



Department of the Treasury
Internal Revenue Service

Publication 463

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Supplement to Publication 463

Travel, Entertainment, Gift, and Car Expenses

For use in preparing
2001 Returns



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Introduction

This supplemental publication is for taxpayers who purchased a car for business purposes after September 10, 2001, and figure their deductible expenses, including a deduction for depreciation, using the actual car expense method.

After Publication 463 was printed, the Job Creation and Worker Assistance Act of 2002 was signed into law by the President. Certain provisions of this new law may reduce your taxes for 2001. The new law contains the following provisions.

- 1) A new depreciation deduction, the special depreciation allowance.
- 2) An increase in the limit on depreciation for any car for which you claim the new special depreciation allowance.

For details on how the new law affects other areas of the federal income tax for 2001 and 2002, see Publication 3991, *Highlights of the Job Creation and Worker Assistance Act of 2002*.

If you have already filed your 2001 return, you may wish to file an amended return to claim any of these benefits. See *Amended Return* on page 2.

Depreciation of Car

If you used the actual car expense method to figure your deduction for a car you own and use in your business (or as an employee), you generally can claim a depreciation deduction. However, there is a limit on the depreciation deduction you can take for your car each year. See *Depreciation Limit* on page 2.

Special Depreciation Allowance

The new law allows you to claim a special depreciation allowance. This special allowance is a deduction equal to 30% of the depreciable basis of qualified property. You figure the amount of the special depreciation allowance after any section 179 deduction you choose to claim, but before figuring your regular depreciation deduction under the Modified Accelerated Cost Recovery System (MACRS). See *Depreciation Deduction under Actual Car Expenses* in chapter 4 of Publication 463 for information about MACRS.

You can claim the special depreciation allowance only for the year the qualified property is placed in service.

Qualified property. Qualified property includes a car (any four-wheeled vehicle, including a truck or van not more than 6,000 pounds, that is made primarily for use on public streets, roads, and highways) that meets all of the following requirements.

- 1) You bought it new.
- 2) You bought it after September 10, 2001. (But a car is not qualified property if a binding written contract for you to buy the car was in effect before September 11, 2001.)
- 3) You began using it for business after September 10, 2001, and used it more than 50% in a qualified business use.

Example. Bob bought a new car on October 15, 2001, for \$20,000 and placed it in service immediately, using it 75% for business. Bob's car is qualified property.

Bob chooses not to take a section 179 deduction for the car. He does claim the new special depreciation allowance. Bob first must figure the car's depreciable basis, which is \$15,000 ($\$20,000 \times .75$). He then figures the special depreciation allowance of \$4,500 ($\$15,000 \times .30$).

The remaining depreciable basis of \$10,500 ($\$15,000 - \$4,500$) is depreciated using MACRS (200% declining balance method, half-year convention) and results in a deduction of \$2,100 ($\$10,500 \times .20$), for a total depreciation deduction for 2001 of \$6,600 ($\$4,500 + \$2,100$). However, Bob's depreciation deduction is limited to \$5,745 ($\$7,660 \times .75$), as discussed next.

Depreciation Limit

The limit on your depreciation deduction for 2001 is increased to \$7,660 for a car that is qualified property (defined above) and for which you claim the special depreciation allowance. The limit is increased to \$23,080 if the car is an electric car. The section 179 deduction is treated as depreciation for purposes of this limit.

If you use a car less than 100% in your business or work, the limit is \$7,660 (or \$23,080 for an electric car) multiplied by the percentage of business and investment use during the year.

For cars that do not qualify for (or for which you choose not to claim) the special depreciation allowance, the limit remains \$3,060 (\$9,280 for electric cars).

Amended Return

If you filed your 2001 calendar year return before June 1, 2002, and did not claim the new special depreciation allowance for a qualified car, you can claim it by filing an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return*, by April 15, 2003. At the top of the Form 1040X, print "Filed pursuant to Revenue Procedure 2002-33." If you are an employee, attach Form 2106, *Employee Business Expenses* (revised March 2002). If you are self-employed, attach Form 4562, *Depreciation and Amortization* (revised March 2002).

Or, you can claim the special depreciation allowance by filing Form 3115, *Application for Change in Accounting Method*, with your 2002 return. For details, see Revenue Procedure 2002-33. (But, filing Form 1040X for 2001 enables you to claim the special allowance earlier than attaching Form 3115 to your 2002 return.)

You cannot claim the special depreciation allowance on an amended return (or by using Form 3115) if you made, or are treated as having made, the election not to claim it described later.

Example. The facts are the same as in the previous example except that Bob filed his original 2001 income tax return on April 15, 2002, and claimed a \$3,000 ($\$20,000 \times .75 \times .20$) depreciation deduction for his new car using MACRS.

Bob now wishes to claim the special depreciation allowance for his new car on an amended 2001 return. Bob, who is an employee, files Form 1040X, by April 15, 2003, with an updated Form 2106 (revised March 2002) attached, increasing his total depreciation deduction to \$5,745, as figured in the earlier example.

Bob's new filled-in Form 2106 is shown on pages 3 and 4.

Election Not To Claim Special Allowance

You can elect **not** to claim the special depreciation allowance for a car by making a statement attached to, or written on, your return indicating that you are electing not to claim the special depreciation allowance for 5-year property. As a general rule, you must make this election by the due date (including extensions) of your return.

You can have an automatic extension of 6 months from the due date of your return (excluding extensions) to make the election with an amended return. To get this extension, you must have filed your original return by the due date (including extensions). At the top of the statement, print "Filed pursuant to section 301.9100-2."

If you elect not to claim the special depreciation allowance for a car, you cannot claim it for any other 5-year property placed in service during the same year.

Unless you elect (or are treated as electing) not to claim the special depreciation allowance, you must reduce the car's adjusted basis by the amount of the allowance, even if the allowance was not claimed.

Deemed election for return filed before June 1, 2002. If you did not make the election not to claim the special depreciation allowance in the time and manner described above, you will still be treated as electing not to claim it if all of the following apply.

- 1) You filed your 2001 return before June 1, 2002.
- 2) You claimed depreciation on your return but did not claim the special depreciation allowance.
- 3) You did not file an amended 2001 return by April 15, 2003, or a Form 3115 with your 2002 return, to claim the special depreciation allowance.

Form **2106**
 (Rev. March 2002)
 Department of the Treasury
 Internal Revenue Service

Employee Business Expenses

OMB No. 1545-0139

2001

Attachment
 Sequence No. **54**

▶ See separate instructions.

▶ Attach to Form 1040.

Your name <i>Bob Smith</i>	Occupation in which you incurred expenses <i>Sales</i>	Social security number <i>555 00 0000</i>
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Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1 6,233	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2 150	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment		
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment		
5 Meals and entertainment expenses (see instructions).		
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6 6,383	

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

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

7 Enter reimbursements received from your employer that were not 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)	7 450	
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Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8 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	8 5,933	
Note: If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 60% (.60) instead of 50%. For details, see instructions.)	9 5,933	
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 20. (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶	10 5,933	

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 11700N

Form **2106** (2001) (Rev. 3-2002)

Part II Vehicle Expenses

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	10 / 15 / 2001	/ /
12	Total miles the vehicle was driven during 2001	4,200 miles	miles
13	Business miles included on line 12	3,150 miles	miles
14	Percent of business use. Divide line 13 by line 12	75 %	%
15	Average daily roundtrip commuting distance	10 miles	miles
16	Commuting miles included on line 12	500 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12.	500 miles	miles
18	Do you (or your spouse) have another vehicle available for personal use?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
19	Was your vehicle available for personal use during off-duty hours?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
20	Do you have evidence to support your deduction?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
21	If "Yes," is the evidence written?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

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

22	Multiply line 13 by 34½¢ (.345)	22	
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Section C—Actual Expenses		(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.	650	
24a	Vehicle rentals		
24b	b Inclusion amount (see instructions)		
24c	c Subtract line 24b from line 24a		
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)		
26	Add lines 23, 24c, and 25	650	
27	Multiply line 26 by the percentage on line 14	488	
28	Depreciation. Enter amount from line 38 below	5,745	
29	Add lines 27 and 28. Enter total here and on line 1.	6,233	

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

		(a) Vehicle 1	(b) Vehicle 2
30	Enter cost or other basis (see instructions)	20,000	
31	Enter section 179 deduction and special allowance (see instructions)	4,500	
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	10,500	
33	Enter depreciation method and percentage (see instructions)	200 DB 20%	
34	Multiply line 32 by the percentage on line 33 (see instructions)	2,100	
35	Add lines 31 and 34	6,600	
36	Enter the limit from the table in the line 36 instructions	7,660	
37	Multiply line 36 by the percentage on line 14	5,745	
38	Enter the smaller of line 35 or line 37. Also enter this amount on line 28 above	5,745	