

2014 Legislators' Tax Guide

*compliments of the
Tennessee Society
of Certified Public
Accountants*



2014 Tennessee Legislators' Tax Guide

Prepared by

Tennessee Society of Certified Public Accountants
for Members of the
109th Tennessee General Assembly

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Dear Tennessee Legislator:

The Tennessee Society of Certified Public Accountants is pleased to provide this 2014 Tax Guide prepared specifically for members of the Tennessee Legislature. The guide is designed to help answer some frequently raised questions about income tax laws relating to your position as an elected official (such as living expenses, meals, travel, auto, etc.).

This guide was prepared in January 2015 for the 2014 tax year. Please note that all references to 2014 pertain to a 2014 tax return that is to be filed in 2015. Also, be aware that tax laws change periodically. The existing law is affected by the decisions of courts and pronouncements by the Internal Revenue Service. Therefore, the material contained herein may be considered current only as of the publication date.

For additional tax questions not clarified in this guide, for consultation on other tax or accounting questions, or for assistance in the preparation of your various income tax returns, we suggest you contact your certified public accountant (CPA).

Your service to Tennessee, as members of the General Assembly, is highly regarded by the more than 9,000 members of TSCPA. We sincerely appreciate this opportunity to be of service to you.

Sincerely,



Arthur L. Sparks Jr., CPA
TSCPA Chair

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Preface

More and more of today's certified public accountants (CPAs) occupy central roles in business management, whether in government, education, business and industry or the more traditional realm of public accounting. These CPAs bring a broad spectrum of knowledge to their work, with expertise in areas such as taxation and tax planning; estate, trust and retirement planning; auditing; budgeting; management advisory services; financial management and forecasting; and review and compilation of financial statements.

Tennessee's certified public accountants are trusted professionals who enable individuals and businesses to shape their future. To be licensed to practice in the state of Tennessee, a CPA must:

- Fulfill stringent educational requirements;
- Pass a comprehensive, four-part examination;
- Obtain a minimum of 80 hours of continuing professional education during each biennium; and
- Abide by the profession's strict Code of Ethics.

In addition, firms issuing financial statements undergo a periodic review of their practices.

Tennessee Society of Certified Public Accountants (TSCPA)

The Tennessee Society of Certified Public Accountants (TSCPA) is the state professional organization for more than 9,000 certified public accountants, with approximately half of its members in public accounting and the other half employed in the fields of business, industry, government and education. More than 300 TSCPA members serve on committees and task forces, which provide a variety of services to the TSCPA, the profession and the community.

Some of the goals of TSCPA are:

- To promote and maintain higher professional standards in accountancy;
- To safeguard the interests of members and to uphold a fair administration and enforcement of Tennessee laws affecting accountancy;
- To advance the science of accountancy, and to uphold the integrity and honesty of the profession;
- To encourage higher standards of education and experience qualifications for CPAs;
- To promote a better public awareness and understanding of the profession; and
- To foster cordial relations among CPAs.

The Tennessee Society of Certified Public Accountants is the principal representative of the CPA profession in Tennessee. For more information, please call the TSCPA office at 615/377-3825, toll-free at 1-800/762-0272, or visit the website at www.tscpa.com.

*CPAs . . . Making sense of a
changing and complex world.*



Q. How do I report my automobile expenses on my tax return?

A. You are considered an employee of the state of Tennessee. All mileage expenses or automobile expenses should be reported on Form 2106 Employee Business Expenses for tax year 2014. (A sample of Form 2106 is included in this booklet.) Each section in this guide has a reference number which ties directly into Form 2106 to assist you in understanding the questions and answers and 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 Nashville?

A. The Internal Revenue Service provides for a simplified method in computing automobile expenses. Under this method, the taxpayer may use a standard mileage rate of 56 cents per mile for all of 2014. If you are reimbursed less than the allowable cents per mile, you may claim the difference as a deduction. Other mileage incurred traveling to and from Nashville is an additional expense, and for these miles you are allowed to deduct the amount allowed by the Internal Revenue Service. Your deduction can be either in the form of the standard allowable cents per mile or you can itemize your actual automobile expenses. To itemize, total the automobile expenses of depreciation, gas and oil, repair and maintenance, insurance and registration fees and apply your business percentage. The business percentage is computed by dividing your total business miles by total miles driven during the year.

Please note that any automobile reimbursement from the state of Tennessee must reduce your expense (whether standard mileage rate or actual expenses is used). In 2014, the state of Tennessee reimbursed mileage at the rate of 47 cents per mile for all of 2014.

Q. What other automobile mileage expenses can I deduct?

A. As a member of the legislature, you probably use your automobile a great deal for travel in your home district to meetings where you will speak or which you believe are important to attend because of your political position, or in traveling from one town to another to attend civic functions, political functions or other meetings related to your legislative duties. All automobile mileage incurred for these purposes is tax deductible. While contemporaneous records are no longer specifically required, it is recommended that an account of this mileage be recorded contemporaneously in a diary for the purpose of reporting the allowable federal income tax deduction applicable thereto, whether you elect to use the optional mileage allowance or choose to report actual automobile expenses. (See discussion regarding record keeping.)

Q. What about miles traveled while going to meetings during a political campaign for my re-election? Although I am running for re-election, I still believe it is incumbent upon me to attend these meetings to explain to my constituents the activities of the legislature, the legislation that we are currently working on and the disposition and explanation of legislation that has gone through committees and we have already acted on.

A. The Internal Revenue Code specifically states that all campaign expenses are not tax deductible. (See section on campaign expenses.) Because of this, it is very important for you to distinguish between those expenses which are directly related to a campaign for re-election and those expenses which can be directly attributable to serving your constituents. At meetings where you are both campaigning and explaining legislative activities to constituents, you must determine your primary purpose in attending the meeting (e.g. campaigning or informing), and the expenses thereof are deductible or nondeductible accordingly.

To avoid any conflict with the Internal Revenue Service, you may want to set up a time period, say one month before the date of the primary or general election, and record, but do not claim, any expenses incurred during this time as business expenses. Consider these expenses as strictly non-deductible campaign expenses. Take the business expenses incurred prior to this one-month period,

maintaining the necessary records and claim them as tax deductible expenses. These expenses must be directly related to the business purpose of fulfilling your obligation as an elected state official.

Q. If I use another mode of transportation to get to Nashville, such as the bus or airplane, can I deduct these expenses in addition to my mileage expense?

A. If you use a bus, airplane or other means of transportation to Nashville, these expenses should be detailed on Form 2106, Part I, Line 3. On Line 7, Part I of Form 2106, you should report the reimbursement you received for travel. The result will be that the expense incurred in excess of reimbursement because of using another form of transportation will be deductible, or the mileage reimbursement in excess of such travel expense will be taxable income to you. You cannot claim both the mileage you would have incurred had you driven an automobile to Nashville and the cost of the bus fare or airplane ticket.

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

A. No. In this case, the reimbursement becomes excess reimbursement income and taxable, unless you pay the other legislator for part of his costs, in which case this represents deductible transportation costs and that amount should be offset by the other legislator.

Q. While away from home, staying in Nashville for the legislative session at a hotel, etc., I am required to drive to the state capitol each day. Can I deduct this mileage as a business expense?

A. Yes, provided Nashville is not considered your tax home. (See discussion regarding tax home.) If you are considered away from your tax home while in Nashville, you may deduct as a travel expense the mileage you incur going from your living quarters in Nashville to either the state capitol or to any other location, as long as the purpose of the travel is directly related to the business of being a member of the Tennessee legislature.

Q. I received a traffic violation ticket because I was rushing to get to Nashville to be on time for a session or a committee meeting. Is the fine a tax deductible expense?

A. No. A traffic violation fine is a penalty and therefore not a deductible expense.

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

A. No, if you have elected to treat your district as your tax home or, absent such an election, if your district is in fact your tax home. (See discussion regarding living expenses.) In such cases, the mileage from your residence to your office is considered nondeductible commuting expense.

Q. The IRS allows me to deduct a flat rate expense per mile or to itemize all of my automobile expenses and then to take a portion of those expenses based on a percentage of my business miles to the total miles traveled during the year. Which method results in the greatest deduction for me?

A. Using actual automobile expenses will probably result in a larger deduction than the IRS allowance (56 cents per mile for 2014). There are special rules that apply to vehicles purchased with a gross vehicle weight of 6,000 pounds or more. Please consult your certified public accountant for a more detailed explanation. You should keep track of actual automobile expenses, and restrict your business mileage to a single automobile (unless you trade business automobiles during the year or alternate business use between two or more cars) and compute your tax deduction based on these actual expenses. This amount should be compared with the deduction under the flat rate allowance

AUTOMOBILE AND TRAVEL EXPENSES *(cont.)*

FORM 2106, PART I, LINES 1, 2, 3, 5 AND PART II

to determine which method yields the larger deduction.

Q. If I deduct actual automobile expenses, what specific expenses am I allowed to deduct?

A. See Part I, Line 2 and Part II, Section C, Lines 23, 24, 25 and Section D of Form 2106 for a list of automobile expenses. These include gasoline, oil, lubrication, repairs, tires, supplies, insurance, taxes, tags, license, depreciation and parking/tolls paid.

Q. Are there expenses I can deduct for the use of my automobile in addition to the flat rate allowance?

A. Yes. Parking fees and tolls. Personal property taxes are allowed as an itemized deduction on Schedule A, Form 1040. The Tax Reform Act of 1986 made interest on personal loans nondeductible.

Q. If I deduct my actual automobile expenses one year, can I use the standard mileage deduction method the following year?

A. When an automobile is placed in service, use of the optional mileage rate is considered an election to exclude this car from the MACRS depreciation method. If you used the actual costs method when you placed this car in service and you used the MACRS method, you must use the actual costs for as long as you use this car for business purposes. If you first elected to use the optional mileage rate, then you can switch to actual expenses, but depreciation is limited to straight line. (Switching back is allowed while you use the same vehicle on a yearly basis - Revenue Procedure 82-61, 1982-3 CB 849.)

LIVING EXPENSES (HOTEL ROOM & MEALS)

FORM 2106, PART I, LINE 3 AND LINE 5

Q. I understand that I may deduct living expenses while in Nashville only if it is not considered my "tax home." How do I determine whether Nashville or my place of residence within my legislative district is my tax home?

A. The Economic Recovery Tax Act of 1981 added section 162(h) to the Internal Revenue Code, which permits you to elect in your federal income tax return to treat your place of residence in your home district as your "tax home." You may make this election as long as your place of residence within your legislative district is more than 50 miles from the capitol building in Nashville. (The 50-mile limitation began Jan. 1, 1981.)

If you choose not to make this election, or if you live 50 miles or closer to the capitol building, the determination of your "tax home" is reduced to a facts and circumstances test. Generally, if the activity of being a state legislator is your most significant income-producing activity and you spend more time in Nashville carrying out your legislative duties than you do in your home district, the IRS and most courts would consider Nashville your tax home. Hence, the cost of meals and lodging while in Nashville and travel to and from Nashville would not be considered deductible business expenses. You should note that if your tax home is Nashville, you may be allowed a business expense deduction for overnight travel expenses incurred while carrying out your legislative duties within your home district or carrying on another trade or business there. In these circumstances, you should consult your certified public accountant.

The Revenue Reconciliation Act of 1993, effective since 1994, limits business meal and entertainment deductions to 50 percent of the expenditure. Transportation to and from the meal or entertainment facility will be fully deductible without regard to the 50 percent limitation.

Note that if you are using the per diem method for determining expenses, you are not required to keep separate track of meal expenses. In 2014, the state of Tennessee paid \$188 per diem from Jan. 1, 2014, through Sept. 30, 2014, and \$198 from Oct. 1, 2014, to Dec. 31, 2014. However, \$66 (for Nashville) of the per diem is deemed to constitute meals and is subject to the 50 percent limit. Also note that travel away from home automatically qualifies a meal as a business meal if it is eaten alone or with a non-business related person for whom a deduction is not claimed. It appears that a “travel” meal eaten with a business associate will only be deductible by you if the meal is directly related to or associated with your trade or business.

Q. How do I make the “tax home” election noted above, and to which taxable years does it apply?

A. Treasury Regulation § 1.162-24(e) indicates the time and manner of making the election. The election must be made for each tax year for which the election is to be in effect. The election must be made no later than the due date, including extensions, of the taxpayer’s federal income tax return. The election is made by attaching a statement to the taxpayer’s return that includes the taxpayer’s name, address, taxpayer identification number, a declaration that the election is being made and information establishing that the taxpayer is a state legislator entitled to make the election, such as 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. The election may be revoked only with IRS consent. 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 the taxpayer’s name, address, taxpayer identification number, a statement that the taxpayer is revoking the election for a specified year and a statement explaining why the taxpayer seeks to revoke the election.

Q. If I elect to make my tax home my residence within my legislative district, what expenses may I deduct under this election?

A. For 2014, you may report as out-of-town living expenses amounts equal to \$188 a day (from Jan. 1, 2014, to Sept. 30, 2014) or \$198 a day (from Oct. 1, 2014 to Dec. 31, 2014) for Nashville for each day on which the legislature was in session, including the days on which the legislature was in recess for a period of four or fewer consecutive days. Thus, in the case of the Tennessee General Assembly, you may count the regular days on which legislative sessions were held as well as Friday, Saturday and Sunday when the regular session was in recess. Additionally, you may report the per diem allowance for each day on which the legislature was not in session but in which your physical presence was formally recorded at a meeting of a legislative committee.

Q. Does an election under Section 162(h) mean that I am entitled to the \$188/\$198 flat allowance during 2014 for each day in which the legislature was in session, including Friday, Saturday and Sunday in between Monday sessions even if I did not leave my residence in my legislative district because of sickness or other reasons on any of these days?

A. Yes. This fact is made expressly clear, for electing state legislators, in the Congressional Committee reports explaining Section 127 of Public Law 97-34.

Q. What expenses are included in the flat \$188/\$198 per day allowance?

A. The allowance includes, but is not limited to, meals and lodging expenses, laundry, cleaning and pressing of clothing and fees and tips for services, such as for waiters and baggage men. It does not include taxi fares or other automobile expenses incurred in or traveling to Nashville or the costs of telegrams or telephone calls. Hence, these amounts may be deducted in addition to the flat allowance.

Q. If I choose not to elect the special treatment described above or if I am ineligible to make the election, what can I deduct for living expenses while attending sessions in Nashville?

A. If, given your particular facts and circumstances, your “tax home” is your place of residence within your legislative district, you may deduct actual amounts expended for lodging, meals, laundry, cleaning and pressing of clothes, tips, telephone calls and all transportation costs, including commuting costs within Nashville and transportation to and from Nashville. If you share a hotel room with others, your deduction is limited to the portion of the total cost you pay. If you have a fixed monthly rate which you pay a hotel, it may be deducted as long as you pay it and it’s for the purpose of providing a place to stay while you are away from home on legislative business. If you live in an apartment or share an apartment with another, you may take as a business deduction the actual amount that you pay for your share of the rent, utilities, telephone bills and furniture rental for the apartment. In each case, whether it’s a hotel or an apartment, you or someone within the group with whom you are staying should keep the paid receipts for every dollar that is expended to support your lodging expense deduction. (See discussion regarding record keeping.) It would be desirable for each member of the group to have copies of the paid vouchers and an annual summary of the total costs of the apartment or hotel and how these costs were divided among the roommates.

Q. Can I deduct the expense of meals I have purchased for constituents who have come to Nashville and other persons where it involved legislative business?

A. Yes, the cost of meals paid by you is an allowable deduction as long as that expense is related to your legislative business in Nashville and you meet the substantiation requirements. (See discussion regarding record keeping.)

However, the deduction is limited to 50 percent as discussed previously. Furthermore, Section 274 has been amended by the Tax Reform Act of 1986, to delete the “quiet business meal” rule which presumed that a meal with a business associate or client was related to business if the meal took place in an environment conducive to a business discussion. The meal is deductible subject to the 50 percent limit only if it is associated with or directly related to the conducting of business. Thus, business discussions must be engaged in or must precede or follow the meal.

Q. Because we are in Nashville for long periods of time, I find it necessary and desirable to have my spouse and children come to Nashville on occasion. Can I deduct the cost of their travel to Nashville, hotel costs and cost of their meals?

A. No! You must establish that your spouse or dependent is your employee and their presence served a bona fide business purpose. This same rule applies if your spouse accompanies you on a trip for a legislative conference. It is only in unusual circumstances that a spouse’s presence would serve a valid business purpose. The RRA of 1993 added Section 274(m)(3), which applies to costs paid or incurred after Dec. 31, 1993. It states as follows:

(m) Additional Limitations on Travel Expenses -

(3) Travel Expenses of Spouse, Dependent or Others - No deduction shall be allowed under this chapter (other than Section 217) for travel expenses paid or incurred with respect to a spouse, dependent, or other individual accompanying the taxpayer (or an officer or employee of the taxpayer) on business travel, unless -

(A) the spouse, dependent or other individual is an employee of the taxpayer,

(B) the travel of the spouse, dependent or other individual is for a bona fide business purpose and

(C) such expenses would otherwise be deductible by the spouse, dependent or other individual.

Therefore, your spouse and children must be your employees and accompany you for a bona fide business purpose.

Q. On certain occasions, I will host a gathering of fellow legislators and other individuals connected with the legislature for the purpose of discussing legislative matters. Can I deduct the expense of this gathering as a business expense?

A. Yes. You should retain receipts to support your expenses and record in your diary the business purpose and those who attended the function. (See discussion regarding record keeping.) Remember that the allowable deduction will be subject to the 50 percent rule.

Q. At the end of a session, if fellow legislators and I take the secretaries who work long hours during the year out to dinner, would this be a deductible expense?

A. Yes, this is a deductible expense because it is related to a business purpose. Furthermore, it meets the “associated with” test as it follows a work session. However, the 50 percent rule will apply.

OFFICE AT HOME
FORM 2106, PART I, LINE 4

Q. Can I deduct any costs of my home as a business expense?

A. You may deduct any expense attributable to the portion of the home used exclusively and on a regular basis as your principal place of business, or a place of business which is used by your constituents, clients or customers in meeting or dealing with you in the normal course of business.

You cannot generate a loss; in addition, any deduction that meets these tests is limited to the gross business income generated at this location. (Note: Any unused home office expense due to loss limitations may be carried over to subsequent years.)

The U.S. Supreme Court defined the term “principal place of business” as the place where the primary income-generating functions of the trade or business were performed. The tax law has expanded the definition of “principal place of business.” A home office qualifies as a taxpayer’s principal place of business if:

1. the office is used by the taxpayer to conduct administrative or management activities of the taxpayer’s trade or business, and
2. there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business.

To qualify for the deduction, the area in the home used for business must be used regularly and exclusively for business. Occasional business use does not meet the regular use test, even if the area is used for no other purpose. Exclusive use requirement does not mean that a home office must be used exclusively in connection with only one business. A deduction is allowed if each business satisfies all the requirements.

Q. Specifically, what can I deduct as a home office expense?

A. To the extent a separate section of your home or apartment (or a separate section of a room in your home or apartment) is used for your legislative duties exclusively and there is no private use of that portion, then you may deduct the following items:

1. Depreciation or rent: The portion of your home or apartment used exclusively for legislative or other business duties is considered a business office. If you live in a rented home, you may take an office rental deduction for the percentage of your monthly annual rental that your business office space represents in relation to the total living space of your home. Similarly, if you own your own home, you may report as a business expense the annual depreciation of your business office. To determine this amount, first divide the square footage of your business office by the entire square footage of

the living space of your home. This represents the business use percentage of your home. Refer to appropriate rules on depreciation for computing amount of depreciation available.

A final word of caution if you choose to depreciate your business office in your home. In the event you sell your home, no allocation of basis and the amount realized from the sale is required. However, you must recognize gain to the extent of depreciation deductions allowed or allowable after May 6, 1997. Accordingly, you must weigh your future intentions regarding holding or selling your home. If a sale is contemplated, you must measure the benefits of the home office deduction against the cost of paying tax on the depreciation allowed or allowable.

2. Other expenses: You may report as a business expense a portion of the utilities needed to operate your home or apartment as well as insurance, taxes, security systems and interest on your home if owned. The deductible portion of these expenses is the business use percentage computed above multiplied by the total amount paid during the year for these items. You may also deduct as a business expense, maintenance expenses to keep up this particular room or area, such as cleaning and painting. Carpentry work to install bookcases, installation of carpet, or other improvements of this nature in this particular room are a capital expense which must also be depreciated.
3. Office equipment and furniture in your office, such as a desk, file cabinet, computer, fax machine, printer and copier may be depreciated whether or not the office area in which they are used meets the stringent tests noted above. Consult with your certified public accountant on the availability of additional first-year bonus depreciation as mentioned earlier.
4. These home office expenses are claimed by filing Form 8829, Expenses for Business Use Of Your Home. A sample copy is included in this booklet. Although this form is only required for self-employed (Schedule C) individuals, it contains a good guide in organizing your information and computing your expenses. These expenses should be included on line 4 of [Form 2106, *Employee Business Expenses*].

Special note of Alternative Computation:

Effective for tax years beginning Jan. 1, 2013, an alternative method is allowed by the Internal Revenue Service in computing the Home Office Deduction. Revenue Procedure 2013-13 allows a new, simplified "safe harbor method." A taxpayer is allowed to claim a deduction equal to \$5 per square foot, up to a maximum of 300 square feet (not to exceed \$1,500). You still must meet the exclusive business use and other requirements in order to take the home office deduction. Furthermore, if your employer (the state of Tennessee) reimburses you for the home office, then this safe harbor method cannot be taken.

Q. How do I handle salaries?

A. Salary or wages is another deductible expense you may incur. If you hire someone to assist you in legislative matters and handling constituent complaints, such as a full-time or part-time secretary, the compensation paid is deductible. If an individual is on your payroll, you must obtain a federal identification number and withhold and pay the proper federal and Tennessee payroll taxes (the employer's portion is also deductible). For the details on the proper accounting and tax reporting of payrolls, you should contact your certified public accountant for advice. Your CPA's fee is a business expense and may be deducted on your tax return. If you have student help or volunteer help in working on local legislative matters, and you incur no out-of-pocket expense, there is no tax deduction.

Q. If I have a legislative assistant in my home district whom I pay only a token amount each month, am I required to go through the process of filing payroll tax returns and withholding payroll taxes?

A. In most situations, all amounts paid for services are subject to the payroll tax laws. In addition, the workman's compensation rules may apply. However, there are some exceptions (such as in the case of an independent contractor). You should consult your certified public accountant to evaluate each situation for you.

Q. Instead of, or in addition to, an office in my home, I maintain a rented office in my district for the purpose of serving my constituency. What expenses can I deduct on my tax return for the cost of maintaining this office?

A. If the office is being used exclusively for legislative purposes, all expenses related to this office such as rent, utilities, depreciation on improvements and equipment, etc., are 100 percent deductible. However, if the office is used during campaign time strictly for your re-election effort, the office expenses incurred during this period are nondeductible. You should keep detailed records of office expenses paid during the campaign and determine the source of funds used to pay these expenses. To the extent campaign contributions for maintaining the office exceed the cost of operating the office, you incur taxable income. If the office is used partly for the re-election effort while it is used for continuing legislative activities, you must identify the portion of office expenses paid from campaign funds. These amounts should be reported as expense reimbursements on Line 7, Part I, Form 2106, thus reducing the deductible amount of office expenses. (See discussion regarding campaign contributions and expenditures.)

ADVERTISING EXPENSES

FORM 2106, PART I, LINE 4

Q. Because I am a member of the legislature, I am often asked to pay for ads in trade journals, ad books or magazines put out by various organizations in my district. Can I deduct the cost of these ads?

A. Where these ads are paid for by you and are a necessary part of your business in order to maintain relations with your constituency and also in order to promote your name (which is necessary to an elected official so people are aware of who you are), then this type of expenditure may be deducted as a business expense on your tax return. If these ads appear during a re-election campaign period in which you are involved, it would be best to exclude the cost of these ads from your tax deductible items (because such campaign expenses are not deductible). Hopefully, in all cases, ads appearing during your campaign would be paid for by campaign contributions.

Q. As a member of the legislature, I am requested (and required, in effect, because of my position) to attend many dinners within my district. Can I deduct the cost of these dinners?

A. Yes, if you pay for your dinner; however, the 50 percent limitation does apply. Incidentally, any costs incurred to attend such dinners (travel expense, parking fees, etc.) are also deductible. However, if you are reimbursed for such expenses by the state of Tennessee or any person, your deduction is limited to the excess of your expenses over your reimbursement.

Q. I buy calendars, pens or similar items which I will pass out to my constituency as a means of advertising that I am their legislator with my address and phone number so that they can contact me when needed. Can I deduct such items?

A. Since this is directly related to the business purpose of adequately and properly serving your constituency, you may deduct the cost of these items.

ENTERTAINMENT AND MEAL EXPENSES AT HOME

FORM 2106, PART I, LINE 5

Q. I am required to meet with a constituent regarding a state problem and I meet him for breakfast, lunch or dinner and pay for his meal. Can I deduct this as a tax expense?

A. Yes, but again, the 50 percent limitation applies to meals and entertainment.

The requirements regarding the substantiation of deductions were imposed under the Tax Reform Act of 1986. A substantial and bona fide business discussion must occur either directly preceding, during, or directly following the meal. There are two additional restrictions placed on the deduction of meal expenses: (1) the meal expense is not generally deductible if neither you nor your employee is present at the meal; and (2) a deduction will not be allowed for food and beverages to the extent that such expense is lavish or extravagant under the circumstances. There are a few exceptions to these restrictions, which your certified public accountant will be happy to discuss with you. You must keep a record of each expenditure regardless of the amount or whether you are away from home. Also, be sure the record (receipt) contains the following information:

1. where the expenditure occurred,
2. with whom the expenditure occurred,
3. when the expenditure occurred,
4. the business purpose of the expenditure and
5. the amount of the expenditure.

(See discussion regarding record keeping.)

Q. Because of my position in the community, I occasionally will entertain other elected officials such as city councilmen and mayors or I will entertain congressmen, primarily for the purpose of maintaining communications with them and exploring each other's problems and determining common solutions. Can I deduct this expense?

A. Yes. However, the same amount limitations and substantiation requirements discussed in the preceding question also apply to entertainment expenditures. (See discussion regarding record keeping.)

TELEPHONE EXPENSES

FORM 2106, PART I, LINE 4

Q. Can I deduct the cost of my home telephone since I use the telephone for calling and receiving calls from constituents and for other state business? What about my cell phone?

A. The basic cost of the home telephone is an expense that you would incur whether or not you were in your position as a member of the legislature. Therefore, this basic cost will not be a deductible expense. If you are charged on the basic rate for calls in excess of a maximum amount, then the cost of these calls, as long as they relate to state business and relate to your position as a member of the legislature, are deductible expenses. Telephone features, such as call waiting, call forwarding and caller ID, would be deductible if these features were added principally due to your activities as a legislator. If you have a separate telephone line installed exclusively for the purpose of your legislative business, or for Internet access, then the entire cost of this line could be deducted as a business expense. The cost of long distance telephone calls that relate to state business is a deductible expense. If your cell phone is used in conjunction with your duties as a legislator, the business portion of all cell phone charges is deductible. Use of an answering service or pager is also a deductible expense if it is related to your position as a member of the legislature.

Q. What other expenses can I deduct on my tax return?

A. Miscellaneous business expenses are reportable on Line 4, Form 2106. Some examples of these miscellaneous expenses include:

1. Dues* and publication costs directly related to the performance of your duties as a legislator. However, if such items are found to be of both a personal and business nature, then the IRS may disallow a portion of the deduction. Also, the IRS has announced that dues and subscriptions paid more than 12 months in advance would not be allowed as a deduction in the year paid.
2. The cost of supplies (office or other) used in the performance of your duties as a legislator.
3. The cost of office assistants which are directly related to your duties as a legislator.
4. Qualified business conventions directly related to your duties as a legislator.
5. Postage directly related to your duties as a legislator.
6. The cost of literature mailed to constituents which is directly related to your duties as a legislator.
7. Gifts to constituents, employees and others, if related to business are allowable, but are limited to \$25 per business recipient per year. (See discussion regarding record keeping.)
8. Internet access fees, if your computer is used in the performance of your duties as a legislator.

*Effective Jan. 1, 1994, (RRA of 1993), no deduction is allowed for membership dues in any club organized for business, pleasure, recreation or social purpose. This includes country clubs, athletic, luncheon, sporting, hotel and airline clubs. However, Regulation Section 1.274-2 (a)(2)(iii) more clearly defines and discusses allowable dues. Please consult your certified public accountant for details.

Q. How does the tax law affect the deductibility of expenses reported on Form 2106?

A. Unreimbursed employee business expenses reported on Form 2106 are recharacterized as "miscellaneous itemized deductions" and are deductible by you only to the extent that the aggregate amount of your miscellaneous itemized deductions exceeds two percent of your adjusted gross income. For example: if your miscellaneous itemized deductions total \$2,000 and your adjusted gross income is \$40,000, then your deduction would be \$1,200 [$\$2,000 - (\$40,000 \times 2\%)$].

In addition to Form 2106 expenses, examples of other miscellaneous itemized deductions are: safety deposit box fees; union dues; tax planning and return preparation fees; investment council fees and other investment expenses.

Q. What tax saving moves can help someone (with substantial miscellaneous itemized deductions) subject to the two percent limitation?

A. Since the higher your adjusted gross income (AGI) or income before itemized deductions and exemptions, the less miscellaneous itemized deductions you can keep, it is important to minimize AGI by making deductible IRA contributions, earning tax-free income or deferring gains through installment sales or like-kind exchanges. Also, remember to maximize the itemized miscellaneous deductions in years which miscellaneous itemized deductions are greater than two percent of AGI, or defer miscellaneous itemized deductions in years in which you will have higher than normal AGI. It may be possible to some extent to bench those deductions in every other year by timing your payments. As with dues and subscriptions, prepayments of more than one year may not be allowable.

Another idea is to equalize the income between spouses as much as possible and file as married-filing-separately. Of course, the total tax paid for the family must be considered. Since some itemized deductions are reduced by AGI without regard to the source of the AGI, you may save taxes if the income (and AGI) can be split.

MOVING EXPENSES

FORM 3903

1. For moving expenses to be deductible, the following applies:

- (a) Distance Test - Distance between the new place of work and former residence must be at least 50 miles farther than the former residence was from the former place of work. The move needs to be closely related to the start of work and meet the time test (employee must work 39 weeks within 12 months or self-employed must work 39 weeks in 12 months or 78 weeks in 24 months.)
- (b) No longer deductible:
 - (i) Costs of buying or selling expenses pertaining to a residence - or costs to settle an unexpired lease.
 - (ii) Meals incurred while traveling to the new residence.
 - (iii) Pre-move house hunting expenses.
 - (iv) Temporary living quarters.
- (c) Items still deductible:
 - (i) Costs paid for transportation of household and personal property
 - (ii) Amounts paid for travel and lodging expenses in moving from your old home to your new home. (Standard automobile mileage rate for using your vehicle to move to a new home is 23.5 cents per mile for 2014.)
- (d) These costs will be reduced by any amounts your employer paid you for the moving expenses that are not included in wages on your W-2 form.
- (e) The deductible amount computed on Form 3903 will carry forward to Form 1040, Page 1, Line 26.
Note: These forms may be downloaded from the IRS website at www.irs.gov.

CAMPAIGN CONTRIBUTIONS AND EXPENSES

Q. Are my campaign expenses deductible for tax purposes?

A. No. Section 162(e)(1) of the Internal Revenue Code disallows all deductions for expenditures in any political campaign for a candidate for public office. Thus, campaign expenditures made out of your own resources are not deductible business expenses for income tax purposes. Even though a public office is defined as a trade or business (Section 7701(a)(26), 1954 I.R.C.), none of a candidate's campaign expenses are deductible. Regardless of the result of an election, you cannot deduct expenses of attending political conventions, contributions to the political party which sponsored your candidacy, expenses of your own campaign travel, campaign advertising, the expenses of successfully defending your position in a contested election, filing fees or the cost of legal fees paid in litigation over redistricting. Nor may these expenses be amortized as capital expenditures over the term of the office.

Even though political office may be viewed as a stepping stone to some other business or profession, this is not enough to change the result described above. Thus, political campaign expenses are not deductible by a lawyer seeking election as a legislator in the hope that the exposure will build his professional practice. Even though a candidate felt that his professional reputation was damaged during a political campaign, he cannot deduct the cost of any defamation litigation for allegations published during the campaign.

Q. Are campaign contributions received by me or my campaign treasurer taxable income?

A. Political contributions do not constitute taxable income to you or your campaign committee if such funds are used for expenses of a political campaign or some similar purpose. The IRS has ruled that contributions will be considered to be used for campaign or similar purposes if they are:

1. utilized for generally recognized campaign expenses;
2. contributed to the national, state or local committee for the candidate's party; or
3. used to reimburse the political candidate for out of pocket campaign expenses paid by him during a current campaign, or (if he is not currently campaigning) during his last campaign.

If you should divert such campaign contributions to your personal use, they become taxable income to you. All campaign funds should be carefully segregated and maintained in a separate account. They should not be commingled with personal funds. 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 you.

A special problem occurs if you use campaign funds for payment of otherwise deductible legislative expenses, for example, to pay office or telephone expenses attributable to the legislative session rather than the campaign. Since the tax law regards such expenses as your business expenses, you are assumed to have converted the contributions to your business use and, thus, they become taxable income to you. Of course, if the expense is deductible, you will have no net tax effect (subject to the two percent limitation). The amount of contributions so used and the expenses should be included on your Form 2106. Furthermore, the conversion of campaign funds to personal or other noncampaign use appears not to be subject to self-employment tax, but this position should be discussed with your certified public accountant.

Q. Are there any tax reports to be filed concerning my campaign funds?

A. If you or your committee receive income from investing campaign funds or selling contributed property, you must file a return and possibly pay tax. Interest earned on campaign funds deposited in a savings or investment account is taxable. Interest earned on telephone deposits constitutes taxable income. If someone makes a political contribution in the form of property and you or your committee sells the property, you may have taxable gain or loss. Such income should be reported on Form 1120-POL Income Tax Return for Certain Political Organizations. A sample copy is included in this booklet. Form 1120-POL is required if you have any political organization taxable income (Internal Revenue Code section 6012(a)(6) as amended by P.L. 107-276, §3(a)). The return is due on or before the 15th day of the third month after the taxable year. Don't forget that if you hire campaign employees, you must obtain an identification number, withhold payroll taxes, make payroll tax deposits and file all appropriate payroll tax reports.

Q. What items would be reported and subject to tax on Form 1120-POL?

A. All receipts and expenditures must be reported on Form 1120-POL. As discussed in answers to previous questions, however, campaign receipts are not subject to tax. Dividends, interest, rents, royalties and capital gains are subject to tax.

Q. What accounting records are required for my political funds?

A. You should maintain detailed substantiating records to account accurately for the receipt and disbursement of political funds. Otherwise, receipts may be taxed on your individual return even though campaign expenses are nondeductible. To reiterate, if political funds are commingled with your personal funds so as to render tracing or identification impractical, the political funds will be presumed to have been diverted to your personal use at the time so commingled and will be taxable income to you.

Q. What is the tax rule regarding presumption against unrestricted gifts?

A. The Internal Revenue Service will presume, in the absence of evidence to the contrary, that contributions to a political candidate are political funds which are not intended for your unrestricted personal use. If, in fact, the funds are intended for your unrestricted personal use, you must be able to substantiate this claim.

Q. Do my campaign contributors receive a tax benefit for their contributions?

A. No. The nonrefundable credit for political contributions is no longer available to individuals. The Tax

Reform Act of 1986 repealed the credit. Political contributions are not allowed as a deduction on Schedule A.

Q. What is the tax status of unexpended balances of political funds refunded to contributors?

A. For tax purposes, unexpended balances of political funds which are repaid to known contributors are not considered to be either expended or diverted and, therefore, are not taxable income to the candidate.

REPORTING OF INCOME AND REIMBURSEMENTS FROM STATE

Q. Am I required to report the amounts shown on the Form W-2 furnished to me by the state of Tennessee after the end of each calendar year?

A. Yes. The amount shown on your Form W-2 as gross income reflects your compensation paid for services as a legislator and this amount should be reported as a salary on Page 1 of Form 1040. Since federal income taxes are withheld from your salary, these amounts on the Form W-2 should be reported on Page 2 of your federal return.

Q. Will the reimbursement I receive be included in gross wages, tips and other compensation on my Form W-2?

A. No. The state of Tennessee will issue a separate form for these payments.

Q. Each year, I am furnished with a report from the state of Tennessee reflecting the amount of expense reimbursements I have received during the year. Am I required to report these reimbursements on my income tax return?

A. The report you receive each year categorizes the reimbursements between subsistence payments, mileage allowances and office expense allowances. You must report your subsistence allowance only if you claim a deduction for the excess of your actual expenses, or deemed expenses if an election is made under Internal Revenue Code Section 162(h), over the amount of your subsistence allowance. (See discussion regarding living expenses.) You may deduct the amount by which your actual automobile expenses exceed the reimbursement. (See discussion regarding automobile and travel expenses.) The office expense allowance you receive must be reported on Part I, Line 7 of Form 2106. If your actual office expenses exceed the reimbursement, you will be entitled to a deduction for the excess if you itemize deductions; however, you will have taxable income to the extent that your reimbursement for office expense exceeds your actual expenses. (See discussion regarding office at home.)

RECORD KEEPING

Q. What kind of information do I need to substantiate my deduction for travel, entertainment and other business expenses?

A. Estimates are not acceptable; the taxpayer must “substantiate by adequate records or sufficient evidence corroborating his own statements” all expenditures for travel, entertainment and gifts. Other business expenses must be supported by receipts, cancelled checks and books of record. In every case, the business nature of the expense must be evidenced in some fashion.

The elements for recording travel expenses are the following:

1. The amount spent daily for transportation, meals, lodging, etc. (The costs of travel by automobile may be substantiated by using the standard mileage allowance of 56 cents per mile for 2014.

Such expenses may be aggregated in reasonable categories such as “gasoline and oil” and “taxi”;

2. The dates of departure and return, and the number of days spent on business;
3. The destination or locality of the travel, designated by the name of a city, town or similar description; and
4. The business purpose of the trip, or the business benefit derived or expected to be derived as a result of the travel.

Entertainment expenses should be recorded as follows:

1. The amount and a description (i.e., “dinner” or “theater”) of each separate expenditure; however, incidental items, such as taxi fares and telephone calls, may be aggregated on a daily basis;
2. The time and place the entertainment was provided;
3. The business purpose of the activity, including a description of any business benefit derived or expected, and the nature of any business discussion with the person entertained; and
4. The business relationship of the person or persons entertained, which may be indicated by name, title, occupation or other designation sufficient to establish the relationship. If the taxpayer entertains a relatively large group of persons, he need not record the names of each individual present if a class designation would suffice to indicate the business relationship. However, members of the class must be readily identifiable. If the group is too large and heterogeneous so that members could not be easily identified, the taxpayer is required to list each person entertained.

If the entertainment is “associated with” rather than “directly related to” the active conduct of the taxpayer’s trade or business, the taxpayer must also record the following:

1. The date and duration of the business discussion which preceded or followed the entertainment
2. The place where the business discussion was held;
3. The nature of the discussion, its purpose and the benefit derived or expected from the discussion; and
4. The identity of the persons entertained who participated in the business discussion.

These elements must be recorded for each “separate expenditure.” Generally, a single payment for goods, services or facilities will be considered a separate expenditure. Thus, where the taxpayer entertains a guest at dinner and the theater, the payment for the meal and the payment for the tickets are deemed to constitute separate expenditures, each of which must be individually recorded. If the taxpayer holds season or series tickets to an event, he must treat each ticket in the series as a separate item, and record the use of each for entertainment or gift purposes.

However, concurrent or repetitious payments made during the course of a single event which are of a similar nature may be treated as a single expenditure. Thus, rounds of drinks paid for separately during an evening’s entertainment at one place may be treated as a whole.

In some instances, certain kinds of expenses can be aggregated on a daily basis. Thus, the regulations permit the taxpayer to treat as one expenditure the total meal expenses (breakfast, lunch and dinner) incurred in one day. Tips may be aggregated with the expense of the services to which they relate. Other expenses which may be grouped include “gasoline and oil,” “taxi” and “telephone calls.”

Entertainment facilities:

1. **Social, athletic, country and luncheon clubs.** Effective January 1, 1994, club dues are no longer deductible. Therefore, the expenses of maintaining country club luncheon memberships are not deductible!



2. **Hunting lodges, lake condominiums, boats.** The expenses of maintaining these facilities (e.g. depreciation, upkeep, membership dues and fees) are not deductible regardless of the percentage of time used for business purposes. However, out-of-pocket expenses incurred for meals, transportation and daily use fees are deductible if they satisfy the requirements for deductibility of entertainment expenses generally.

Business gifts:

If the taxpayer wishes to deduct the cost of business gifts, he must substantiate the following:

1. The cost and a description of the gift;
2. The date upon which the gift was made;
3. The business reason for or the benefit derived or expected as a result of the gift; and
4. The relationship of the recipient to the taxpayer, including his name, title or other designation sufficient to establish such relationship. (It is not necessary to record the recipient's name in certain situations, if the business relationship of the gift is clear and if it is apparent that the taxpayer is not attempting to avoid the \$25-per-donee limitation.) Thus, if a taxpayer purchases a large number of inexpensive tickets to a local high school basketball game and distributes one or two of them to each of a large number of constituents, he need not record the names of the recipients. However, he must still substantiate the cost, date, description and business purpose of the gift.

Adequate records consist of the following:

1. **Diaries, account books.** It is required that the elements of an expenditure must be recorded "at or near the time" when the expense was incurred. Such records are believed to have "a high degree of credibility not present with respect to a statement prepared subsequent thereto, when generally there is a lack of accurate recall." Thus, although no special form of records must be maintained, it is clear that the IRS contemplates that the taxpayer will keep a diary or account book in which entries can be made on a daily basis. The degree of specificity of entries in a diary or account book will vary with the facts and circumstances of each expenditure. Where documentary evidence is required, it is not necessary to make a diary entry which duplicates information contained in the receipt if the receipt and diary complement each other in an orderly fashion. Again, where the business purpose of an expenditure is evident from surrounding facts and circumstances, a written statement of such business purposes is not required.

Confidential or highly sensitive information need not be recorded in a diary or account book. However, the taxpayer should be ready to submit a contemporaneous record of the expenditure to the IRS during an audit to obtain a deduction for the expenditure.

2. **Documentary evidence.** A diary or account book standing alone is not sufficient substantiation in all circumstances. The taxpayer must be prepared to produce documentary evidence (i.e., receipts, paid bills, etc.) in order to deduct (i) lodging expenses incurred while traveling away from home and (ii) other expenses of \$75 or more, except for transportation charges. Automobile expenses can be easily authenticated by fare schedules and by mileage rates.

Usually, a receipt will suffice if it contains enough information to establish the amount, date, place and character of an expense. Thus, a hotel receipt must include the name, location, date and the separate charges for lodging, meals, telephone, etc., if it is to serve as adequate substantiation of a business travel expense. Similarly, a restaurant receipt must indicate the name and location of the restaurant, the date and the charges for food, beverages and other items.

A cancelled check will not ordinarily constitute adequate documentary evidence since it does not show in detail the specific items composing the total expenditure. Thus, if a taxpayer makes a long-distance telephone call home (a personal expense), a hotel receipt would usually indicate

this fact while a cancelled check would not. However, a cancelled check, in connection with the payee's bill, will typically be sufficient to substantiate the business nature of an expenditure. The detail required is important for it is the basis upon which an allocation between personal and business expenses can be made. Moreover, if expenses incurred with respect to certain persons (i.e., spouses) are not deductible, it is essential that evidence of the cost incurred with respect to them be available. Otherwise, they will be deemed to bear a proportionate share of the total charge.

Retention of records:

The taxpayer must retain records and related documentary evidence in support of travel, entertainment and gift deductions during the period that the tax return is subject to audit. Normally, this period is three years from the date of filing the tax return on which the deduction is claimed. However, the period of limitations is longer if the taxpayer consents to an extension, or if there has been a substantial omission from gross income. Moreover, there is no statute of limitations in cases of fraud.

MEDICAL INSURANCE REQUIREMENT (INDIVIDUAL MANDATE)

Background: On March 23, 2010, the Patient Protection and Affordable Care Act (ACA), commonly referred to as Obamacare, was signed into federal law. New Internal Revenue Code section 5000A, Requirement to Maintain Minimum Essential Coverage, was created. This code section requires that individuals have medical insurance that "qualifies" as minimum essential coverage.

Q. What is minimum essential coverage (MEC)?

A. IRC section 5000A (f) defines "minimum essential coverage." It includes the following:

1. Government-sponsored programs such as Medicare Part A or C, Medicaid, Children's Health Insurance Program, Tricare (military), VA, etc.
2. Employer-sponsored plans, which include a "governmental plan."
3. Plans in the Individual Marketplace: a health plan offered in the individual market within a state.
4. Grandfathered Health Plan
5. Other coverage, such as state health benefits risk pool, recognized by the secretary of HHS.

Insurance purchased through an employer-sponsored plan or through the marketplace must meet the minimum coverage of a "Bronze" plan under the ACA. Under the Bronze plan limits, insurance must pay for at least 60 percent of the full actuarial value (FAV) for "minimum essential covered medical items," and the maximum paid out-of-pocket annually cannot exceed the imposed limits of Health Savings Accounts (HSAs).

Q. Does the medical insurance offered by the State of Tennessee qualify as minimum essential coverage?

A. Yes, the state-sponsored health insurance plan offered to its employees should qualify.

Q. When am I, as an individual, required to have "minimum essential medical coverage"?

A. The implementation of the individual mandate was made effective Jan. 1, 2014. The 2014 tax year.

Q. Is there a penalty for not having minimum essential coverage?

A. Yes. IRC Section 5000A(c) imposes a monthly penalty. The penalty is the greater of the Flat Dollar Amount penalty or the Percentage of Income penalty. For 2014, the Flat Dollar Amount is \$95 per adult in the household plus \$47.50 per child under age 18 who did not have MEC (not to exceed

three times the dollar amount of \$95 or \$285 maximum). The Percentage of Income penalty is one percent (1%) of the “household income” in excess of the filing threshold (standard deduction plus exemptions) that applies to the taxpayer for the year.

Q. What documentation should I have in preparing my 2014 tax return?

A. For starters, there are three forms that may be sent to you by Jan. 31, 2015:

1. Form 1095-A will be received if you purchased your insurance on the state exchange or on Healthcare.gov.
2. Form 1095-B is to be issued by health insurance providers (issuers). However, insurance companies are not required to send these out until the 2015 tax year (2014 is optional).
3. Form 1095-C is to be issued by large employers. Employers with 100 or more full-time employees are not required to comply until the 2015 tax year (by Jan. 31, 2016). Employers with 50 to 99 full-time employees are not required to comply until the 2016 tax year (by Jan. 31, 2017). Employers with less than 50 employees are not currently required to comply.

If you do not receive a Form 1095, then documents from your insurance policy, such as insurance cards, policy benefit statements, etc., should be used to determine if you have minimum essential coverage.

Q. I heard that I may be eligible for a premium assistance credit. Am I?

A. If you purchased your insurance on a state-sponsored exchange, you may be entitled to a premium assistance credit. If you have already received this credit at the time you purchased the insurance from the exchange, you may be entitled to an additional credit, or you may have to repay part of the credit. The credit is based on your household income; advance credits are usually based on estimates of your income for the 2014 tax year.

The State of Tennessee did not set up an exchange. If you received your insurance through the federal exchange (Healthcare.gov), the federal government takes the view that such insurance qualifies for purposes of a premium assistance credit. This position may be the subject of judicial appeal.

Due to the complexity of the Affordable Care Act and its implementation, it is highly recommended that you consult with your tax advisor regarding your specific situation.

PLEASE NOTE

The forms on the following pages are 2014 forms downloaded from the IRS website in January 2015 and are included for your reference. The IRS may have updated the forms since our print date, and the most current forms may need to be downloaded from their website at www.irs.gov.

Employee Business Expenses

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Form 2106 and its separate instructions is available at www.irs.gov/form2106.

2014

Attachment
Sequence No. **129**

Your name	Occupation in which you incurred expenses	Social security number
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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	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	
5 Meals and entertainment expenses (see instructions)		5
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	6

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

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 (or on Form 1040NR, line 8)	8			
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 incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	9			
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 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.) ▶	10			

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	11 / /	/ /
12	Total miles the vehicle was driven during 2014	12 miles	miles
13	Business miles included on line 12	13 miles	miles
14	Percent of business use. Divide line 13 by line 12	14 %	%
15	Average daily roundtrip commuting distance	15 miles	miles
16	Commuting miles included on line 12	16 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17 miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
19	Do you (or your spouse) have another vehicle available for personal use?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
20	Do you have evidence to support your deduction?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
21	If "Yes," is the evidence written?	<input 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 56¢ (.56). Enter the result here and on line 1	22	
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Section C—Actual Expenses

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

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)	30			
31	Enter section 179 deduction (see instructions)	31			
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction)	32			
33	Enter depreciation method and percentage (see instructions)	33			
34	Multiply line 32 by the percentage on line 33 (see instructions)	34			
35	Add lines 31 and 34	35			
36	Enter the applicable limit explained in the line 36 instructions	36			
37	Multiply line 36 by the percentage on line 14	37			
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	38			

2014



Department of the Treasury
Internal Revenue Service

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 www.irs.gov/form2106.

What's New

Standard mileage rate. The 2014 rate for business use of your vehicle is 56 cents a mile.

Depreciation limits on vehicles.

For 2014, the first-year limit on depreciation, special depreciation allowance, and section 179 deduction for most vehicles remains at \$11,160 (\$3,160 if you elect not to claim the special depreciation allowance). For

trucks and vans, the first-year limit is \$11,460 (\$3,460 if you elect not to claim the special depreciation allowance). For more details, see the discussion under *Section D – Depreciation of Vehicles*, later.

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 does not have

to be required to be considered necessary.

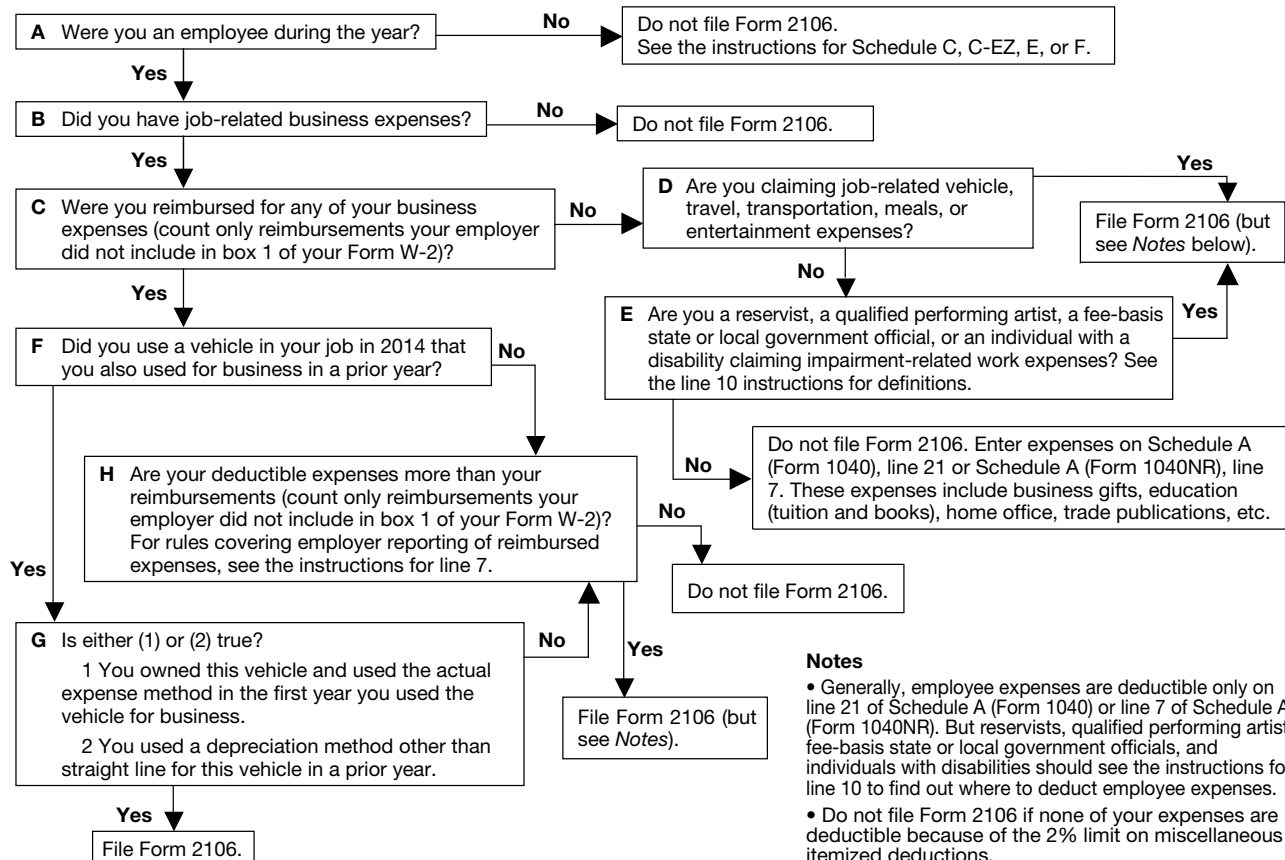
Form 2106-EZ. You can file Form 2106-EZ, Unreimbursed Employee Business Expenses, provided you were an employee deducting ordinary and necessary expenses for your job and you:

- 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 are not considered reimbursements for this purpose).

Recordkeeping

You cannot deduct expenses for travel (including meals unless you used the standard meal allowance), entertainment, gifts, or use of a car or

Who Must File Form 2106



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:

- 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, 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 should not 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 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 you were a rural mail carrier and your vehicle expenses were:

- Less than or equal to your qualified reimbursements, do not 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, 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 cannot use the standard mileage rate.

Line 2. The expenses of commuting to and from work are not 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). Do not 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 do not 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 do not 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) 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 the definition of a 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 1-year rule does not apply for a temporary period in which

you were a federal employee certified by the Attorney General (or his or her designee) 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 a federal crime).

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

Incidental expenses do not 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 billings.

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 did not pay or incur any meal expenses. You cannot use this method on any day you use the standard meal allowance (defined 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.

Do not 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.



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; or Schedule A (Form 1040NR), line 1. 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. If you are not 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&IE) 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&IE rate. For most small localities in the United States, this rate is \$46 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 2014 on the Internet at www.gsa.gov/perdiem. At the Per Diem Overview page select “2014” for the rates in effect for the period January 1, 2014–September 30, 2014. Select “Fiscal Year 2015” for the period October 1, 2014–December 31, 2014. However, you can apply the rates in effect before October 1, 2014, for expenses of all travel within the United States for 2014 instead of the updated rates. For the period October 1, 2014–December 31, 2014, you must

consistently use either the rates for the first 9 months of 2014 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 www.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 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 reimbursements you received for business expenses that were not 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 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 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.

Reimbursement 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. 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 is not 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 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 in the total 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 2014. 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 are not subject to the 2% limit that applies to most other employee business expenses.

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 2014 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, 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 started using it for business.

Line 12. Enter the total number of miles you drove each vehicle during 2014.

Change from personal to business use. If you converted your vehicle during the year from personal to business use (or vice versa) and you do not 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. Do not include commuting miles on this line; commuting miles are not considered business miles. See the line 15 instructions below 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 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 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 taxes on Schedule A (Form 1040), line 7. (Personal property taxes are not 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 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, and 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 2014 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)

The lease term began in:	And the vehicle's fair market value on the first day of the lease exceeded:
2014	\$ 18,500
2013	19,000
2010, 2011, or 2012	18,500

If the lease term began before 2010, 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

The lease term began in:	And the vehicle's fair market value on the first day of the lease exceeded:
2010, 2011, 2012, 2013, or 2014	\$ 19,000

See Pub. 463 to figure the inclusion amount.

Line 25. If during 2014 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.

- 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 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 2014, 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. 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 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).

Line 30. Enter the vehicle's actual cost or other basis. Do not 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 pay 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 2014 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. 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 \$2,000,000 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	\$25,000
Adjusted basis of trade-in	- 3,000
Section 179 basis	\$22,000
Limit on depreciation and section 179 deduction . . .	\$11,160*
<i>Smaller of:</i>	
Section 179 basis, or limit on depreciation	\$11,160
Percentage on line 14	x .75
Section 179 deduction	\$8,370

* \$3,160 if electing out of 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 2014, 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 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,
- 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.

The special depreciation allowance applies only for the first year a new vehicle is placed in service. 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%. Your total section 179 deduction, special depreciation allowance, and regular depreciation deduction cannot be more than \$11,160 for cars and \$11,460 for trucks and vans, multiplied by your business use percentage on line 14. See the line 36 instructions for depreciation limits. You cannot recover the amount by which your depreciation deduction exceeds the depreciation limits for the year placed in service until after the end of the recovery period for your vehicle.

Use the following worksheet to figure the amount of the special depreciation allowance.

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	_____

Election out. You can elect not to claim the special depreciation allowance for your vehicle. If you make this election, it applies to all property in the same class placed in service during the year.

To make the election, attach a statement to your timely filed return

(including extensions) indicating that you are electing not to claim the special depreciation allowance and the class of property for which you are making the election.

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 following Depreciation Method and Percentage Chart to find the depreciation method and percentage to enter 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 example, if you placed a car in service on July 1, 2014, and you use the method in column (a), enter "200 DB 20%" on line 33.

For vehicles placed in service before 2014, 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 2014, 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 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 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)—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.



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. 946 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 2009, enter the result of multiplying line 32 by the percentage on line 33;
2. After 2008, from January 1 through September 30, enter the amount figured by multiplying the result in (1) by 50%; or
3. After 2008, from October 1 through December 31, enter the amount figured by multiplying the

Depreciation Method and Percentage Chart—Line 33

Date Placed in Service	(a) ¹	(b) ¹	(c)
Oct. 1 – Dec. 31, 2014	200 DB 5.0%	150 DB 3.75%	SL 2.5%
Jan. 1 – Sept. 30, 2014	200 DB 20.0	150 DB 15.0	SL 10.0
Oct. 1 – Dec. 31, 2013	200 DB 38.0	150 DB 28.88	SL 20.0
Jan. 1 – Sept. 30, 2013	200 DB 32.0	150 DB 25.5	SL 20.0
Oct. 1 – Dec. 31, 2012	200 DB 22.8	150 DB 20.21	SL 20.0
Jan. 1 – Sept. 30, 2012	200 DB 19.2	150 DB 17.85	SL 20.0
Oct. 1 – Dec. 31, 2011	200 DB 13.68	150 DB 16.4	SL 20.0
Jan. 1 – Sept. 30, 2011	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 – Dec. 31, 2010	200 DB 10.94	150 DB 16.41	SL 20.0
Jan. 1 – Sept. 30, 2010	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 – Dec. 31, 2009	200 DB 9.58	150 DB 14.35	SL 17.5
Jan. 1 – Sept. 30, 2009	200 DB 5.76	150 DB 8.33	SL 10.0
Prior to 2009 ²			

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.

result in (1) by the percentage shown below for the month you disposed of the vehicle.

Month of Disposal	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, 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, 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 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 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.

Limits for Passenger Automobiles (Except Trucks and Vans)

Date Vehicle Was Placed in Service	Limit
Jan. 1 – Dec. 31, 2014	\$11,160*
Jan. 1 – Dec. 31, 2013	5,100
Jan. 1 – Dec. 31, 2012	3,050
Each succeeding year	1,875

* 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

Date Vehicle Was Placed in Service	Limit
Jan. 1 – Dec. 31, 2014	\$11,460*
Jan. 1 – Dec. 31, 2013	5,500
Jan. 1 – Dec. 31, 2012	3,350
Each succeeding year	1,975

* If you elect not to claim the special depreciation allowance for the vehicle or the vehicle is not qualified property, the limit is \$3,460.

Paperwork Reduction Act Notice.
For the Paperwork Reduction Act

Notice, see your tax return instructions.

U.S. Income Tax Return for Certain Political Organizations

2014

Information about Form 1120-POL and its instructions is available at www.irs.gov/form1120pol.

For calendar year 2014 or other tax year beginning _____, 2014, and ending _____, 20

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

Check if: <input type="checkbox"/> Final return <input type="checkbox"/> Name change <input type="checkbox"/> Address change <input type="checkbox"/> Amended return	Name of organization	Employer identification number
	Number, street, and room or suite no. (If a P.O. box, see instructions.)	Candidates for U.S. Congress Only If this is a principal campaign committee, and it is the ONLY political committee, check here <input type="checkbox"/>
	City or town, state or province, country, and ZIP or foreign postal code	If this is a principal campaign committee, but is NOT the only political committee, check here and attach a copy of designation (see instructions.) <input type="checkbox"/>

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

Additional Information	1	At any time during the 2014 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) <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," enter the name of the foreign country ▶ _____
	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 <input type="checkbox"/> Yes <input type="checkbox"/> 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 ▶ _____ b Enter name of candidate ▶ _____
	c	The books are located at ▶ _____ d Telephone No. ▶ _____

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer	Date	Title	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No
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Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

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

Future developments. For the latest information about developments related to Form 1120-POL and its instructions, such as legislation enacted after this form and instructions were published, go to www.irs.gov/form1120pol.

What's New

Online payment agreement. You may be eligible to apply for an installment agreement on line if you have a balance due when you file your return. For more information, see *What if You Cannot Pay in Full*, later.

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 1-877-829-5500. 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.

An exempt organization that is not 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 a:

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(e) of the Federal Election Campaign Act of 1971 and 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 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, and
- 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. Newsletter 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 (exempt 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 is not allowed, and
3. The dividends-received deduction and other special deductions for corporations are not 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*), 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 are not received in the active conduct of a trade or business; and
- 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 is not allowed.

Exempt organization that is not a political organization. Taxable income for an exempt organization described in section 501(c) that is not 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, over
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 charge the organization should not 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 and:

- Sign the return in the space provided for the preparer's signature.
- 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 2014 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 does not 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 shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The organization is not 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 2015 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 3rd 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. In addition to the United States mail, the organization can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/payment" rule for tax returns and payments. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service;
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First; and
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you are using a private delivery service, go to IRS.gov and enter "private delivery service" in the search box.



Private delivery services cannot deliver items to P.O. Boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box.

Overnight deliveries should be mailed to:
Internal Revenue Service
1973 Rulon White Blvd.
Ogden, UT 84404

Extension. File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request a 6-month 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, Political Organization Notice of Section 527 Status.

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, do not 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 is not required to be filed by an 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 are not required to file Form 990.

- Any political organization excepted from the requirement to file Form 8871, and
- 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 if that period is a calendar year or a fiscal year. However, an organization that does not keep books or does not 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 get the consent of the IRS to change its tax year by filing 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 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). Generally, electronic fund transfers are made using the Electronic Federal Tax Payment System (EFTPS). If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf. Also you may arrange for your

financial institution to initiate a same day wire payment on your behalf. EFTPS is a free service provided by the Department of Treasury. Services provided by your tax professional, financial institution, payroll services, or other 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 Publication 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 initiate the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If you use a third party to make deposits on its behalf, they may have different cutoff times.

Same-Day payment option. If you fail to initiate a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a 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 will need to make arrangements with your financial institution ahead of time. Please check with the financial institution regarding availability, deadlines, and costs. 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 is not 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 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 (if 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, do not 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 overstatements, 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 may be imposed if the organization is required to file Form 1120-POL and it fails to file the form by the due date. The following penalties may apply if the organization does not 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 \$135. 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 does not pay the tax when due generally may have to pay a penalty of ½ of 1% of the unpaid tax for each month or part of a month the tax is not 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 2014 return for calendar year 2014 and fiscal years that begin in 2014 and end in 2015. For a fiscal year, fill in the tax year space at the top of the form.

Note. The 2014 Form 1120-POL may also be used if:

- The organization has a tax year of less than 12 months that begins and ends in 2015, and
- The 2015 Form 1120-POL is not available at the time the organization is required to file its return. The organization must show its 2015 tax year on the 2014 Form 1120-POL and take into account any tax law changes that are effective for tax years beginning after December 31, 2014.

Address. Include the suite, room, or other unit number after the street address. If the Post Office does not 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—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 clicking the *Employer ID Numbers (EINs)* link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933.

The online application process is not yet available for organizations with addresses in foreign countries.

If the organization has not received its EIN by the time the return is due, write "Applied for" in the space provided for the EIN. See Pub. 583 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 are not deductible. To be deductible in computing 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:

- Exempt function income that was not 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), Part III, box 1).
- Exempt function income (minus any deductions directly connected with the production of that income) taxable under section 527(i)(4) for failure to timely file Form 8871, Political Organization Notice of Section 527 Status. 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 were not 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 compute their tax by subtracting line 16 from line 8 and enter the result on line 17(c).

Exempt organizations (section 501(c)) that are not political organizations.

Complete lines 17a and 17b if the organization made exempt function expenditures that were not from a separate segregated fund. Enter on line 17c the smaller of line 17a or 17b. See *Exempt organization that is not 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 is not 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. An organization that is not a principal campaign committee computes its tax by multiplying line 19 by 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 computes its tax in the same manner as provided in section 11(b) for corporations. Compute 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% . . . _____
9. Multiply line 4 by 25% . . . _____
10. Multiply line 6 by 34% . . . _____
11. Multiply line 7 by 35% . . . _____
12. If line 1 is greater than \$100,000, enter the smaller of: 5% of taxable income in excess of \$100,000, or \$11,750 . . . _____
13. If line 1 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 do not 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.** See Form 8834, Qualified Plug-in Electric and Electric Vehicle Credit, and section 30.
- **General business credit** (excluding the small employer health insurance premium credit, and the work opportunity credit). 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 “QEV recapture” and the amount. See Regulations section 1.30-1 for details on how to figure the recapture.

What If You Cannot Pay In Full?

If you cannot 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 cannot 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 irs.gov, click on “Tools”, then click on “Online Payment Agreement”.

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 2014 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;
 - The combined value of the accounts was more than \$10,000 at any time during the calendar year; and
 - The account was not with a U.S. military banking facility operated by a U.S. financial institution.

2. The organization owns more than 50% of the stock in any corporation that would answer “Yes” to item 1 above.

See FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to find out if the organization is considered to have an interest in or signature or other authority over a financial account in a foreign country.

If “Yes” is checked for this question, file FinCEN Form 114 electronically by June 30, 2015, with the Department of the Treasury using FinCEN’s BSA E-Filing System. Because FinCEN Form 114 is not a tax form, do not 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 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 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 17 hr., 13 min.

Learning about the law or the form 5 hr., 15 min.

Preparing the form 12 hr., 17 min.

Copying, assembling, and sending the form to the IRS 1 hr., 52 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 send your comments to:

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

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can send your comments from www.irs.gov/formspubs/. Click on “More Information” and then on “Give us feedback.”

Although we cannot 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 tax form to this address. See *When and Where To File*, earlier.

Expenses for Business Use of Your Home

Department of the Treasury
Internal Revenue Service (99)

► **File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.**

2014

Attachment
Sequence No. **176**

► **Information about Form 8829 and its separate instructions is at www.irs.gov/form8829.**

Name(s) of proprietor(s)

Your social security number

Part I Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)					1	
2	Total area of home					2	
3	Divide line 1 by line 2. Enter the result as a percentage					3	%
For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.							
4	Multiply days used for daycare during year by hours used per day	4					hr.
5	Total hours available for use during the year (365 days x 24 hours) (see instructions)	5			8,760		hr.
6	Divide line 4 by line 5. Enter the result as a decimal amount	6					
7	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					7	%

Part II Figure Your Allowable Deduction

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

Part III Depreciation of Your Home

36	Enter the smaller of your home's adjusted basis or its fair market value (see instructions)	36					
37	Value of land included on line 36	37					
38	Basis of building. Subtract line 37 from line 36	38					
39	Business basis of building. Multiply line 38 by line 7	39					
40	Depreciation percentage (see instructions)	40					%
41	Depreciation allowable (see instructions). Multiply line 39 by line 40. Enter here and on line 29 above	41					

Part IV Carryover of Unallowed Expenses to 2015

42	Operating expenses. Subtract line 26 from line 25. If less than zero, enter -0-	42					
43	Excess casualty losses and depreciation. Subtract line 32 from line 31. If less than zero, enter -0-	43					

2014



Department of the Treasury
Internal Revenue Service

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 www.irs.gov/form8829.

What's New

Simplified method used for 2013. If you used the simplified method for 2013 but are not using it for 2014, you can use any unallowed expenses from 2012 on your 2014 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 2015 of amounts not deductible in 2014.

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 (Including Use by Daycare Providers).

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 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 2014. 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. 587.

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. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business 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 2014, 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 28, 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 expenses for the business use of your home (that is, expenses allowable 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 \$800 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. Figure the amount to enter on line 9 by completing Form 4684, Section A. If you are filing Schedule A, enter 10% of your adjusted gross income excluding the gross income from business use of your home and the deductions attributable to that income when figuring the amount to enter on Form 4684,

line 17. Include on Form 8829, line 9, the amount from Form 4684, line 18. See the instructions for line 28, later, to deduct part of the casualty losses not allowed because of the limits on Form 4684. Do not file or use this Form 4684 to figure the amount of casualty losses to deduct on Schedule A. Instead, complete a separate Form 4684 to deduct the personal portion of your casualty losses.

On line 10, include only the total of your mortgage interest and qualified mortgage insurance premiums 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).

Treat qualified mortgage insurance premiums as personal expenses for this step. Figure the amount to enter on line 10 by completing Schedule A, line 13, in accordance with the Instructions for Schedule A (Form 1040). However, when figuring your adjusted gross income (Form 1040, line 38) for this purpose, exclude the gross income from business use of your home and the deductions attributable to that income. Include on Form 8829, line 10, the amount from Schedule A, line 13. See the instructions for line 16, later, to deduct part of the qualified mortgage insurance premiums not allowed because of the adjusted gross income limit. Do not file or use that Schedule A to figure the amount to deduct on line 13 of that schedule. Instead, complete a separate Schedule A to deduct the personal portion of your qualified mortgage insurance premiums.

If you itemize your deductions, be sure to claim only the personal portion of your deductible mortgage interest, qualified mortgage insurance premiums, and real estate taxes on Schedule A. For example, if your business percentage on line 7 is 30%, you can claim 70% of your deductible mortgage interest, qualified mortgage insurance premiums, and real estate taxes on Schedule A.

Line 16

If the amount of home mortgage interest or qualified mortgage insurance premiums 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).

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 2014 operating expenses not included on lines 9 through 20.

Line 24

Enter any amount from your 2013 Form 8829, line 42.

If you used the simplified method for 2013 but are not using it for 2014, enter the amount from line 6a of your 2013 Simplified Method Worksheet (or line 42 of your 2012 Form 8829).

Line 28

Multiply your casualty losses in excess of the amount on line 9 by the business percentage of those losses and enter the result.

Line 30

Enter any amount from your 2013 Form 8829, line 43.

If you used the simplified method for 2013 but are not using it for 2014, enter the amount from line 6b of your 2013 Simplified Method Worksheet (or line 43 of your 2012 Form 8829).

Line 34

Enter this amount on Form 4684, line 27, and enter "See Form 8829" above line 27.

Line 35

If your home was used in more than one business, allocate the amount shown on line 35 to each business using any method that is reasonable under the circumstances. For each business, enter on Schedule C, line 30, only the amount allocated to that business.

Part III

Lines 36 Through 38

Enter on line 36 the cost or other basis of your home (including land), or, if less, the fair market value of your home on the date you first used the home for business. Do not adjust this amount for depreciation claimed or changes in fair market value after the year you first used your home for business.

Enter on line 37 the cost or other basis of the land on which your home sits, or, if less, the fair market value of the land on the date you first used the home for business. Do not adjust this amount for changes in fair market value after the year you first used your home for business.

Attach your own statement showing the cost or other basis of additions and improvements, used at least partially for business, that were placed in service after you began to use your home for business. Do not include any amounts on lines 36 through 39 for these expenditures. Instead, see the instructions for line 41.

Line 40

IF you first used your home for business in the following month in 2014...	THEN enter the following percentage on line 40*...
January	2.461%
February	2.247%
March	2.033%
April	1.819%
May	1.605%
June	1.391%
July	1.177%
August	0.963%
September	0.749%
October	0.535%
November	0.321%
December	0.107%

*Exception. If the business part of your home is Indian reservation property that meets the requirements of section 168(j), see Pub. 946 to figure the depreciation.

IF you first used your home for business...	THEN the percentage to enter on line 40 is...
after May 12, 1993, and before 2014 (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 <i>Sale or Other Disposition Before the Recovery Period Ends</i> in that publication.
after 1986 and before May 13, 1993,	the percentage given in Pub. 946.
before 1987,	the percentage given in Pub. 534, <i>Depreciating Property Placed in Service Before 1987</i> .

***Exception.** If the business part of your home is Indian reservation property that meets the requirements of section 168(j), see Pub. 946 to figure the depreciation.

Simplified method used for 2013. If you used the simplified method for 2013, use the preceding table to find the percentage to enter.

Example. You first used your home for business for 2013 and used the simplified method for that year. For 2014, you want to use Form 8829 instead. Enter 2.564%.

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.

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 2014 (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 2014 (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 <i>Sale or Other Disposition Before the Recovery Period Ends</i> in that publication.
after 1986 and before May 13, 1993,	the percentage given in Pub. 946.
before 1987,	the percentage given in Pub. 534.

***Exception.** If the business part of your home is Indian reservation property that meets the requirements of section 168(j), 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 2014, or
- You are depreciating additions and improvements placed in service in 2014.

If you first used your home for business in 2014, 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 2014, 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 2015. 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 2015 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 2015 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 Instructions for Form 1040.

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Itemized Deductions

► Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
► Attach to Form 1040.

OMB No. 1545-0074

2014

Attachment
Sequence No. **07**

Your social security number

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1		
	2	Enter amount from Form 1040, line 38 2			
	3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1950, multiply line 2 by 7.5% (.075) instead	3		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid	5 State and local (check only one box):		5		
	a <input type="checkbox"/> Income taxes, or				
	b <input type="checkbox"/> General sales taxes				
	6	Real estate taxes (see instructions)	6		
	7	Personal property taxes	7		
	8	Other taxes. List type and amount ►	8		
	9	Add lines 5 through 8			9
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11		
	12	Points not reported to you on Form 1098. See instructions for special rules	12		
	13	Mortgage insurance premiums (see instructions)	13		
	14	Investment interest. Attach Form 4952 if required. (See instructions.)	14		
	15	Add lines 10 through 14			15
Gifts to Charity	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16		
	17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
	18	Carryover from prior year	18		
	19	Add lines 16 through 18			19
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			20
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	21		
	22	Tax preparation fees	22		
	23	Other expenses—investment, safe deposit box, etc. List type and amount ►	23		
	24	Add lines 21 through 23	24		
	25	Enter amount from Form 1040, line 38 25			
	26	Multiply line 25 by 2% (.02)	26		
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ►			28
Total Itemized Deductions	29	Is Form 1040, line 38, over \$152,525? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			29
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here			

SCHEDULE B (Form 1040A or 1040)

Department of the Treasury Internal Revenue Service (99)

Name(s) shown on return

Interest and Ordinary Dividends

Attach to Form 1040A or 1040.

Information about Schedule B and its instructions is at www.irs.gov/scheduleb.

OMB No. 1545-0074

2014 Attachment Sequence No. 08

Your social security number

Part I Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

- 1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address
2 Add the amounts on line 1
3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815.
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a

Note. If line 4 is over \$1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

- 5 List name of payer
6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a

Note. If line 6 is over \$1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

- 7a At any time during 2014, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions
b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located
8 During 2014, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back

Table with 2 columns: Yes, No. Rows correspond to questions 7a, b, and 8.

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