions)</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Allowable expenses for business use of your home. Subtract line 34 from line 33. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions</td>
<td></td>
</tr>
</tbody>
</table>

**Part III**  
**Depreciation of Your Home**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Enter the smaller of your home’s adjusted basis or its fair market value (see instructions)</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Value of land included on line 36</td>
<td></td>
<td>37</td>
</tr>
<tr>
<td>38</td>
<td>Basis of building. Subtract line 37 from line 36</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>39</td>
<td>Business basis of building. Multiply line 38 by line 7</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>40</td>
<td>Depreciation percentage (see instructions)</td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>41</td>
<td>Depreciation allowable (see instructions). Multiply line 39 by line 40. Enter here and on line 29 above</td>
<td></td>
<td>41</td>
</tr>
</tbody>
</table>

**Part IV**  
**Carryover of Unallowed Expenses to 2018**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Operating expenses. Subtract line 26 from line 25. If less than zero, enter 0-</td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>43</td>
<td>Excess casualty losses and depreciation. Subtract line 32 from line 31. If less than zero, enter 0-</td>
<td></td>
<td>43</td>
</tr>
</tbody>
</table>
2017

Instructions for Form 8829

Expenses for Business Use of Your Home

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments
For the latest information about developments related to Form 8829 and its instructions, such as legislation enacted after they were published, go to IRS.gov/Form8829.

What’s New
Disaster tax relief. Disaster tax relief was enacted for those impacted by certain Presidential declared disasters, including special treatment for qualified disaster losses. See Pub. 976, Disaster Relief, for more information.

Expired tax benefits. At the time these instructions went to print, the deduction for mortgage insurance premiums, formerly included on lines 10 and 16, and the special recovery periods for qualified Indian reservation property, formerly included on line 40, had expired. You can’t claim a deduction for mortgage insurance premiums after 2016 or apply the special recovery periods to Indian reservation property placed in service after 2016. To find out if legislation extended these deductions so you can claim them on your 2017 return, go to IRS.gov/Extenders.

Reminder
Simplified method used for 2016. If you used the simplified method for 2016 but are not using it for 2017, you may have unallowed expenses from a prior year Form 8829 that you can carry over to your 2017 Form 8829. See the instructions for lines 24 and 30.

General Instructions
Purpose of Form
Use Form 8829 to figure the allowable expenses for business use of your home on Schedule C (Form 1040) and any carryover to 2018 of amounts not deductible in 2017.

You must meet specific requirements to deduct expenses for the business use of your home. Even if you meet these requirements, your deductible expenses may be limited. Part IV is used to figure any allowable carryover of expenses that are more than the limit. For details, see Pub. 587, Business Use of Your Home.

Who cannot use Form 8829. Do not use Form 8829 in the following situations.
- You are claiming expenses for business use of your home as an employee or a partner, or you are claiming these expenses on Schedule F (Form 1040). Instead, complete the Worksheet To Figure the Deduction for Business Use of Your Home in Pub. 587.
- All of the expenses for business use of your home are properly allocable to inventory costs. Instead, figure these expenses in Schedule C, Part III.
- You have elected to use the simplified method for this home for 2017. If you had more than one home during the year that you used for business, you can use the simplified method for only one home. Use Form 8829 to claim expenses for business use of the other home. For more information about the simplified method, see the Instructions for Schedule C and Pub. 567.

Who Can Deduct Expenses for Business Use of a Home
Generally, you can deduct business expenses that apply to a part of your home only if that part is exclusively used on a regular basis:
- As your principal place of business for any of your trades or businesses;
- As a place of business used by your patients, clients, or customers to meet or deal with you in the normal course of your trade or business; or
- In connection with your trade or business if it is a separate structure that is not attached to your home.

As explained later, exceptions to this rule apply to space used on a regular basis for:
- Storage of inventory or product samples, and
- Certain daycare facilities.

Principal Place of Business
In determining whether the office in your home qualifies as your principal place of business, you must consider the following two items.
- The relative importance of the activities performed at each place where you conduct business, and
- The amount of time spent at each place where you conduct business.

Your home office will qualify as your principal place of business if you meet the following requirements.
- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Administrative or management activities. There are many activities that are administrative or managerial in nature. The following are a few examples.
- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. The following activities performed by you or others will not disqualify your home office from being your principal place of business.
- You have others conduct your administrative or management activities at locations other than your home. For example, another company does your billing from its place of business.
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial nonadministrative or nonmanagement business activities at a fixed location outside your home.
-
• You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

More information. For information on other ways to qualify to deduct business use of the home expenses, see Pub. 587.

Storage of Inventory or Product Samples
You can also deduct expenses that apply to space within your home used on a regular basis to store inventory or product samples from your trade or business of selling products at retail or wholesale. Your home must be the only fixed location of your trade or business.

Daycare Facilities
If you use space in your home on a regular basis in the trade or business of providing daycare, you may be able to deduct the business expenses even though you use the same space for nonbusiness purposes. To qualify for this exception, you must have applied for (and not have been rejected), been granted (and still have in effect), or be exempt from having a license, certification, registration, or approval as a daycare center or as a family or group daycare home under state law.

Expenses Related to Tax-Exempt Income
Generally, you cannot deduct expenses that are allocable to tax-exempt income. However, if you receive a tax-exempt parsonage allowance or a tax-exempt military housing allowance, your expenses for mortgage interest and real property taxes are deductible under the normal rules. No deduction is allowed for other expenses allocable to the tax-exempt allowance.

Specific Instructions

Part I

Lines 1 and 2
To determine the area on lines 1 and 2, you can use square feet or any other reasonable method if it accurately figures your business percentage on line 7.

Do not include on line 1 the area of your home you used to figure any expenses allocable to inventory costs. The business percentage of these expenses should have been taken into account in Schedule C, Part III.

Special Computation for Certain Daycare Facilities
If the part of your home used as a daycare facility includes areas used exclusively for business as well as other areas used only partly for business, you cannot figure your business percentage using Part I. Instead, follow these three steps:

1. Figure the business percentage of the part of your home used exclusively for business by dividing the area used exclusively for business by the total area of the home.
2. Figure the business percentage of the part of your home used only partly for business by following the same method used in Part I of the form, but enter on line 1 of your computation only the area of the home used partly for business.
3. Add the business percentages you figured in the first two steps and enter the result on line 7. Attach a statement with your computation and enter “See attached computation” directly above the percentage you entered on line 7.

Line 4
Enter the total number of hours the facility was used for daycare during the year.

Example. Your home is used Monday through Friday for 12 hours per day for 250 days during the year. It is also used on 50 Saturdays for 8 hours per day. Enter 3,400 hours on line 4 (3,000 hours for weekdays plus 400 hours for Saturdays).

Line 5
If you started or stopped using your home for daycare in 2017, you must prorate the number of hours based on the number of days the home was available for daycare. Cross out the preprinted entry on line 5. Multiply 24 hours by the number of days available and enter the result.

Part II

Line 8
If all the gross income from your trade or business is from the business use of your home, enter on line 8 the amount from Schedule(s) C, line 29, plus any gain derived from the business use of your home and shown on Form 8949 (and included on Schedule D (Form 1040)) or Form 4797, minus any loss shown on Form 8949 (and included in Schedule D) or Form 4797 that is allocable to the trade or business in which you use your home but is not allocable to the use of the home. If you file more than one Form 8829, include only the income earned and the deductions attributable to that income during the period you owned the home for which Part I was completed.

If some of the income is from a place of business other than your home, you must first determine the part of your gross income (Schedule C, line 7, and gains from Form 8949, Schedule D, and Form 4797) from the business use of your home. In making this determination, consider the amount of time you spend at each location as well as other facts. After determining the part of your gross income from the business use of your home, subtract from that amount the total expenses shown on Schedule C, line 26, plus any losses shown on Form 8949 (and included in Schedule D) or Form 4797 that are allocable to the trade or business in which you use your home but that are not allocable to the use of the home. Enter the result on Form 8829, line 8.

Columns (a) and (b)
Enter as direct or indirect expenses only for the business use of your home (that is, expenses allocable only because your home is used for business). If you did not operate a business for the entire year, you can deduct only the expenses paid or incurred for the portion of the year you used your home for business. Other expenses not allocable to the business use of your home, such as salaries, supplies, and advertising, are deductible elsewhere on Schedule C and should not be entered on Form 8829.

Direct expenses benefit only the business part of your home. They include painting or repairs made to the specific area or rooms used for business. Enter 100% of your direct expenses on the appropriate line in column (a).

Indirect expenses are for keeping up and running your entire home. They benefit both the business and personal parts of your home. Generally, enter 100% of your indirect expenses on the appropriate line in column (b).

Exception. If the business percentage of an indirect expense is different from the percentage on line 7, enter only the business part of the expense on the appropriate line in column (a), and leave that line in column (b) blank. For example, your electric bill is $600 for lighting, cooking, laundry, and television. If you reasonably estimate $300 of your electric bill is for lighting and you use 10% of your home for business, enter $30 on line 20 in column (a). Do not make an entry on line 20 in column (b) for any part of your electric bill.

Lines 9, 10, and 11
Enter only the amounts that would be deductible whether or not you used your home for business (that is, amounts allowable as itemized deductions on Schedule A (Form 1040)).
Treat casualty losses as personal expenses for this step. You figure the amount to enter on line 9 by completing Section A of a 2017 Form 4684 as a worksheet. When completing line 17 of this worksheet version of Form 4684, enter 10% of your adjusted gross income excluding the gross income from business use of your home and the deductions attributable to that income. Include on Form 8829, line 9, the amounts from lines 15 and 18 of your worksheet version of Form 4684. Do not file this worksheet version of Form 4684; instead, keep it for your records. You will complete a separate Form 4684 to attach to your return.

To figure the casualty losses that you can include in your itemized deductions on Schedule A or the qualified disaster losses by which you may be able to increase your standard deduction, complete Section A on the separate Form 4684 using the personal portion of your casualty losses. See the instructions for line 34, later, for the business use of the home portion of your casualty losses that you must include in Section B of the separate Form 4684.

See the instructions for line 28, later, to deduct part of the casualty losses not allowed because of the limits on Form 4684.

On line 10, include only the total of your mortgage interest that would be deductible on Schedule A and that qualifies as a direct or indirect expense. Mortgage interest on a separate structure you used in connection with your trade or business is a direct expense. Do not include mortgage interest on a loan that did not benefit your home (for example, a home equity loan used to pay off credit card bills, to buy a car, or to pay tuition costs).

If you itemize your deductions, be sure to claim only the personal portion of your deductible mortgage interest and real estate taxes on Schedule A. For example, if your business percentage on line 7 is 50%, you can claim 70% of your deductible mortgage interest and real estate taxes on Schedule A.

**Line 16**
If the amount of home mortgage interest you deduct on Schedule A is limited, enter the part of the excess that qualifies as a direct or indirect expense. Do not include mortgage interest on a loan that did not benefit your home (explained earlier).

**Example.** If your business percentage on line 7 is 10% (0.10) and you paid $15,000 of home mortgage interest but can only deduct $12,000 on Schedule A because of a limitation, enter $300 ($15,000 - $12,000 = $3,000 x 0.10 = $300). For more information about home mortgage interest deduction limitations, see Pub. 956.

**Line 18**
If you rent rather than own your home, include the rent you paid on line 18, column (b).

If your housing is provided free of charge and the value of the housing is tax exempt, you cannot deduct the rental value of any portion of the housing.

**Line 21**
Include on this line any 2017 operating expenses not included on lines 9 through 20.

**Line 24**
Enter any amount from your 2016 Form 8829, line 42.

If you did not file a 2016 Form 8829, then your carryover of prior year operating expenses is the amount of operating expenses shown in Part IV of the last Form 8829, if any, that you filed to claim a deduction for business use of the home.

For example, if you filed a 2015 Form 8829 and you used the simplified method for 2016 but are not using it for 2017, enter the amount from line 6a of your 2016 Simplified Method Worksheet (or line 42 of your 2015 Form 8829).
### Line 40

<table>
<thead>
<tr>
<th>IF you first used your home for business in the following month in 2017...</th>
<th>THEN enter the following percentage on line 40...</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>2.461%</td>
</tr>
<tr>
<td>February</td>
<td>2.247%</td>
</tr>
<tr>
<td>March</td>
<td>2.033%</td>
</tr>
<tr>
<td>April</td>
<td>1.819%</td>
</tr>
<tr>
<td>May</td>
<td>1.605%</td>
</tr>
<tr>
<td>June</td>
<td>1.391%</td>
</tr>
<tr>
<td>July</td>
<td>1.177%</td>
</tr>
<tr>
<td>August</td>
<td>0.963%</td>
</tr>
<tr>
<td>September</td>
<td>0.749%</td>
</tr>
<tr>
<td>October</td>
<td>0.535%</td>
</tr>
<tr>
<td>November</td>
<td>0.321%</td>
</tr>
<tr>
<td>December</td>
<td>0.107%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IF you first used your home for business...</th>
<th>THEN the percentage to enter on line 40 is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>after May 12, 1993, and before 2017 (except as noted below).</td>
<td>2.564%.*</td>
</tr>
<tr>
<td>after May 12, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993.</td>
<td>the percentage given in Pub. 946.</td>
</tr>
<tr>
<td>after May 12, 1993, and you stopped using your home for business before the end of the year.</td>
<td>the percentage given in Pub. 946 as adjusted by the instructions under Sale or Other Disposition Before the Recovery Period Ends in that publication.</td>
</tr>
</tbody>
</table>

*Exception. If the business part of your home was Indian reservation property that met the requirements of section 168(j) when placed in service, see Pub. 946 to figure the depreciation.

### Line 41

If no additions and improvements were placed in service after you began using your home for business, multiply line 39 by the percentage on line 40. Enter the result on lines 41 and 29.

### Line 42

IF additions and improvements were placed in service... THEN figure the depreciation allowed on these expenditures by multiplying the business part of their cost or other basis by...

| during 2017 (but after you began using your home for business), | the percentage in the line 40 instructions for the month placed in service. |
| after May 12, 1993, and before 2017 (except as noted below). | 2.564%.* |
| after May 12, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993. | the percentage given in Pub. 946. |
| after May 12, 1993, and you stopped using your home for business before the end of the year. | the percentage given in Pub. 946 as adjusted by the instructions under Sale or Other Disposition Before the Recovery Period Ends in that publication. |
| before 1987. | the percentage given in Pub. 534. |

*Exception. If the business part of your home was Indian reservation property that met the requirements of section 168(j) when placed in service, see Pub. 946 to figure the depreciation.

Attach a statement showing your computation and include the amount you figured in the total for line 41. Enter “See attached” below the entry space.

Complete and attach Form 4562, Depreciation and Amortization, only if:
- You first used your home for business in 2017, or
- You are depreciating additions and improvements placed in service in 2017.

If you first used your home for business in 2017, enter the amounts from Form 8829, lines 39 and 41, in columns (c) and (g) of line 19i, Form 4562. In column (b) of line 19i, enter the month and year you first used your home for business. Do not include the amount from Form 8829, line 41, on Schedule C, line 13.

If you are depreciating additions and improvements placed in service in 2017, enter in column (b) of line 19i on Form 4562 the month and year the additions or improvements were placed in service. Enter the business basis of the additions or improvements in column (c) and the depreciation allowable on the additions or improvements in column (g). Do not include the amount entered in column (g) on Schedule C, line 13.

### Part IV

If your expenses are greater than the current year’s limit, you can carry over the excess to 2018. The carryover will be subject to the deduction limit for that year, whether or not you live in the same home during that year.

**Line 42**

Figure the amount of operating expenses you can carry over to 2018 by subtracting line 26 from line 25. If the result is zero or less, you have no amount to carry over.

**Line 43**

Figure the amount of excess casualty losses and depreciation you can carry over to 2018 by subtracting line 32 from line 31. If the result is zero or less, you have no amount to carry over.

For Paperwork Reduction Act Notice, see the Instructions for Form 1040.
U.S. Income Tax Return for Certain Political Organizations
## U.S. Income Tax Return for Certain Political Organizations

### Form 1120-POL

**Department of the Treasury**
**Internal Revenue Service**

**For calendar year 2017 or other tax year beginning , 2017, and ending , 2020**

Check the box if this is a section 501(c) organization __________________________ □

<table>
<thead>
<tr>
<th>Check_if:</th>
<th>Name of organization</th>
<th>Employer identification number</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Income</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Dividends (attach statement)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2 Interest</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3 Gross rents</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4 Gross royalties</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5 Capital gain net income (attach Schedule D (Form 1120))</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>6 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>7 Other income and nonexempt function expenditures (see instructions)</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total income. Add lines 1 through 7</strong></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>9 Salaries and wages</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>10 Repairs and maintenance</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>11 Rents</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>12 Taxes and licenses</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>13 Interest</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>14 Depreciation (attach Form 4562)</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>15 Other deductions (attach statement)</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td><strong>Total deductions. Add lines 9 through 15</strong></td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>17 Taxable income before specific deduction of $100. See instructions. Section 501(c) organizations show:</td>
<td>17c</td>
<td></td>
</tr>
<tr>
<td>a Amount of net investment income</td>
<td>17c</td>
<td></td>
</tr>
<tr>
<td>b Aggregate amount expended for an exempt function (attach statement)</td>
<td>17c</td>
<td></td>
</tr>
<tr>
<td>18 Specific deduction of $100 (not allowed for newsletter funds defined under section 527(g))</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>19 Taxable income. Subtract line 18 from line 17c. If line 19 is zero or less, see the instructions.</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>20 Income tax. See instructions</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>21 Tax credits. Attach the applicable credit forms. See instructions</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>22 Total tax. Subtract line 21 from line 20</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>23 Payments:</td>
<td>23d</td>
<td></td>
</tr>
<tr>
<td>a Tax deposited with Form 7004</td>
<td>23a</td>
<td></td>
</tr>
<tr>
<td>b Credit for tax paid on undistributed capital gains (attach Form 2439)</td>
<td>23b</td>
<td></td>
</tr>
<tr>
<td>c Credit for federal tax on fuels (attach Form 4136)</td>
<td>23c</td>
<td></td>
</tr>
<tr>
<td>d Total payments. Add lines 23a through 23c</td>
<td>23d</td>
<td></td>
</tr>
<tr>
<td>24 Tax due. Subtract line 23d from line 22. See instructions for dispository method of payment</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>25 Overpayment. Subtract line 22 from line 23d</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

### Additional Information

1. At any time during the 2017 calendar year, did the organization have an interest in or a signature or other authority over a financial account (such as a bank account, securities account, or other financial account) in a foreign country? See instructions. □ Yes □ No

2. During the tax year, did the organization receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If “Yes,” the organization may have to file Form 3520. □ Yes □ No

3. Enter the amount of tax-exempt interest received or accrued during the tax year □ $ |

4. Date organization formed □

5a The books are in care of □  
5b Enter name of candidate □  
5c The books are located at □  
5d Telephone No. □

### Sign Here

**Signature of officer** □
**Date** □
**Title** □

**Paid Preparer Use Only**

<table>
<thead>
<tr>
<th>Print/Type preparer's name</th>
<th>Preparer's signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check if self-employed</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm's name</th>
<th>Firm's EIN</th>
<th>Phone no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm's address</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Instructions for Form 1120
Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. For the latest information about developments related to Form 1120-POL, such as legislation enacted after it was published, go to www.irs.gov/Form1120POL.

Reminder
For tax years beginning after 2015, the due date of filing Form 1120-POL is the 15th day of the 4th month after the end of the organization’s tax year.

How To Get Forms and Publications
Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:
- Download forms, instructions, and publications;
- Order IRIS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in recent years; and
- Sign up to receive local and national tax news by email.

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

General Instructions

Purpose of Form
Political organizations and certain exempt organizations file Form 1120-POL to report their political organization taxable income and income tax liability under section 527.

Phone Help
If you have questions and/or need help completing Form 1120-POL, please call 877-829-5500. This toll-free telephone service is available Monday through Friday.

Who Must File
A political organization, whether or not it is tax exempt, must file Form 1120-POL if it has any political organization taxable income.

Exempt organization that isn’t a political organization must file Form 1120-POL if it is treated as having political organization taxable income under section 527(f)(1).

Political Organizations
A political organization is a party, committee, association, fund (including a separate segregated fund described in section 527(f)(3) set up by a section 501(c) organization), or other organization, organized and operated primarily for the purpose of accepting contributions or making expenditures, or both, to influence the selection, nomination, election, or appointment of any individual to any public office or office in a political organization, or the election of Presidential or Vice Presidential electors. Political organizations include the following.

1. Principal campaign committee. If it is the political committee designated by a candidate for U.S. Congress as his or her principal campaign committee for purposes of section 302(g)(1) of the Federal Election Campaign Act of 1971 (52 U.S.C. section 30102(a)(1)) and section 527(h) of the Internal Revenue Code (26 U.S.C. section 527(h)).

If a candidate for U.S. Congress elects to make a designation under section 527(h), he or she must designate the principal campaign committee by attaching a copy of the Statement of Candidacy to Form 1120-POL. This can be either the Federal Election Commission’s Form 2, Statement of Candidacy, or an equivalent statement filed with the Federal Election Commission. The designation may also be made by attaching a signed statement with all of the following information:
- The candidate’s name and address;
- The candidate’s identifying number;
- The candidate’s party affiliation and office sought;
- The district and state in which the office is sought;
- The name and address of the principal campaign committee.

Note: If the candidate for U.S. Congress has a designation in effect from an earlier year, attach a copy of the earlier year’s designation to this year’s Form 1120-POL and check the appropriate box on the form. See Regulations section 1.527-9. If a candidate for U.S. Congress has only one political campaign committee, no designation is required. However, be sure to check the appropriate box on Form 1120-POL.

2. Newsletters fund, if it is a fund established and maintained by an individual who holds, has been elected to, or is a candidate (as defined in section 527(g)(3)) for nomination or election to any federal, state, or local elective public office. The fund must be maintained exclusively for the preparation and circulation of the individual’s newsletter.

3. Separate segregated fund, if it is maintained by a section 501(c) organization (except from tax under section 501(a)). For more information, see section 527(f)(3) and Regulations section 1.527-6(f).

Taxable Income
Political organization taxable income (line 19) is the excess of (a) gross income for the tax year (excluding exempt function income (defined later) over (b) deductions directly connected with the earning of gross income (excluding exempt function income). Taxable income is figured with the following adjustments.

1. A specific deduction of $100 is allowed (but not for newsletter funds).
2. The net operating loss deduction isn’t allowed.
3. The dividends-received deduction and other special deductions for corporations aren’t allowed. See section 527(c)(2).c.

Effect of failure to file Form 8871. Unless excepted (see other Reports and Returns That May Be Required, later) every political organization, in order to be considered a tax-exempt organization, must file Form 8871, Political Organization Notice of Section 527 Status. An organization that is required to file Form 8871 but fails to file it when due must include in taxable income for the period before Form 8871 is filed its exempt function income (including contributions received, membership dues, and political fundraising receipts), minus any deductions directly connected with the production of that income. The organization may not deduct its exempt function expenditures because section 162(e) denies a deduction for political campaign expenditures.

Exempt Function and Exempt Function Income
The exempt function of a political organization includes all activities that are related to and support the process of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office, or office of a political organization, or the election of Presidential or Vice Presidential electors, whether or not the individuals or electors are selected, nominated, elected, or appointed. The term “exempt function” also means the making of expenditures relating to the individual’s office, once selected, nominated, elected, or appointed, but only if the expenditures would be deductible by an individual under section 162(a).

Exempt function income is the total of all amounts received from the following sources (to the extent that they are separately segregated only for use for an exempt function):
- Contributions of money and property.
- Membership dues, fees, or assessments paid by a member of a political party.
- Proceeds from a political fundraising or entertainment event, or from the sale of political campaign materials, if those amounts aren’t received in the active conduct of a trade or business.
- Proceeds from the conduct of a bingo game, as described in section 513(f)(2).

Specified Taxable Income
Newsletter fund. Taxable income of a newsletter fund is figured in the same manner as taxable income of a political organization except that the specific deduction of $100 isn’t allowed.
Exempt organization that isn't a political organization. Taxable income for an exempt organization described in section 501(c) that isn't a political organization is the smaller of:

1. The net investment income of the organization for the tax year, or
2. The amount spent for an exempt function during the tax year either directly or indirectly through another organization.

Net investment income, for this purpose, is the excess of:

1. The gross amount of interest, dividends, rents, and royalties, plus the excess, if any, of gains from the sale or exchange of assets, over the losses from the sale or exchange of assets; and
2. The deductions directly connected with the production of this income.

Taxable income is figured with the adjustments shown in (1), (2), and (3) under Taxable income, earlier.

Who Must Sign

The return must be signed and dated by:

• The president, vice president, treasurer, assistant treasurer, chief accounting officer; or
• Any other officer (such as tax officer) authorized to sign.

Receivers, trustees, and assignees must also sign and date any return filed on behalf of an organization.

If an employee of the organization completes Form 1120-POL, the Paid Preparer Use Only area should remain blank. In addition, anyone who prepares Form 1120-POL but does not sign the organization shouldn’t complete that section. Generally, anyone who is paid to prepare the return must sign it and fill in the Paid Preparer Use Only area.

The paid preparer must complete the required preparer information:

• Sign the return in the space provided for the preparer’s signature, and
• Give a copy of the return to the taxpayer.

Note: A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program. Also, facsimile signatures are authorized.

Paid Preparer Authorization

If the organization wants to allow the IRS to discuss its 2017 tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the return. This authorization applies only to the individual whose signature appears in the Paid Preparer Use Only section of the return. It doesn’t apply to the firm, if any, shown in that section.

If the “Yes” box is checked, the organization is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The organization is also authorizing the paid preparer to:

• Give the IRS any information that is missing from its return;
• Call the IRS for information about the processing of its return or the status of any refund or payment(s); and
• Respond to certain IRS notices that the organization may have received with the preparer about mathematical errors, offsets, and return preparation. The notices won’t be sent to the preparer.

The organization isn’t authorizing the paid preparer to receive any refund check, bind the organization to anything (including any additional tax liability), or otherwise represent it before the IRS. If the organization wants to expand the paid preparer’s authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2018 tax return. If you want to revoke the authorization before it ends, see Pub. 947.

When and Where To File

In general, an organization must file Form 1120-POL by the 15th day of the 4th month after the end of the tax year.

If the due date falls on a Saturday, Sunday, or legal holiday, the organization may file on the next business day.

File Form 1120-POL with the Department of the Treasury Internal Revenue Service Center Ogden, UT 84201

If the organization’s principal business, office, or agency is located in a foreign country or a U.S. possession, the address for mailing their return should be:

Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

Private delivery services. Political organizations can use certain private delivery services (PDS) designated by the IRS to meet the “timely mailing as timely filing” rule for tax returns. Go to www.irs.gov/PDS for the current list of designated services.

The PDS can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you’re using PDS, go to www.irs.gov/PDSstreetAddresses.

CAUTION

PDS can’t deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Extension. File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request an extension of time to file.

Other Reports and Returns That May Be Required

An organization that files Form 1120-POL may also be required to file the following forms.

1. Form 8871.

Generally, to be tax exempt, a political organization must file this form within 24 hours of the date it is established and within 30 days of any material change in the organization. However, don’t file this form if the organization is:

• An organization that reasonably expects its annual gross receipts to always be less than $25,000;
• A political committee required to report under the Federal Election Campaign Act of 1971 (2 U.S.C. 431 et seq.);
• A political committee of a state or local candidate;
• A state or local committee of a political party; or
• A tax-exempt organization described in section 501(c) that is treated as having political organization taxable income under section 527(f)(1).

2. Form 8872, Political Organization Report of Contributions and Expenditures (periodic reports are required during the calendar year).

Generally, a political organization that files Form 8871 and accepts a contribution or makes an expenditure for an exempt function during the calendar year must file this form. However, this form isn’t required to be filed if the organization excepted from filing Form 8871 (see above), or a qualified state or local political organization (QSLPO) (see the Instructions for Form 8871), and Rev. Rul. 2003-49, 2003-20 I.R.B. 903, for the definition of a QSLPO).

3. Form 990, Return of Organization Exempt From Income Tax, or Form 990-EZ, Short Form Return of Organization Exempt From Income Tax.

An exempt political organization must also file one of these forms if its annual gross receipts are $25,000 or more ($100,000 or more for a QSLPO).

The following political organizations aren’t required to file Form 990:

• Any political organization excepted from the requirement to file Form 8871;
• Any caucus or association of state or local officials.

See the Instructions for Form 990 or Form 990-EZ.

Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the organization’s books and records. Generally, permissible methods include:

• Cash,
• Accrual, or
• Any other method authorized by the Internal Revenue Code.

In all cases, the method used must clearly show taxable income.

Change in accounting method. Generally, the organization may only change the method of accounting used to report taxable income (for income as a whole or for any material item) by getting consent on
Form 3115, Application for Change in Accounting Method. For more information, see Pub. 538, Accounting Periods and Methods.

Accounting Period
The organization must figure its taxable income on the basis of a tax year. The tax year is the annual accounting period the organization uses to keep its records and report its income and expenses; that period is a calendar year or a fiscal year. However, an organization that doesn’t keep books or doesn’t have an annual accounting period must use the calendar year as its tax year. A new organization must adopt its tax year by the due date (not including extensions) of its first income tax return.

Change of tax year. After the organization has adopted a tax year, it must file Form 1128, Application To Adopt, Change, or Retain a Tax Year. See Regulations section 1.442-1 and Pub. 538.

Rounding Off to Whole Dollars
The organization may round off cents to whole dollars on the return and accompanying schedules. If the organization does not round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Federal Tax Deposits Must Be Made by Electronic Funds Transfer
You must use electronic funds transfer to make all federal deposits (such as deposits of estimated tax, employment tax, and excise tax) electronically. Electronic fund transfers are made using the Electronic Federal Tax Payment System (EFTPS). If you don’t want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make payments for your behalf. Also, you may arrange for your financial institution to submit a same-day wire payment on your behalf. EFTPS is a fee service provided by the Department of the Treasury. Services provided by your tax professional, financial institution, payroll service, or other trusted third party may have a fee. To get more information about EFTPS or to enroll in EFTPS, visit www.EFTPS.gov or call 1-800-555-4477. Additional information about EFTPS is available in Pub. 966, Electronic Federal Tax Payment System: A Guide To Getting Started.

Depositing on time. For deposits made by EFTPS to be on time, you must submit the deposit by 8 p.m. Eastern time the day before the deposit is due. If you use a third party to make deposit on its behalf, they may have different cutoff times.

Same-day payment option. If you fail to submit a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the deposit is due, you can still make the deposit on time by using the Federal Tax Application (FTA). Before using the same-day payment option, you need to make arrangements with your financial institution and the IRS for processing FTA. To learn more about making a same-day payment and download the Same-Day Payment Worksheet, visit www.EFTPS.gov.

Deposits on business days only. If a deposit is required to be made on a day that isn’t a business day, the deposit is considered timely if it is made by the close of the next business day. A business day is any day other than Saturday, Sunday, or a legal holiday. For example, if a deposit is required to be made on a Friday and Friday is a legal holiday, the deposit will be considered timely if it is made by the following Monday (that Monday is a business day). The term “legal holiday” means any legal holiday in the District of Columbia.

If the organization owes tax when it files Form 1120-POL, don’t include the payment with the tax return. Instead, use EFTPS.

Interest and Penalties

Interest
Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatement, and substantial understatement of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

Penalties
Penalties are imposed if the organization is required to file Form 1120-POL and fails to file the form by the due date. The following penalties may apply if the organization doesn’t file its tax return by the due date, including extensions.

Late filing of return. The organization may be charged a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or $210. If you receive a notice about a penalty after you file this return, reply to the notice with an explanation and we will determine if you meet reasonable-cause criteria. Do not include an explanation when you file your return.

Late payment of tax. An organization that doesn’t pay the tax when due generally may have to pay a penalty of 1/2 of 1% of the unpaid tax for each month or part of a month the tax isn’t paid, up to a maximum of 25% of the unpaid tax. If you receive a notice about a penalty after you file this return, reply to the notice with an explanation and we will determine if you meet reasonable-cause criteria. Do not include an explanation when you file your return.

Other penalties. Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

Assembling the Return
Attach Form 4136, Credit for Federal Tax Paid on Fuels, after page 1 of Form 1120-POL. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

Complete every applicable entry space on Form 1120-POL. Do not write “See attached” instead of completing the entry spaces. If you need more space on the forms or schedules, attach separate sheets using the same size and format as on the printed forms. Show the totals on the printed forms. Attach these separate sheets after all the schedules and forms. Be sure to put the organization’s name and EIN on each sheet.

Specific Instructions

Period covered. File the 2017 return for calendar year 2017 and fiscal years that begin in 2017 and end in 2018. For a fiscal year, fill in the tax year space at the top of the form.

Note: The 2017 Form 1120-POL may also be used if:
- The organization has a tax year of less than 12 months that begins and ends in 2018, and
- The 2016 Form 1120-POL isn’t available at the time the organization is required to file its return. The organization must show its 2018 tax year on the 2017 Form 1120-POL and take into account any tax law changes that are effective for tax years beginning after 2017.

Address. Include the suite, room, or other unit number after the street address. If the Post Office doesn’t deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

Final return, name change, address change, amended return. If the organization ceases to exist, check the “Final return” box. If the organization has changed its name since it last filed a return, check the “Name change” box.

If the organization has changed its address since it last filed a return, check the “Address change” box.

Note: If a change in address occurs after the return is filed, the organization should use Form 8822-B, Change of Address or Responsible Party—Business, to notify the IRS of the new address.
Amended return. If you are filing an amended Form 1120-POL:
- Check the "Amended return" box,
- Complete the entire return,
- Correct the appropriate lines with the new information, and
- Refigure the tax liability.

Attach a sheet that explains the reason for the amendments and identifies the lines and amounts being changed on the amended return. Generally, the amended return must be filed within 3 years after the date the original return was due or 3 years after the date the organization filed it, whichever is later.

Employer Identification number (EIN). Enter the nine-digit EIN assigned to the organization. If the organization does not have an EIN, it must apply for one. An EIN can be applied for online by visiting the IRS website at www.irs.gov/EIN. The organization may also apply for an EIN by faxing or mailing Form SS-4 to the IRS. Customers outside the United States or U.S. possessions may also apply for an EIN by calling 267-941-1099 (toll call).

The online application process isn’t yet available for organizations with addresses in foreign countries.

If the organization hasn’t received its EIN by the time the return is due, write "Applied for" in the space provided for the EIN. See Pub. 583, Starting a Business and Keeping Records, for details.

Income and deductions. Campaign contributions and other exempt function income are generally not includible in income; likewise, campaign expenditures and other exempt function expenditures aren’t deductible. To be deductible in figuring political organization taxable income, expenses must be directly connected with the production of political organization taxable income. In those cases where expenses are attributable to the production of both exempt function income and political organization taxable income, the expenses should be allocated on a reasonable and consistent basis. Only the portion allocable to the production of political organization taxable income may be deducted. No deduction is allowed for general administrative or indirect expenses.

Line 7. Other income and nonexempt function expenditures. Enter the income from other sources, such as the following:
- Exempt function income that wasn’t properly segregated for exempt functions.
- Income received in the ordinary course of a trade or business.
- Ordinary income from the trade or business activities of a partnership (from Schedule K-1 (Form 1065), Partner’s Share of Income, Deductions, Credits, etc., Part III, box 1).
- Exempt function income (minus any deductions directly connected with the production of that income) taxable under section 527(f)(4) for failure to timely file Form 8271. Include amounts whether or not segregated for use for an exempt function.

Also include on this line:
- Expenditures that were made from exempt function income that weren’t for an exempt function and resulted in direct or indirect financial benefit to the political organization (see Regulations section 1.527-5 for examples), and
- Illegal expenditures.

Attach a schedule listing all income and expenditures included on line 7.

Line 17. Taxable income before specific deduction of $100. Political organizations, newsletter funds, and separate segregated funds figure their tax by subtracting line 16 from line 8 and enter the result on line 17(c).

Exempt organizations (section 501(c)) that aren’t political organizations. Complete lines 17a and 17b if the organization made exempt function expenditures that weren’t from a separate segregated fund. Enter on line 17c the smaller of line 17a or 17b. See Exempt organization that isn’t a political organization, earlier, for an explanation of the amounts to enter on these lines.

Line 19. Taxable income. If the taxable income on line 19 is zero or less, the Form 1120-POL isn’t required to be filed, but it may be filed to start the statute of limitations period.

Line 20. Income tax. The rate of tax imposed depends on whether the political organization is a principal campaign committee as defined in section 527(h).

The tax rate is lower for a principal campaign committee.

Political organization not a principal campaign committee (section 527(h)). A political organization that isn’t a principal campaign committee figures its tax by multiplying line 19 by 35% (0.35) and enters the result on line 20.

Principal campaign committee (section 527(h)). A political organization that is a principal campaign committee of a candidate for U.S. Congress figures its tax in the same manner as provided in section 11(b) for corporations. Figure the tax as follows.

1. Enter taxable income (line 19, Form 1120-POL)
2. Enter line 1 or $50,000, whichever is less
3. Subtract line 2 from line 1
4. Enter line 3 or $25,000, whichever is less
5. Subtract line 4 from line 3
6. Enter line 5 or $9,925,000, whichever is less
7. Subtract line 6 from line 5
8. Multiply line 2 by 15% (0.15)
9. Multiply line 4 by 25% (0.25)
10. Multiply line 6 by 34% (0.34)
11. Multiply line 7 by 30% (0.30)
12. If line 3 is greater than $100,000, enter the smaller of: 5% of taxable income in excess of $100,000, or $11,750
13. If line 5 is greater than $15 million, enter the smaller of: 3% of taxable income in excess of $15 million, or $100,000
14. Add lines 8 through 13. Enter here and on line 20, Form 1120-POL
Note: Estimated tax and alternative minimum tax don’t apply to political organizations.

Line 21. Tax credits. The organization may qualify for the following credits:
- Foreign tax credit. See Form 1118, Foreign Tax Credit—Corporations.
- Qualified electric vehicle credit (carryover ONLY). See Form 8834, Qualified Electric Vehicle Credit.
- General business credit (excluding the small employer health insurance premium credit, work opportunity credit, employee relocation credit (Form 5884-A), the production zone employment credit, the Indian employment credit, and the credit for employer differential wage payments). See Form 3800, General Business Credit.

Enter the total amount of qualified credits on line 21 and attach the applicable credit forms.

Line 22. Total tax. If the political organization must recapture any of the qualified electric vehicle credit, include the amount of the recapture in the total for line 22. On the dotted line next to the entry space, write “QEVC recapture” and the amount. See Regulations section 1.330-1 for details on how to figure the recapture.

What if You Can’t Pay in Full?
If you can’t pay the full amount of tax you owe, you can apply for an installment agreement online.

You can apply for an installment agreement online if:
- You can’t pay the full amount shown on line 24,
- The total amount you owe is $25,000 or less, and
- You can pay the liability in full in 24 months.

To apply using the Online Payment Agreement Application, go to www.irs.gov/OPA.

Under an installment agreement, you can pay what you owe in monthly installments. There are certain conditions you must meet to enter into and maintain an installment agreement, such as paying the liability within 24 months and making all required deposits and timely filing tax returns during the length of the agreement.

If your installment agreement is accepted, you will be charged a fee and you will be subject to penalties and interest on the amount of tax not paid by the due date of the return.

Additional Information

Question 1
Foreign financial accounts. Check the “Yes” box if either (1) or (2) below applies to the organization. Otherwise, check the “No” box.
1. At any time during the 2017 calendar year, the organization had a financial interest in or signature or other authority over a bank, securities, or other types of financial accounts in a foreign country; and
2. The combined value of the accounts was more than $10,000 at any time during the calendar year; and
3. The accounts weren’t with a U.S. military banking facility operated by a U.S. financial institution.

If “Yes” is checked for this question, file FinCEN Form 114 electronically with the Department of the Treasury using FinCEN’s BSA E-Filing System. Because FinCEN Form 114 is not a tax form, don’t file it with Form 1120-POL.

See www.FINCEN.gov for more information.

Also, if “Yes” is checked for this question, enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.

Question 2
If you checked “Yes” to Question 2, the organization may be required to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. For details, see the Instructions for Form 3520.

Note: An owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner. For details, see the Instructions for Form 3520-A.

Question 3
In the space provided, show any tax-exempt interest income received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You aren’t required to provide the information requested on this form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for Form 1120.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can send us comments from www.irs.gov/FormComments. Or you can write to:

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

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

Do not send the form to this office. See When and Where To File, earlier.
Pennsylvania Schedule of Allowable Employee Business Expenses
# PA Schedule UE

**Allowable Employee Business Expenses**

**2017**

**Start**

**Name of taxpayer claiming expenses**

**Employer's Name**

**Employer's address**

**Employer's Identification Number**

**Employer's Telephone Number**

**Social Security Number (shown first)**

---

**CAUTION:** You must complete a separate schedule for each job or position. Spouses may not file joint PA Schedule(s) UE.

## Part A. Direct Employee Business Expenses.

1. **Union dues.** List union name(s) and amount(s) paid. Enter the total. Submit additional sheets, if needed.
   
   **Name of union(s) and amount(s):**
   
   1.

2. **Work clothes and uniforms.** Needed for your employment and not suitable for everyday use.
   
   **Description:**
   
   2.

3. **Small tools and supplies.** Needed for your employment and not provided by your employer.
   
   **Description:**
   
   3.

4. **Professional license fees, malpractice insurance and fidelity bond premiums.** Required as a condition of your employment.
   
   **Description:**
   
   4.

5. **Total Direct Employee Business Expenses.** Add Lines 1 through 4.
   
   5.

## Part B. Business Travel Expenses.** You may only use the amounts from Line 1 of federal Forms 2106 or 2106-EZ. CAUTION: You may not use the vehicle expense amounts from federal Forms 2106 or 2106-EZ if you are commuting miles between jobs for different employers.

**Vehicle Expenses: Standard Mileage Rate.**

6. Enter the amount from your Form 2106 or 2106-EZ, OR:
   
   **Enter your total business miles** and multiply by the federal standard mileage rate.
   
   6.

**Vehicle Expenses: Actual Travel and Mileage Expenses.**

7. Enter the amount from your Form 2106. Make the following adjustments:
   
   7.

8. **Optional Depreciation.** You may use any generally accepted method. If not using your Form 2106, enter your allowable depreciation expenses, and the method you use.
   
   8.

9. **Actual Travel and Mileage Expenses for PA Purposes.** Total Lines 7 through 9.
   
   9.

## Part C. Miscellaneous Expenses.** Itemize your additional expenses.

10. **Total Miscellaneous Expenses.**
   
   10.

**Total Allowable PA Employee Business Expenses.** You must account for reimbursements, if any.

11. **Direct Expenses from Line 5.**

12. **Business Travel Expenses from Line 14.**

13. **Miscellaneous Expenses from Line 15.**

14. **Office or Work Area Expenses from Line 16, on Side 2.**

15. **Moving Expenses from Line 19, on Side 2.**

16. **Education Expenses from Line 23, on Side 2.**

17. **Total Depreciation Expenses from Line 24, on Side 2.**

18. **Total Allowable Employee Business Expenses, Add Lines A through G.**

19. **Reimbursements.** See the instructions.

20. **Net expense or reimbursement.** Subtract Line 1 from Line H. Enter the difference, and:

   - If Line H is MORE than Line I, include on Line 1b, on your PA-40.
   - If Line I is MORE than Line H, include the excess on Line 1a, on your PA-40.

   Nonresidents and part-year residents may also need to complete PA Schedule NRH. See instructions.

---

**Side 1**
### Part D. Office or Work Area Expenses

You must answer all three questions or the Department will disallow your expenses.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>D1. Does your employer require you to maintain a suitable work area away from the employer's premises?</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>D2. Is this work area the principal place where you perform the duties of your employment?</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>D3. Do you use this work area regularly and exclusively to perform the duties of your employment?</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

If you answer YES to all three questions, continue. If you answer NO to any question, you may not claim office or work area expenses.

### Actual Office or Work Area Expenses

Enter expenses for the entire year and then calculate the business portion.

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation expense (homeowners only)</td>
<td>a.</td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>b.</td>
</tr>
<tr>
<td>Mortgage interest (homeowners only)</td>
<td>c.</td>
</tr>
<tr>
<td>Utilities</td>
<td>d.</td>
</tr>
<tr>
<td>Property insurance</td>
<td>e.</td>
</tr>
<tr>
<td>Property maintenance expenses from statement</td>
<td>f.</td>
</tr>
<tr>
<td>Other apportionable expenses from statement</td>
<td>g.</td>
</tr>
<tr>
<td>Rent (renters only)</td>
<td>h.</td>
</tr>
<tr>
<td>Total</td>
<td>i.</td>
</tr>
</tbody>
</table>

#### Business percentage of property

Divide the total square footage of your work area by the total square footage of your entire property. Round to 2 decimal places.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>j.</th>
</tr>
</thead>
</table>

#### Apportioned expenses

Multiply Line i by the percentage on Line j.

<table>
<thead>
<tr>
<th>Amount</th>
<th>k.</th>
</tr>
</thead>
</table>

#### Total office supplies from statement

See the instructions.

<table>
<thead>
<tr>
<th>Amount</th>
<th>l.</th>
</tr>
</thead>
</table>

### 16. Total Office or Work Area Expenses

Add lines k and l.

<table>
<thead>
<tr>
<th>Amount</th>
<th>16.</th>
</tr>
</thead>
</table>

### Part E. Moving Expenses

#### Distance Test

<table>
<thead>
<tr>
<th>Distance</th>
<th>Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>E1. Enter the number of miles from your old home to your new workplace.</td>
<td>E1.</td>
</tr>
<tr>
<td>E2. Enter the number of miles from your old home to your new workplace.</td>
<td>E2.</td>
</tr>
<tr>
<td>E3. Subtract Line E2 from Line E1 and enter the difference.</td>
<td>miles</td>
</tr>
</tbody>
</table>

If Line E3 is 35 miles or more, continue. If it is not at least 35 miles, you may not claim any moving expenses.

#### Transportation expenses in moving household goods and personal effects

<table>
<thead>
<tr>
<th>Amount</th>
<th>17.</th>
</tr>
</thead>
</table>

#### Travel, meals, and lodging expenses during the actual move from your old home to your new home

<table>
<thead>
<tr>
<th>Amount</th>
<th>18.</th>
</tr>
</thead>
</table>

#### 19. Total Moving Expenses

Add Lines 17 and 18.

<table>
<thead>
<tr>
<th>Amount</th>
<th>19.</th>
</tr>
</thead>
</table>

### Part F. Education Expenses

You must answer all three questions or the Department will disallow your expenses.

<table>
<thead>
<tr>
<th>Question</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1. Did your employer (or law) require that you obtain this education to retain your present position or job?</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>If you answer YES, continue. If you answer NO, you may not claim education expenses.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F2. Did you need this education to meet the entry level or minimum requirements to obtain your job?</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>F3. Will this education, program or course of study qualify you for a new business or profession?</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

If you answer NO to questions F2 and F3, continue. If you answer YES to either question, you may not claim education expenses.

#### Name of college, university or educational institution

<table>
<thead>
<tr>
<th>Institution</th>
</tr>
</thead>
</table>

#### Course of study

<table>
<thead>
<tr>
<th>Study</th>
</tr>
</thead>
</table>

### Part G. Depreciation Expenses

PA law does not allow any federal bonus depreciation and limits IRC Section 179 expensing to $25,000.

<table>
<thead>
<tr>
<th>Description of property</th>
<th>Date acquired</th>
<th>Cost or other basis</th>
<th>Depreciation method</th>
<th>Section 179 expense</th>
<th>Depreciation expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. Total Depreciation Expenses. Add the amounts from columns (e) and (f).

<table>
<thead>
<tr>
<th>Amount</th>
<th>24.</th>
</tr>
</thead>
</table>
Instructions for Form PA-UE
WHAT'S NEW
Separate filing instructions for PA-40 Schedule UE, Allowable Employee Business Expenses, have been developed by the department.

GENERAL INFORMATION
PURPOSE OF SCHEDULE
Use PA-40 Schedule UE to report unreimbursed employee business expenses incurred in the performance of the duties of the taxpayer's job or profession.

Refer to Chapter 7 of the PA PIT Guide for additional information.

RECORDING DOLLAR AMOUNTS
Show money amounts in whole-dollars only. Eliminate any amount less than $0.50 and increase any amount that is $0.50 or more to the next highest dollar.

WHO MUST COMPLETE
PA-40 Schedule UE must be completed and included with an originally filed PA-40, Personal Income Tax Return, for any taxpayer reporting unreimbursed employee business expenses on Line 1b of the PA-40.

An amended PA Schedule UE must be included with Schedule PA-40X to report any changes - increases or decreases - in business expense amounts on PA Schedule UE that are discovered after an original or other amended return is filed with the department. Part III on Page 2 of Schedule PA-40X must be completed to explain any increase or decrease to the unreimbursed employee business expenses reported on an amended PA-40, Personal Income Tax Return.

FORM INSTRUCTIONS
IDENTIFICATION INFORMATION
Name of Taxpayer Claiming Expenses
Enter the name of the taxpayer claiming the expenses. If a jointly filed return and the expenses are claimed for the spouse, enter the spouse’s name.

Social Security Number
Enter the Social Security number (SSN) of the primary taxpayer (name shown first on the PA-40, Personal Income Tax Return) even if the expenses are claimed for the spouse on a jointly filed return.

Employer’s Name
Enter the name of the employer for which the expenses were incurred.

Employer’s Address
Enter the employer’s local address.

Employer’s Identification Number
Enter the employer identification number from Box b of the W-2 for the employer.

Duties of the Job
Describe the duties of the job in which the expenses were incurred.

Employer’s Telephone Number
Enter the employer’s local telephone number.

GENERAL INSTRUCTIONS
Allowable employee business expenses for PA purposes are similar to, but not the same as, expenses for federal purposes. PA law only permits expenses required to perform the duties of a job or profession.

Allowable Pennsylvania employee business expenses must be:
1. Ordinary, customary, and accepted in the industry or occupation;
2. Actually paid while performing the duties of the employment;
3. Reasonable in amount and not excessive;
4. Necessary to enable the proper performance of the duties of the employment; and
5. Directly related to performing the duties of the occupation or employment.

IMPORTANT: 100 percent of the Pennsylvania-allowable unreimbursed employee business expenses may be deducted. Pennsylvania law does not have federal expense and percentage accounting limitations and thresholds.

An allowable business expense did not occur during the year if:
- A fixed-mileage allowance; a fixed expense reimbursement amount; a daily, weekly, monthly or yearly expense allowance reimbursement; or a per-diem allowance was received for the allowable business expense, and the employer did not include the allowance in compensation; or
- Allowable expenses were accounted to the employer and the employer reimbursed the employee in the exact amount of the expenses.

EXAMPLE: James is a regional manager for a chain of retail stores and is required by his employer to drive his personal vehicle and visit each retail location within his region at least one time per month. James’ employer reimburses him at a rate of $0.40 per mile and provides a lunch per diem of $8.00 per travel day. James is not permitted to deduct a mileage expense on his PA-40 Schedule UE for the difference between the federal allowance and his employer’s reimbursement or an expense for meals while traveling to visit the retail locations within his region unless his employer includes the reimbursements in his Pennsylvania compensation.

CAUTION: If an employer reimburses at a rate less than the federal rate for the mileage expense
or provides a fixed or per-diem reimbursement for any expense, do not include such reimbursements in gross compensation. Do not claim such expenses on a PA-40 Schedule UE.

If an employer does not reimburse for expenses, compensation may be reduced by the allowable expenses. However, if a reimbursement is more than the allowable expenses, the excess must be reported as taxable compensation on Line 1a.

EXAMPLE: Dave earned compensation of $30,000. He incurred allowable vehicle and travel employee business expenses of $3,000, and was reimbursed $3,500. He must complete a PA-40 Schedule UE. He includes the excess $500 as compensation. His total net taxable compensation is $30,500.

**IMPORTANT:** Sole proprietors, partners, shareholders, or other self-employed individuals should not use PA-40 Schedule UE to claim expenses.

**CAUTION:** Nonresidents must use PA Schedule NRH to apportion expenses for personal income tax purposes. Part-year residents may only claim 100 percent of unreimbursed business expenses if the expenses were incurred only while providing services in Pennsylvania or while a PA resident. Include a statement indicating the method used to determine the expenses for the period of residency (PA Schedule NRH may also be used for this purpose).

**Non-Allowable Expenses**

Pennsylvania does not allow the following business expenses, even if allowed for federal purposes:
- Personal, living, or family expenses;
- Dues to fraternal organizations, professional societies, Chambers of Commerce, or recreational club memberships;
- Dues and subscriptions to publications, including trade and professional publications;
- Political candidate or campaign contributions;
- Charitable contributions;
- Commuting expenses—driving to and from work;
- Cost of meals while working late, unless while traveling away from home overnight on business;
- Childcare or elderly care expenses;
- Life, disability income and health insurance premiums;
- Contributions to deferred compensation plans or other pension plans;
- Legal fees (except to recover back wages), fines, penalties and bad debts;
- Bribes, kickbacks, or other illegal payments;
- Job hunting or other pursuit of employment expenses;
- Malpractice insurance premiums, except when allowed in Part A;
- Moving expenses, except when allowed in Part E;
- Educational expenses, except as allowed in Part F;
- Capital expenditures; and/or
- Expenses calculated at federal per-diem rates.

A separate PA-40 Schedule UE must be filed for each employer and each taxpayer. Spouses may not report joint expenses on a PA Schedule UE, even if filing jointly and even from the same employer. An incomplete schedule may result in delays in the processing of a return and/or denial of the expenses.

**Keep Your Records**

The department has the legal authority to require evidence that the expenses claimed on a PA Schedule UE are allowable for PA purposes. Keep all necessary documents, receipts, vouchers and other records for at least four years.

**PA-40 Schedule UE - Side 1**

Side 1 of the PA-40 Schedule UE is for the most common expenses claimed on PA income tax returns.

**PA-40 Schedule UE - Side 2**

Side 2 of the PA-40 Schedule UE is for reporting office or work area expenses, moving expenses, education expenses and/or depreciation expenses claimed as unreimbursed business expenses on PA income tax returns.

Taxpayers may wish to provide with the PA-40 Schedule UE a copy of a letter from the employer verifying that expenses are required to be incurred to perform the duties of the position for which the expenses are claimed and the method of any reimbursement by the employer for those expenses. Form REV-757, Employer Letter Template, should be completed by the employer for such purposes. In lieu of an employer letter, a taxpayer may provide a copy of the employer's employee expense reimbursement policy or Form REV-775, Personal Income Tax Employee Business Expense Affidavit. Reviews of the department’s Tips For Successfully Filing PA Schedule UE (REV-489) and Unreimbursed Allowable Employee Business Expenses For PA Personal Income Tax Purposes brochure (REV637) should also be conducted prior to completing PA-40 Schedule UE.

**LINE INSTRUCTIONS**

**PA-40 SCHEDULE UE SIDE 1**

**PART A, DIRECT EMPLOYEE BUSINESS EXPENSES**

Direct employee business expenses are those paid directly or through a withholding arrangement with an employer. These expenses are necessary to perform or maintain a job. Itemize the nature and amount of the expenses claimed in Part A.

**LINE 1**

Enter the amount of union dues, assessments, and initiation fees paid if the amounts are:
- Paid as a condition of continued membership in the union, and membership is related directly to the job for which the expense is claimed; or
- A required payment of a wage deduction under an agency shop agreement.

**LINE 2**

Enter the amount paid for purchasing and maintaining uniforms and work clothing used for the protection from bodily injury if the uniforms and clothing are both:
- Of a type specifically required by the employer to be purchased as a condition of continued employment; and
- Not adaptable to general usage.
LINE 3
Enter the amount paid for small tools and supplies that the employer does not provide, but are required to perform the duties of the job. Depreciation is the annual deduction that must be taken to recover the cost of business property having a useful life beyond the taxable year. If any of these tools or supplies has a useful life of more than one year, depreciate or amortize the cost in Part G.

LINE 4
Enter the amount of trade, professional or occupational license fees required as a condition of employment as well as any malpractice insurance and fidelity bond premiums where required by law or by the employer.

LINE 5
Add Lines 1 through 4 and enter the result.

PART B, BUSINESS TRAVEL EXPENSES

LINE 6
Enter the amount from federal Form 2106 or federal Form 2106-EZ. Otherwise, enter the total business miles and multiply by the federal mileage allowance to calculate the allowable business mileage expense.

CAUTION: Depreciation may not be claimed on any vehicle on which the standard mileage rate method is used.

Commuting Expenses
The costs of public transportation or driving a car between a home and the main place of work may not be claimed. These are personal commuting expenses. Commuting expenses may not be deducted no matter how far a home is from the regular place of work. Commuting costs between different jobs for different employers are also not allowable. For tradesmen, commuting costs also include mileage for any job 35 miles or fewer from the closer of the union hall or personal residence to the jobsite.

Vehicle Expenses – Actual
Pennsylvania does not follow the federal floor limitations on allowable expenses. Allowable actual vehicle expenses may always be claimed for Pennsylvania purposes. Start with the federal form and adjust for PA purposes.

LINE 7
Enter the actual vehicle expenses from federal Form 2106.

LINE 8
Enter the federal "Inclusion Amount" since this rule does not apply for PA purposes.

LINE 9
Enter the amount of depreciation expense determined for the vehicle. Any generally accepted depreciation method may be used except any of the bonus depreciation elections enacted for federal purposes. If using a different method for Pennsylvania purposes, enter the method used and the adjusted expense here. If the adjusted basis for determining Pennsylvania depreciation is different than the federal basis, the straight-line depreciation method must be used for determining Pennsylvania depreciation.

LINE 10
Add Lines 7, 8, and 9 and enter the result.

Other Business Travel Expenses
Enter the actual amount of these expenses that were incurred.

CAUTION: Deductible expenses may not be based upon federal per-diem allowances. Only those expenses actually paid while performing the duties of the employment may be deducted.

LINE 11
Enter the amount of parking fees, tolls and transportation expenses incurred while in an overnight or business travel status.

LINE 12
Enter the amount of hotel or motel accommodation expenses incurred while in an overnight travel status.

LINE 13
Enter only the actual expenses incurred for meals and entertainment expenses.

CAUTION: Meals and entertainment expenses are 100 percent allowable for Pennsylvania purposes. However, meals while not in overnight traveling status (e.g., meals while working late) and federal per-diem rates for meals and incidental expenses are not allowable.

LINE 14
Add Lines 6 or 10, and Lines 11, 12, and 13 and enter the result.

PART C, MISCELLANEOUS EXPENSES

Enter the description and amount of all Pennsylvania-allowable expenses incurred not required to be listed elsewhere on PA-40 Schedule UE in the space provided. If there are more than two miscellaneous expenses, a separate statement that itemizes and describes in detail these expenses must be provided. Additional examples of expenses that may be claimed include:

- Breakage fees or cash shortages required to be paid to the employer;
- Fees or income included in Pennsylvania-taxable compensation on Form W-2 that is required to be paid to the employer as a condition of employment;
- Costs incurred by blind employees to pay readers who assist them in performing their job duties;
- Business gifts that are ordinary, necessary, reasonable, and actually incurred for business purposes. Pennsylvania does not follow federal percentage limits on such expenses.

CAUTION: Pennsylvania law does not contain statutory employee provisions. If a statutory employee for federal purposes, the W-2 income must be claimed as compensation on PA-40 Schedule W-2S and the business expenses on PA-40 Schedule UE. All other income and expenses should be reported on PA-40 Schedule C and Line 4 of the PA-40, Personal Income Tax Return. If applicable, enclose the necessary PA Schedule C.
For more information on statutory employees, see Chapter 7 of the PA PIT Guide.

**TIP**
APA-40 Schedule C may be used to report the allocated business expenses of a statutory employee. Enter “See Attached Schedule C” in the Miscellaneous Expenses description line along with the total allocated expenses. Include a copy of the PA-40 Schedule C to support the amount of expenses allocated to the PA-40 Schedule UE. The allocated expense PA-40 Schedule C should include “Statutory Employee Expenses” as the main business activity on Line A and should not include income on Lines 1 through 5 of the schedule as the income will be reported on PA-40 Schedule W-2S. A separate PA-40 Schedule C for any other business income and expenses may also need to be completed for any related non-statutory employee activity.

**LINE 15**
Add the miscellaneous expenses listed and enter the result.

**TIP**
If there are no expenses for an office or work area (Part D), moving (Part E), education (Part F), or depreciation (Part G), Skip Side 2 of the PA-40 Schedule UE and complete Lines H through J of the Schedule.

**TOTAL ALLOWABLE PA EMPLOYEE BUSINESS EXPENSES**

**LINES A THROUGH G**
Complete Lines A through G by entering the amount of allowable expenses from each completed part of PA-40 Schedule UE.

**LINE H**
Add Lines A through G and enter the result.

**CAUTION:** Nonresident or part-year residents who earned income and incurred expenses within and outside Pennsylvania must complete PA Schedule NRH. Report the amount on Line H of the PA-40 Schedule UE on Line 13 of Section D of the PA-40 Schedule NRH. Include PA-40 Schedule NRH with the PA-40, Personal Income Tax Return.

**LINE I**
If an employer included the reimbursement in PA-taxable compensation on Form W-2, do not enter that reimbursement here. If the reimbursements from an employer exceeded the expenses, enter the reimbursement here. Otherwise, if a reimbursement from an employer was received for any type of expense included on PA Schedule UE, even though the amount was less than the total amount of the expense incurred, do not include the reimbursements for those expenses and do not include the expense on PA Schedule UE. The expense is not an unreimbursed expense.

**LINE J**
Determine the net expense reimbursement by subtracting Line I from Line H. Report the amount as:
- Unreimbursed employee business expenses on Line 1b of the PA-40, Personal Income Tax Return, if Line H is more than Line I; or
- Additional compensation on Line 1a of the PA-40, Personal Income Tax Return, if Line I is more than Line H.

**CAUTION:** Nonresident or part-year residents who earned income and incurred expenses within and outside Pennsylvania must complete PA Schedule NRH. Report the amount on Line H of the PA-40 Schedule UE on Line 13 of Section D of the PA-40 Schedule NRH. Include PA-40 Schedule NRH with the PA-40, Personal Income Tax Return.

**ACTUAL OFFICE OR WORK AREA EXPENSES**

Enter the actual expenses incurred if claiming office or work area expenses on this schedule. Include statements detailing property maintenance and other apportionable expenses from Lines f and g.

**LINE a**
Enter the depreciation expense for a home only. Do not include depreciation for furniture and fixtures.

**LINE b**
Enter the total amount of real estate taxes paid.

**LINE c**
Enter the total amount of mortgage interest paid for a home only.

**LINE d**
Enter the total amount of utilities for gas, electric, fuel oil, kerosene, steam, and/or telephone.

**CAUTION:** Certain utilities, which are not subject to sales and use tax when purchased exclusively for residential use, become subject to sales and use tax when used for commercial purposes. If including electricity, natural gas, fuel oil, or kerosene in the calculation of home office expense, use tax on the prorated expense amount should be reported Line 25 of the PA-40, PA-40, Personal Income Tax Return.

**LINE e**
Enter the amount paid for property insurance.
Enter the amount paid for property maintenance expenses. Include a statement listing the expenses by type and amount. Do not include capital expenditures that improve the useful life or value of the property.

Enter the amount of other expenses related to the property. Do not include personal living expenses. Include a statement listing the expenses by type and amount.

If a renter, enter the amount of rent paid for the dwelling.

Add Lines a through h and enter the result.

Calculate the percentage of the property used for business by dividing the square footage of the property used for a work area by the total square footage of the entire property or dwelling. Enter the amount as a percentage and carry the amount to two decimal places.

Calculate the apportioned expenses. Multiply the amount on Line i by the percentage on Line k and enter the result.

Enter the total amount paid for office supplies used exclusively for business purposes. Include a statement listing the expenses by type and amount.

Add Lines k and l and enter the result here and on Line D on Side 1 of this PA-40 Schedule UE.

Moving expenses incurred to retain employment may be deducted. Moving expenses may also be deducted if the expenses are related to reporting to a new location after obtaining employment. However, the Distance Test described below must be met.

Allowable expenses incurred in moving yourself, your immediate family, household goods, and personal belongings, including the cost of transportation to the new home, using actual out-of-pocket costs or the federal mileage allowance may be deducted. Expenses for storing household goods, for meals and lodging on the way, including such costs on the day of arrival, and parking fees and tolls may be deducted.

The following expenses may not be deducted:
- selling or purchasing a house;
- breaking a lease;
- house hunting;
- temporary lodging prior to or after moving to the new location;
- seeking new employment;
- moving for your own convenience;
- relocating to a new job or workplace less than 35 miles farther than the old commute to work; or
- moving anywhere other than within or into Pennsylvania.

Distance Test
The new workplace must be at least 35 miles farther from the old residence than the old workplace was. To determine if this test is met, complete Lines E1, E2, and E3.

Enter the number of miles from the old home to the new workplace by the shortest route.

Enter the number of miles from the old home to the new workplace by the shortest route.

Subtract Line E2 from Line E1. If less than 35 miles, moving expenses may not be deducted. Do not complete Lines 17, 18 and 19.

EXAMPLE: If the old workplace was three miles from the old residence, the new workplace must be at least 36 miles from the old residence. Measure the distance using the shortest of the most commonly traveled routes.

IMPORTANT: Persons in the military do not have to meet the distance test if the move is a permanent change of duty station. If a military family with dependents are moving to the new duty station from different locations, all the allowable expenses for each family member and dependent may be claimed.

Enter the amount of actual allowable transportation expenses paid directly by the taxpayer for moving the household goods and personal effects as well as an in-transit storage fees.

Enter the amount out-of-pocket costs paid for qualifying expenses for travel, meals and lodging along the way, parking fees and tolls during the move.

Add Lines 17 and 18 and enter the result here and on Line E on Side 1 of this PA-40 Schedule UE.

PART F, EDUCATION EXPENSES
The federal and PA rules for educational expenses are similar, but not exactly the same. For PA purposes, costs for education expenses that are paid or incurred are allowable only if:

- The education is specifically required by law or by the employer to retain an established employment status or rate of compensation; and
- The education is not part of a program that would qualify an employee for a new occupation, trade, or business, even if the employee does not intend to enter that new occupation, trade, or business.

Unlike federal rules, education expenses incurred to maintain or improve skills may not be deducted.

EXAMPLE: Anthony is a licensed professional in a position that, by law, requires a specific number of continuing education credits every other year. If Anthony fails to obtain these credits, he will lose his license. Anthony also takes courses in using a computer to...
improve his job performance. Anthony may claim the cost of his continuing education courses. He may not claim the computer courses.

**LINE F1**

An answer must be provided for question F1 for all education expenses even if reporting the expense as a miscellaneous expense in Part C on Side 1 of this PA-40 Schedule UE. If the answer is YES, continue. If the answer is NO, education expenses may not be claimed.

**LINES F2 AND F3**

Answers to questions F2 and F3 must also be provided. If the answer is NO to both questions, continue. If the answer is YES to either question, no education expenses may be claimed.

Enter the name of the college, university, or educational institution attended, and the specific course of study. All education expenses must meet the requirements described above.

**LINE 20**

Enter the amount of tuition or fees actually paid.

**LINE 21**

Enter the costs of books and other materials required for the courses.

**LINE 22**

Enter the cost of travel to and from the educational facility. Pennsylvania follows the federal rules for travel expenses for education.

**CAUTION:** Travel as educational expenses may not be deducted even if claiming that the travel itself constitutes a form of education.

**LINE 23**

Add Lines 20, 21 and 22 and enter the result here and on Line F on Side 1 of this PA-40 Schedule UE.

**PART G, DEPRECIATION EXPENSES**

Depreciation is the amount of expense claimed over the useful life of property used in performing the duties of employment. A depreciation expense is allowable if the property:

- Has a useful life exceeding one year; and
- Is required to be regularly and predominantly used to perform the duties of employment; and
- Is required and not provided or supplied by the employer.

PA law allows generally accepted depreciation methods and current expensing. PA law does not allow federal bonus depreciation. PA law limits IRC Section 179 expensing. The department accepts most generally accepted methods of calculating depreciation used for federal purposes.

**TIP**

Do not use Part G to report all depreciation. Use Part B for vehicles and Part D for office or work area depreciation of a home. Fair market value of property is not an acceptable other basis. Part G may be used to report depreciation of office furniture, fixtures and equipment used in the work or office area reported in Part D. Part G should also be used to report depreciation for any other equipment required to be purchased by an employee to perform the duties of the employment.

**Column (a)**

Enter the description(s) of the property being depreciated.

**Column (b)**

Enter the date the property being depreciated was acquired.

**Column (c)**

Enter the cost or adjusted basis of the property being depreciated.

**Column (d)**

Enter the depreciation method chosen for calculating the depreciation expense.

**IMPORTANT:** Once a depreciation method has been selected, it must be consistently used and may not change without permission from the PA Department of Revenue.

**Column (e)**

Enter any PA Section 179 expense claimed on the asset. Refer to Informational Notice Personal Income Tax 2012-05 - IRC Section 179 Expense Deductions for additional information.

**Column (f)**

Enter the amount of depreciation expense for the year using the depreciation method described in Column (d).

**LINE 24**

Add Columns (e) and (f) and enter the total here and on Line G on Side 1 of this PA-40 Schedule UE.
Connect with Your Constituents on Personal Finance

Speak directly to the people you serve about the day-to-day concerns that matter most:

- Budgeting
- Saving For College
- Spending Down Retirement Savings
- Protecting Yourself from Fraud and Identity Theft

A local CPA will work with you to schedule an appearance on PCN TV or conduct a town hall meeting in your area.

Contact communications@picpa.org for more details. This is a free PICPA program.