



Instructions for Form 2106

Employee Business Expenses

Section references are to the Internal Revenue Code.

General Instructions

What's New

- The standard mileage rate is 37.5 cents for each mile of business use in 2004.
- New rules apply to the depreciation of vehicles acquired by trade-in. See the instructions for Section D on page 5.
- The maximum section 179 deduction for certain sport utility and other vehicles placed in service after October 22, 2004, is \$25,000. See the instructions for line 31 on page 5.

Purpose of Form

Use Form 2106 if you are 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 does not have to be required to be considered necessary.

You may be able to file Form 2106-EZ, Unreimbursed Employee Business Expenses, provided you use the standard mileage rate (if claiming vehicle expense) and were not reimbursed by your employer for any expense. See Form 2106-EZ to find out if you qualify to file it.

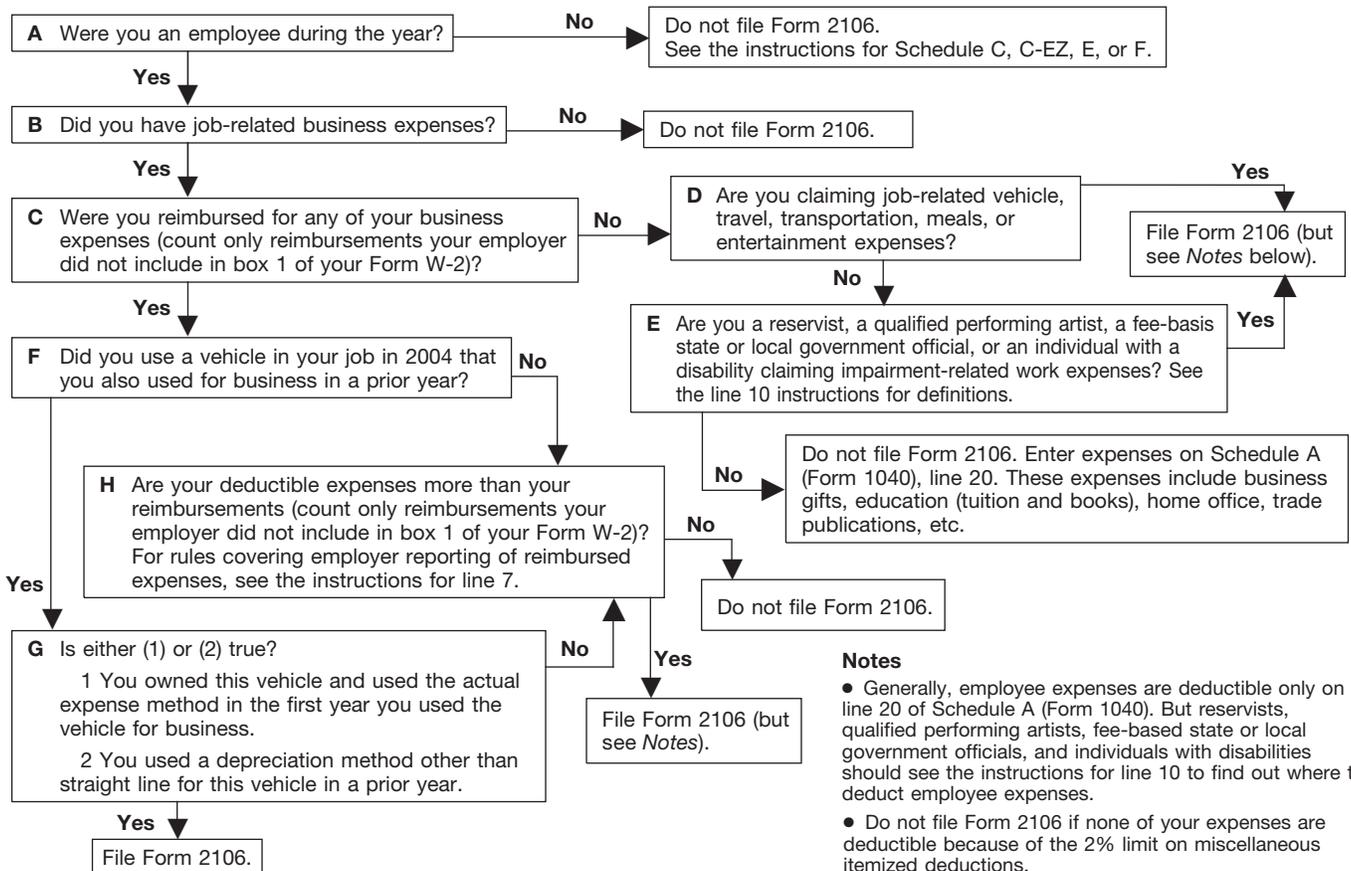
Recordkeeping

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

Additional Information

For more details about employee business expenses, see:

Who Must File Form 2106



- 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 were not reimbursed for your expenses, skip line 7 and complete the rest of Part I.

Step 1—Enter Your Expenses

Line 1. If you were a rural mail carrier, you can deduct the larger of your vehicle expenses or your qualified reimbursements. 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 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 do not exceed the amount that would have been paid under the 1991 collective bargaining agreement (adjusted for changes in the Consumer Price Index since 1991). If your vehicle expenses are:

- Less than or equal to your qualified reimbursements, you do not have to file Form 2106 unless you have deductible expenses other than vehicle expenses. If you have deductible expenses other than vehicle expenses, skip line 1 and do not include any qualified reimbursements in column A on line 7.
- More than your qualified reimbursements, complete Part II of Form 2106. Enter your total vehicle expenses from line 22 or line 29 on line 1 and the amount of your qualified reimbursements in column A on line 7.

Line 2. 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 later). Do not include expenses for meals and entertainment. For more details, including limits, see Pub. 463.

Incidental expenses. Instead of keeping records of your actual incidental expenses, you can use an optional method for deducting incidental expenses only if you did not pay or incur meal expenses on a day you were traveling away from your tax home. The amount of the deduction is \$3 a day. Incidental expenses include fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries. They do not include expenses for laundry, cleaning and pressing of clothing, lodging taxes, or the costs of telegrams or telephone calls. You cannot use this method on any day that you use the standard meal allowance (as explained in the instructions for line 5).

Tax home. Generally, your tax home is your main place of business or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit in either of these categories, you are considered an itinerant and your tax home is wherever you work. As an itinerant, you are never away from home and cannot claim a travel expense deduction. For more details on your tax home, see Pub. 463.

Generally, you cannot deduct any expenses for travel away from your tax home for any period of temporary employment of more than 1 year. However, this rule does not apply for any period in which you were a federal employee certified by the Attorney General as traveling in temporary duty status for the U.S. government to investigate or prosecute a federal crime (or to provide support services for the investigation or prosecution of that crime).

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

on Form 1040, line 23, or any tuition and fees you deducted on Form 1040, line 27.

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 for a cellular telephone or other similar telecommunications equipment, a home computer, etc., see Form 4562, Depreciation and Amortization, to figure the depreciation and section 179 deduction to enter on line 4.

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

Do not include expenses for meals and entertainment, taxes, or interest on line 4. Deductible taxes are entered on Schedule A (Form 1040), lines 5 through 9. Employees cannot deduct car loan interest.

Note. If line 4 is your only entry, do not 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 for definitions. If you are not required to file Form 2106, enter your expenses directly on Schedule A (Form 1040), line 20.

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 while away from your tax home overnight. Under this method, you deduct a specified amount, depending on where you travel, instead of keeping records of your actual meal expenses. 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&IE rate. For most small localities in the United States, this rate is \$31 a day. Most major cities

and many other localities in the United States qualify for higher rates. You can find these rates on the Internet at www.gsa.gov.

For locations outside the continental United States, the applicable rates are published each month. You can find these rates on the Internet at www.state.gov.

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

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 were not 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 certain reimbursements you received for business expenses that were not included as wages on Form W-2 because the expenses were treated as meeting specific IRS substantiation requirements.

Generally, when your employer pays for your expenses, the payments should not 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 included in box 1, ask your employer for a corrected Form W-2.

Accounting to your employer means that you gave your employer documentary evidence and an account book, diary, 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.

Worksheet (keep for your records)

1. Enter the total amount of reimbursements your employer gave you that **were not** reported to you in box 1 of Form W-2 _____
2. Enter the total amount of your expenses for the periods covered by this reimbursement _____
3. Of the amount on line 2, enter your total expense for meals and entertainment _____
4. Divide line 3 by line 2. Enter the result as a decimal (rounded to at least 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)

Line 9. Generally, you can deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. If you were an employee subject to the Department of Transportation (DOT) hours of service limits, that percentage is increased to 70% 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—Special rules. If you are a **reservist** (member of a reserve component—defined below), enter 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 reservist on Form 1040, line 24, and attach Form 2106 to your return.

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, Naval, 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.

Additional information. See Pub. 463 for additional details on how to report these expenses.

If you were a **qualified performing artist** (defined below), enter the part of the line 10 amount attributable to performing-arts-related expenses on Form 1040, line 24, and attach Form 2106 to your return. Your performing-arts-related business expenses are deductible whether or not you itemize deductions.

A qualified performing artist is an individual who:

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.

To be treated as a qualified performing artist, a married individual must also file a joint return, unless the individual and his or her spouse lived apart for all of 2004. On a joint return, requirements (1), (2), and (3) must be figured separately for each spouse. However, requirement (4) applies to the combined adjusted gross income of both spouses.

If you were a **fee-basis state or local government official** (defined on page 4), enter 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. Your employee business expenses are deductible whether or not you itemize deductions. A fee-basis state or local government official is an official who is an employee of a state or political subdivision of a state and is compensated, in whole or in part, on a fee basis.

If you were an **individual with a disability** and are claiming impairment-related work expenses (defined below), enter the part of the line 10 amount attributable to those expenses on Schedule A (Form 1040), line 27, instead of on Schedule A (Form 1040), line 20. Your impairment-related work expenses are not subject to the 2% limit that applies to most other employee business 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.

Part II—Vehicle Expenses

There are two methods for computing vehicle expenses—the standard mileage rate and the actual expense method. You can use the standard mileage rate for 2004 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 cannot 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, attach a statement using the format in Sections A, C, and D.

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 started using it for business.

Line 12. Enter the total number of miles you drove each vehicle during 2004. But if you converted your vehicle during the year from personal to business use (or vice versa), enter the total miles for only the months you drove the vehicle for business.

Line 13. Do not include commuting miles on this line; commuting miles are not considered business miles. See the line 15 instructions for the definition of commuting.

Line 14. Divide line 13 by line 12 to figure your business use percentage. However, if you converted your vehicle during the year from personal to business use (or vice versa), multiply this percentage 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 is not 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 do not 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 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 car, including a van, 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 cannot use a depreciation method other than straight line.

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 taxes on Schedule A (Form 1040), line 7.

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 or Schedule C, C-EZ, E, or F).

Section C—Actual Expenses

Line 23. Enter your total annual expenses for gasoline, oil, repairs, insurance, tires, license plates, or similar items. Do not 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. Employees cannot deduct car loan interest.

Line 24a. If during 2004 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 after June 18, 1984, you may have to reduce your deduction for vehicle lease payments by an amount called the inclusion amount. You may have an inclusion amount if:

| The lease term began in: | And the vehicle's fair market value on the first day of the lease exceeded: |
|-----------------------------|---|
| 2004 | \$17,500 |
| 2003 | 18,000 |
| 1999 through 2002 | 15,500 |
| 1997 or 1998 | 15,800 |
| 1995 or 1996 | 15,500 |

If the lease term began before 1995, see Pub. 463 to find out if you have an inclusion amount.

See Pub. 463 to figure the inclusion amount.

Line 25. If during 2004 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 38. If you used Form 4562 to figure your depreciation deduction, enter the total of the following amounts.

- Any special depreciation allowance allocable to your vehicle(s) (from Form 4562, line 25).
- Depreciation allocable to your vehicle(s) (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 expense, under section 179, part of the cost of your vehicle in the year of purchase. For details, see Pub. 463.

Vehicle traded in after February 27, 2004. If you traded one vehicle (the “old vehicle”) in on another vehicle (the “new vehicle”) after February 27, 2004, 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 do not 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 (see pages 7 and 8). 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 in 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, reduced by the depreciation allowance for the remaining basis of the old vehicle. You must use Form 4562, Depreciation and Amortization, to compute your depreciation deduction. You cannot use Form 2106, Part II, Section D.

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

Vehicle traded in before February 28, 2004. If you traded one vehicle for another before February

28, 2004, you may follow either of the above rules or rely on prior IRS guidance using any reasonable, consistent method of figuring depreciation.

Line 30. Enter the vehicle’s actual cost (including sales tax) or other basis (unadjusted for prior years’ depreciation). If you traded in your vehicle, your basis 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 pay for your new vehicle. Reduce your basis by any diesel fuel or qualified electric vehicle credit or deduction for clean-fuel vehicles you claimed.

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. Section 179 deduction. If 2004 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 calculate 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 cannot be more than the percentage on line 14 multiplied by the applicable limit explained in the line 36 instructions (see pages 7 and 8). Your section 179 deduction for the year cannot be more than the income from your job and any other active trade or business on your Form 1040.



If you are claiming a section 179 deduction on other property, or you placed more than \$410,000 of section 179 property in service during the year, use Form 4562 to figure your section 179 deduction. Enter the amount of the section 179 deduction allocable to your vehicle (from Form 4562, line 12) on Form 2106, line 31.

Note. For section 179 purposes, the cost of the new vehicle does not include the adjusted basis of the vehicle you traded in.

Example:

| | |
|---|------------|
| Cost including taxes | \$15,000 |
| Adjusted basis of trade-in . . . | - 2,000 |
| Section 179 basis | = \$13,000 |
| Limit on depreciation and section 179 deduction | \$10,710 |

Smaller of:

| | |
|---|-----------|
| Section 179 basis, or limit on depreciation and section 179 deduction | \$10,710 |
| Percentage on line 14 | × .75 |
| Section 179 deduction | = \$8,033 |

Limit for sport utility and certain other vehicles.

For sport utility and certain other vehicles placed in service after October 22, 2004, the portion of 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 is not 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 does not apply to any vehicle:

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

Special depreciation allowance. If you acquired and placed in service a new vehicle during the year, and the percentage on line 14 is more than 50%, you may be able to claim either an additional 50% or 30% special depreciation allowance (subject to the overall limit explained above). To qualify as a new vehicle, the original use of the vehicle must have begun with you.



If you claim the 50% special allowance on your new vehicle, you cannot also claim the 30% special allowance. However,

you can elect out of the 50% special allowance and the vehicle would then be eligible for the 30% special allowance. In addition, you can elect out of both the 50% and 30% special allowances. For more details, see below.

50% special allowance. To qualify for the 50% special allowance, your new vehicle must have been acquired after May 5, 2003, and placed in service in 2004. If a written contract to acquire the vehicle existed before May 6, 2003, the vehicle does not qualify. To figure the amount of the 50% special allowance, complete the worksheet on this page.

30% special allowance. If your new vehicle qualifies for the 50% special allowance, you can elect to claim the 30% special allowance instead. You may also be able to claim the 30% special allowance on a used vehicle that is first used in the active conduct of your trade or business in the Liberty Zone, but only if substantially all of your use of the vehicle was within that zone (for details, see Pub. 946). To figure the amount of the 30% special allowance, complete the worksheet on this page.

Election out. You can elect not to claim the special allowance for vehicles acquired and placed in service in 2004 by attaching a statement to your tax return indicating that you are electing not to claim the 50% or 30% special allowance for any such vehicles. If you make this election, you may have a "depreciation adjustment" on these vehicles for the alternative minimum tax. The election must be made on a timely-filed original return (including extensions) or on an amended return filed within 6 months of the due date of the return (excluding extensions). If you file an amended return, write "Filed pursuant to section 301.9100-2" at the top of that return.

Election to claim 30% instead of 50% special allowance. You make the election by attaching a statement to your tax return indicating that you are electing to claim the 30% instead of the 50% special allowance for 5-year property. The election must be made on a timely-filed original return (including extensions) or on an amended return filed within 6 months of the due date of the return (excluding extensions). If you file an amended return, write "Filed pursuant to section 301.9100-2" at the top of that return.

Worksheet for the Special Depreciation Allowance (keep for your records)

1. Enter the amount from line 30 **1.** _____
2. Multiply line 1 by the percentage on Form 2106, line 14, and enter the result **2.** _____
3. Enter any section 179 deduction **3.** _____
4. Subtract line 3 from line 2 **4.** _____
5. Multiply line 4 by 50% (.5) or, if applicable, 30% (.3), and enter the result **5.** _____
6. Multiply the applicable limit explained in the line 36 instructions by the percentage on Form 2106, line 14, and enter the result. If line 36 limits do not apply, skip lines 6 and 7, and enter the amount from line 5 on line 8 **6.** _____
7. Subtract line 3 from line 6 **7.** _____
8. Enter the **smaller** of line 5 or line 7. Add the result to any section 179 deduction and enter the total on Form 2106, line 31 **8.** _____

Line 32. To figure the basis for depreciation, multiply line 30 by the percentage on line 14. From that result, subtract the full amount of any section 179 deduction and special depreciation allowance (and half of any investment credit taken before 1986 unless you took the reduced credit).

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* on page 7 to find the depreciation method and percentage to enter on line 33. (For example, if you placed a car in service on July 1, 2004, and you use the method in column (a), enter "200 DB 20%" on line 33.) To use 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 vehicles placed in service before 2004, use the same method you used on last year's return unless a decline in your business use requires a change to the straight line method. For vehicles placed in service during 2004, select the depreciation method and percentage

Depreciation Method and Percentage Chart—Line 33

| Date Placed in Service | (a) | (b) | (c) |
|-------------------------------|---------------|--------------------------------------|------------|
| Oct. 1-Dec. 31, 2004 | 200 DB 5% | 150 DB 3.75% | SL 2.5% |
| Jan. 1-Sept. 30, 2004 | 200 DB 20% | 150 DB 15% | SL 10% |
| Oct. 1-Dec. 31, 2003 | 200 DB 38% | 150 DB 28.88% | SL 20% |
| Jan. 1-Sept. 30, 2003 | 200 DB 32% | 150 DB 25.5% | SL 20% |
| Oct. 1-Dec. 31, 2002 | 200 DB 22.8% | 150 DB 20.21% | SL 20% |
| Jan. 1-Sept. 30, 2002 | 200 DB 19.2% | 150 DB 17.85% | SL 20% |
| Oct. 1-Dec. 31, 2001* | 200 DB 13.68% | 150 DB 16.4% | SL 20% |
| Jan. 1-Sept. 30, 2001 | 200 DB 11.52% | 150 DB 16.66% | SL 20% |
| Oct. 1-Dec. 31, 2000 | 200 DB 10.94% | 150 DB 16.41% | SL 20% |
| Jan. 1-Sept. 30, 2000 | 200 DB 11.52% | 150 DB 16.66% | SL 20% |
| Oct. 1-Dec. 31, 1999 | 200 DB 9.58% | 150 DB 14.35% | SL 17.5%** |
| Jan. 1-Sept. 30, 1999 | 200 DB 5.76% | 150 DB 8.33% | SL 10% |
| Jan. 1, 1987-Dec. 31, 1998 | MACRS** | MACRS** | SL** |
| June 19, 1984-Dec. 31, 1986 | ACRS** | //////////////////////////////////// | SL** |

*If you made the election under Notice 2001-70 to use the half-year convention for vehicles placed in service October 1 through December 31, 2001, use the percentage rate shown for vehicles placed in service January 1 through September 30, 2001.
 **Enter your unrecovered basis, if any, on line 34. See Pub. 463 for more information.

after reading the explanation for each column.

Column (a). You can use column (a) only if the business use percentage on line 14 is more than 50%. The method in this column, the 200% declining balance method, will give you the largest deduction in the year your vehicle is placed in service. This column is also used for vehicles placed in service before 1987 and depreciated under the accelerated cost recovery system (ACRS).

Column (b). You can use column (b) only if the business use percentage on line 14 is more than 50%. The method in this column, the 150% declining balance method, will give you a smaller depreciation deduction than in column (a) for the first 3 years. However, you will not 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). You must use column (c) for vehicles placed in service after 1986 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%. This column is also used for vehicles placed in service after June

18, 1984, and before 1987 if you elected the straight line method over a recovery period of 12 years.

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 and section 179 deduction previously claimed may have to be added back to your income in the later year. Figure the amount to be included in income on Form 4797, Sales of Business Property.



If you placed other business property in service during the year you placed your vehicle in service (for any year after 1986), or you used your vehicle mainly within an Indian reservation, you may not be able to use the chart. See Pub. 946 to figure your depreciation.

Line 34. If during the year you did not sell or exchange your vehicle (or you sold or exchanged your vehicle that was placed in service after 1986 and before 1999), multiply line 32 by the percentage on line 33. If during the year you sold or exchanged your vehicle that was placed in service:

- Before 1987, enter -0- on line 34 for that vehicle.
- After 1998, multiply the result for line 34 by 50%, and enter on line 34. However, if you originally placed the vehicle in service during the last 3 months of a year after 1998 (and, if your vehicle was placed in service in

2001, you did not make the election under Notice 2001-70), multiply the result for line 34 by the percentage shown below for the month you disposed of the vehicle:

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

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 on page 8, 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 (for a truck or van, gross vehicle weight is substituted for unloaded gross vehicle weight). Certain vehicles, such as ambulances, hearses, and taxicabs, are not considered passenger automobiles and are not subject to the line 36 limits. See Pub. 463 for more details.
- A truck or van is a passenger automobile built on a truck chassis, including a minivan or a sport utility vehicle built on a truck chassis.

- An electric passenger vehicle is a vehicle produced by an original equipment manufacturer and designed to run primarily on electricity. Gasoline-electric hybrid vehicles that are not designed to run primarily on electricity (such as the Honda Civic Hybrid, Honda Insight, and Toyota Prius) are not electric passenger vehicles.

If your vehicle is not subject to any of the line 36 limits, skip lines 36 and 37, and enter the amount from line 35 on line 38.

Exception for clean-fuel modifications. For vehicles placed in service after August 5, 1997, the passenger automobile limits (including those for trucks and vans) do not apply to the cost of any qualified clean-fuel vehicle property (such as retrofit parts and components) installed on a vehicle for the purpose of permitting that vehicle to run on a clean-burning fuel. See section 179A for definitions.

Limits for Passenger Automobiles (Except Electric Automobiles Placed in Service After August 5, 1997, Trucks, and Vans)

| Date Vehicle Was Placed in Service | Limit |
|------------------------------------|-----------|
| Jan. 1-Dec. 31, 2004 | \$10,610* |
| Jan. 1-Dec. 31, 2003 | 4,900 |
| Jan. 1-Dec. 31, 2002 | 2,950 |
| Jan. 1, 1995-Dec. 31, 2001 . . | 1,775 |
| Jan. 1, 1993-Dec. 31, 1994 . . | 1,675 |
| Jan. 1, 1991-Dec. 31, 1992 . . | 1,575 |
| Jan. 1, 1987-Dec. 31, 1990 . . | 1,475 |
| Apr. 3, 1985-Dec. 31, 1986 . . | 4,800 |
| Jan. 1-Apr. 2, 1985 | 6,200 |
| June 19-Dec. 31, 1984 | 6,000 |

* If you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$2,960.

Limits for Trucks and Vans

| Date Vehicle Was Placed in Service | Limit |
|------------------------------------|-----------|
| Jan. 1-Dec.31, 2004 | \$10,910* |
| Jan. 1-Dec. 31, 2003 | 5,400 |
| Jan. 1-Dec. 31, 2002 | 2,950 |
| Jan. 1, 1995-Dec. 31, 2001 . . . | 1,775 |
| Jan. 1, 1993-Dec. 31, 1994 . . . | 1,675 |
| Jan. 1, 1991-Dec. 31, 1992 . . . | 1,575 |
| Jan. 1, 1987-Dec. 31, 1990 . . . | 1,475 |
| Apr. 3, 1985-Dec. 31, 1986 . . . | 4,800 |
| Jan. 1-Apr. 2, 1985 | 6,200 |
| June 19-Dec. 31, 1984 | 6,000 |

* If you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$3,260.

Limits for Electric Automobiles Placed in Service After August 5, 1997

| Date Vehicle Was Placed in Service | Limit |
|------------------------------------|-----------|
| Jan. 1-Dec. 31, 2004 | \$31,830* |
| Jan. 1-Dec. 31, 2003 | 14,600 |
| Jan. 1-Dec. 31, 2002 | 8,750 |
| Jan. 1, 1999-Dec. 31, 2001 . . . | 5,325 |
| Aug. 6, 1997-Dec. 31, 1998 . . | 5,425 |

* If you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property, the limit is \$8,880.

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 are not required to provide the information requested on a 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 average time is:

| | |
|--|----------------|
| Recordkeeping | 2 hr., 11 min. |
| Learning about the law or the form | 27 min. |
| Preparing the form | 1 hr., 27 min. |
| Copying, assembling, and sending the form to the IRS | 34 min. |

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. See the Instructions for Form 1040.