1996

Department of the Treasury
Internal Revenue Service

Instructions for Form 2106

Employee Business Expenses

Section references are to the Internal Revenue Code.

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	1 hr., 38 min.
Learning about the law or the form	19 min.
Preparing the form	1 hr., 13 min.
Copying, assembling, and sending the form to the IRS	42 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. You can write, e-mail, or call the IRS. See the Instructions for Form 1040.

General Instructions

Purpose of Form

Use Form 2106 if you are an employee deducting expenses for your job. See the chart at the bottom of this page to find out if you must file this form.

Employees who use the standard mileage rate (if claiming vehicle expense) and are not reimbursed by their employers for any expense may be able to file **Form 2106-EZ,** Unreimbursed Employee Business Expenses. See Form 2106-EZ to find out if you qualify to file it.

A Change To Note

The standard mileage rate has been increased to 31 cents for each mile of business use in 1996.

Additional Information

If you need more information about employee business expenses, you will find the following publications helpful:

- **Pub. 463,** Travel, Entertainment, Gift, and Car Expenses
- **Pub. 529,** Miscellaneous Deductions
- **Pub. 587,** Business Use of Your Home (Including Use by Day-Care 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, fill in only Steps 1 and 3 of Part I.

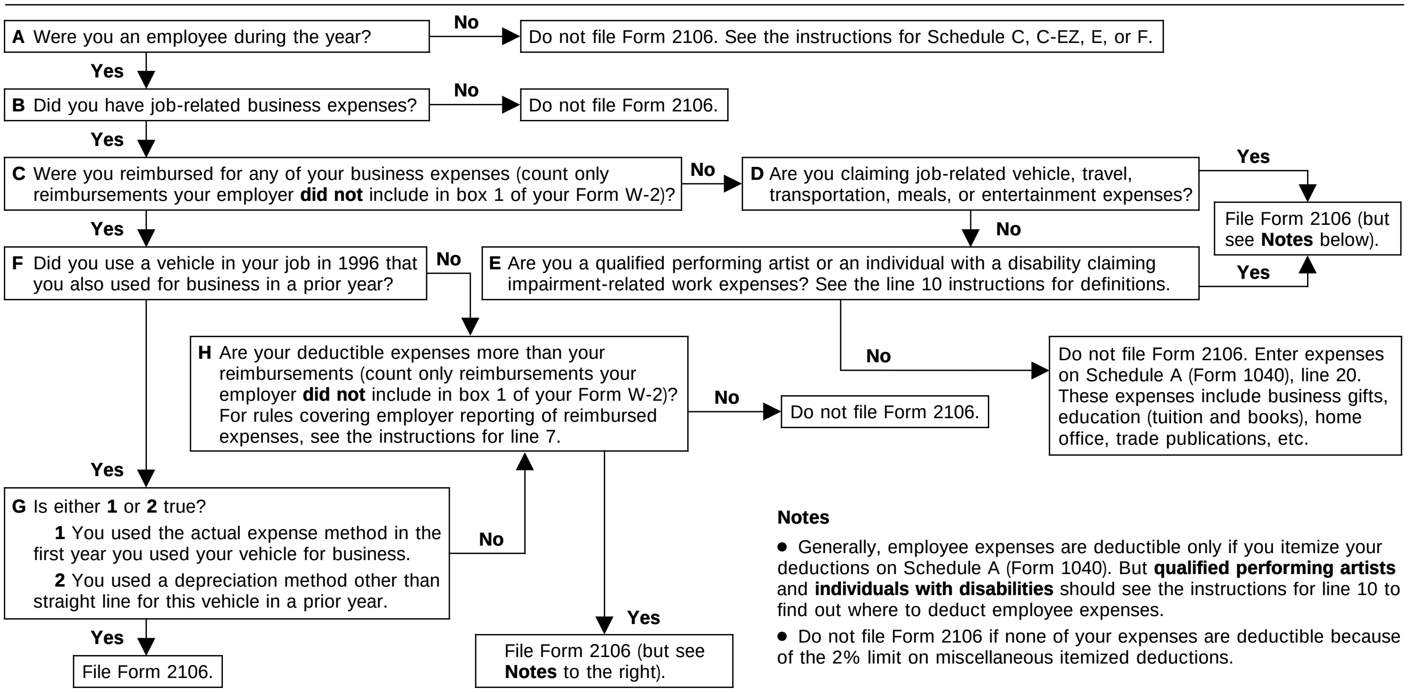
Step 1—Enter Your Expenses

Line 1— Enter your vehicle expenses from Part II, line 22 or line 29.

Line 2— Enter parking fees, etc., that did not involve overnight travel or commuting to and from work. See the line 15 instructions for the definition of commuting.

Line 3— Enter expenses for lodging and transportation connected with overnight travel away from your tax home. You cannot deduct any expenses for travel away from your tax home if the period of temporary employment is more than 1 year. Do not include expenses for meals and entertainment. For details, including limitations, see Pub. 463.

Who Must File Form 2106



Notes

- Generally, employee expenses are deductible only if you itemize your deductions on Schedule A (Form 1040). But **qualified performing artists** and **individuals with disabilities** should see the instructions for line 10 to find out where to deduct employee expenses.
- Do not file Form 2106 if none of your expenses are deductible because of the 2% limit on miscellaneous itemized deductions.

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 not away from home and cannot claim a travel expense deduction. For more details on your tax home, see Pub. 463.

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

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

Note: *If line 4 is your only entry, do not complete Form 2106, unless you are a qualified performing artist claiming performing-arts-related business expenses or an individual with a disability claiming impairment-related work expenses. 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. 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. See Pub. 463 to figure your deduction using the standard meal allowance.

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

Line 7— Enter the amounts your employer (or third party) gave you for expenses shown in Step 1 that were **not** reported to you in box 1 of your Form W-2. This includes any amount reported under code "L" in box 13 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 **(a)** accounted to your employer for the expenses, **and (b)** 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 each expense.
- 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

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 (to at least two 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 10—Special Rules. If you are a qualified performing artist (defined below), include the part of the line 10 amount attributable to performing-arts-related expenses in the total on Form 1040, line 30. Write "QPA" and the amount in the space to the left of line 30 on Form 1040. Your performing-arts-related business expenses are deductible whether or not you itemize deductions. The expenses are not subject to the 2% limit that applies to most other employee business expenses.

A **qualified performing artist** is an individual who **(a)** performed services in the performing arts as an employee for at least two employers during the tax year, **(b)** received from at least two of those employers wages of $200 or more per employer, **(c)** had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and **(d)** 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 1996. On a joint return, requirements **(a), (b),** and **(c)** must be figured separately for each spouse. However, requirement **(d)** applies to the combined adjusted gross income of both spouses.

If you are 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, line 27, instead of on Schedule A, line 20. Your impairment-related work expenses are not subject to the 2% limit that applies to most other employee business expenses.

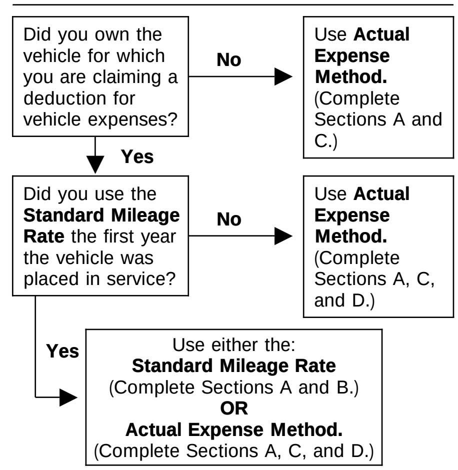
Impairment-related work expenses are the allowable expenses of an individual with physical or mental disabilities for attendant care at his or her place of employment. They also include other expenses in connection with the place of employment that enable the employee to work. See **Pub. 502,** Medical and Dental Expenses, for more details.

Part II—Vehicle Expenses

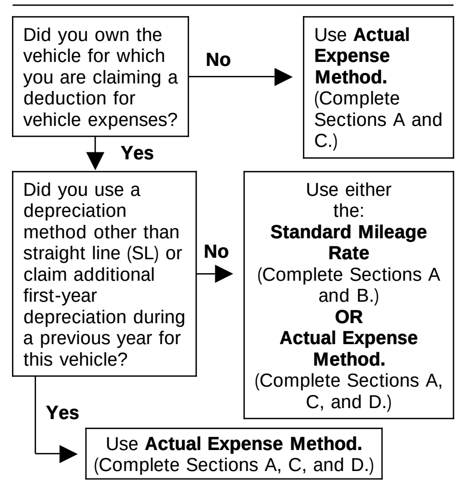
There are two methods for computing vehicle expenses—the Standard Mileage Rate and the Actual Expense Method. In some cases, you must use the Actual Expense Method instead of the Standard Mileage Rate. Use the following two flowcharts to see which method to use. Rural mail carriers should see the line 22 instructions for special rules that apply to them instead of using the flowcharts.

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.

For Vehicles Placed in Service After 1980



For Vehicles Placed in Service Before 1981



Section A—General Information

All individuals claiming vehicle expenses must complete Section A.

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 miles you drove each vehicle during the year for all purposes. However, if you converted your vehicle during the year from personal to business use (or from business to personal use), enter the total miles for only the months you drove the vehicle for business purposes.

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 from business to personal use), multiply this percentage by the number of months you drove the vehicle for business purposes 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.

Generally, **commuting** is travel between your home and a work location. However, such travel is not commuting if you meet **any** of the following conditions:

1. You have at least one regular work location away from your home and you travel to a temporary work location in the same trade or business, regardless of the distance. A temporary work location is one where you perform services on an irregular or short-term basis (generally a matter of days or weeks).

2. You travel to a temporary work location outside the metropolitan area where you live and normally work.

3. 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 you travel 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 from business to personal use), enter your commuting miles only for the period you drove your vehicle for business purposes.

Section B—Standard Mileage Rate

If you do not own the vehicle, skip Section B and go to Section C.

You may 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 car placed in service after 1980, you must do so in the first year you place your car in service. In later years, you may deduct actual expenses but you may not use a depreciation method other than straight line. If you do not use the standard mileage rate in the first year, you may not use it for that car for any later year.

You may also deduct state and local personal property taxes. Enter these taxes on Schedule A (Form 1040), line 7.

Line 22— If you are a rural mail carrier (defined below) and you use the standard mileage rate to figure your vehicle expense, multiply the number of miles on line 13 by 46.5 cents (.465) instead of 31 cents.

You may use the higher mileage rate if you **(a)** were an employee of the U.S. Postal Service in 1996, **(b)** used your own vehicle to collect and deliver mail on a rural route, and **(c)** did not claim depreciation for the vehicle for any tax year beginning after 1987.

If you are also claiming the standard mileage rate for mileage driven in another business activity, you must figure the deduction for that mileage on a separate Form 2106.

See Pub. 463 for more details.

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 you rented or leased a vehicle during the year instead of using one you own, enter the cost of renting. Also, include on this line any temporary vehicle rentals not included on line 3, such as when your car was being repaired.

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 to enter the inclusion amount on line 24b if:

The lease term began:	**And the vehicle's fair market value on the first day of the lease exceeded:**
During 1995 or 1996	$15,500
During 1994	$14,600
During 1993	$14,300
During 1992	$13,700

If the lease term began before 1992, see Pub. 463 to find out if you have an inclusion amount.

Also, see Pub. 463 to figure the inclusion amount. Enter the inclusion amount on line 24b. If you have no inclusion amount, leave line 24b blank.

Line 25— If during 1996 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.

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 may elect to expense, under section 179, part of the cost of your vehicle in the year of purchase. For more details, see Pub. 463.

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 tax credit, 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— If 1996 is the first year your vehicle was placed in service and the percentage on line 14 is more than 50%, you may 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 cannot be more than $3,060 multiplied by the percentage on line 14. 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.

Caution: *If you are claiming a section 179 deduction on other property, or you placed more than $200,000 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		$ 3,060
Smaller of:		
Section 179 basis, or limit on depreciation and section 179 deduction		$ 3,060
Percentage on line 14	×	75%
Section 179 deduction	=	$ 2,295

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 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 chart on page 4 to find the depreciation method and percentage to enter on line 33. (For example, if you placed a car in service on December 1, 1996, and you use the method and percentage in column (a), enter “200 DB 5%” 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), (c), or (d). For vehicles placed in service before 1996, use the same method you used on last year's return unless a decline in your business use requires a change to the

Depreciation Method and Percentage Chart

Date Placed in Service	(a)	(b)	(c)	(d)
Oct. 1—Dec. 31, 1996	200 DB 5%	150 DB 3.75%	SL 2.5%	
Jan. 1—Sept. 30, 1996	200 DB 20%	150 DB 15%	SL 10%	
Oct. 1—Dec. 31, 1995	200 DB 38%	150 DB 28.88%	SL 20%	
Jan. 1—Sept. 30, 1995	200 DB 32%	150 DB 25.5%	SL 20%	
Oct. 1—Dec. 31, 1994	200 DB 22.8%	150 DB 20.21%	SL 20%	
Jan. 1—Sept. 30, 1994	200 DB 19.2%	150 DB 17.85%	SL 20%	
Oct. 1—Dec. 31, 1993	200 DB 13.68%	150 DB 16.4%	SL 20%	
Jan. 1—Sept. 30, 1993	200 DB 11.52%	150 DB 16.66%	SL 20%	
Oct. 1—Dec. 31, 1992	200 DB 10.94%	150 DB 16.41%	SL 20%	
Jan. 1—Sept. 30, 1992	200 DB 11.52%	150 DB 16.66%	SL 20%	
Oct. 1—Dec. 31, 1991	200 DB 9.58%	150 DB 14.35%	SL 17.5%	
Jan. 1—Sept. 30, 1991	200 DB 5.76%	150 DB 8.33%	SL 10%	
Jan. 1, 1987—Dec. 31, 1990	MACRS*	MACRS*	SL*	
Jan. 1, 1985—Dec. 31, 1986	ACRS*		SL*	SL 8.333%
June 19—Dec. 31, 1984	ACRS*		SL*	SL 4.167%
Jan. 1—June 18, 1984				SL 4.167%

*Enter your unrecovered basis, if any, on line 34. See Pub. 463 for more information.

straight line method. For vehicles placed in service during 1996, select the depreciation method and percentage after reading the explanation for each column.

Column (a)— You may 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 may 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 item for alternative minimum tax purposes. 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), or column (d) if applicable, if the business use percentage on line 14 is 50% or less. The method in this column is the straight line method over 5 years. It is optional 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 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.*

Column (d)— You must use column (d) if you placed your vehicle in service before 1987 and you elected the straight line method over a recovery period of 12 years.

Caution: *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 1991), multiply line 32 by the percentage on line 33. If during the year you sold or exchanged your vehicle that was placed in service: **(a)** Before 1987, enter -0- on line 34 for that vehicle; **(b)** After 1990, multiply the result for line 34 by 50%, and enter on line 34. However, do not multiply by 50% if you originally placed the vehicle in service during the last 3 months of a year after 1990. Instead, 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 chart below, find the date you placed your vehicle in service. Then, enter on line 36 the corresponding amount from the **Limitation** column. If your vehicle was placed in service before June 19, 1984, skip lines 36 and 37 and enter on line 38 the amount from line 35.

Date Vehicle Was Placed in Service	Limitation
Jan. 1—Dec. 31, 1996	$3,060
Jan.1 —Dec. 31, 1995	$4,900
Jan. 1—Dec. 31, 1994	$2,850
Jan. 1—Dec. 31, 1993	$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