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STATE LEGISLATORS' GUIDE FOR 2017 INCOME TAX

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CPA

Texas Society of
Certified Public Accountants

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Copies may be obtained from:
Lucy Medrano
Email: lmedrano@tscpa.net

Governmental Affairs Department
Texas Society of Certified Public Accountants
3305 Northland Drive Suite 406
Austin, TX 78731

Phone: 512/445-0044
877/592-0526 Ext. 117
Fax: 512/445-0043

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STATE LEGISLATORS' GUIDE FOR 2017 INCOME TAX

PROLOGUE 4

BUSINESS EXPENSES

AUTOMOBILE/TRANSPORTATION EXPENSES 5
- Actual Method 5
- Standard Mileage Rate Method 5
- Alternating Methods 5
- Recordkeeping 6
- Deductible Mileage 6
- Operating Expenses 6
- Depreciation 7
- Leased Automobiles 8
- Predominant Business Use 8
- Expense Deduction Election 8

LIVING EXPENSES—MEALS AND LODGING 9
- Away from Home 9
- Election for State Legislators 9
- Per Diem Reimbursement 10

OFFICE-AT-HOME 11
- Exclusive Use 11
- On a Regular Basis 11
- Principal Place of Business 11
- Deduction Limit 11
- Deductible Home Office Expenses 11
- Other Expenses 12

ENTERTAINMENT EXPENSES 13
- Recordkeeping 13

ADVERTISING and CAMPAIGN EXPENSES 14
- Included Expenditures 14

OTHER EXPENSES 15
- Dues 15
- Business Gifts 15
- Payroll 15
- Substantiation 15
- Documentation 15

RECORDKEEPING REQUIREMENTS FOR TRAVEL, ENTERTAINMENT AND GIFTS 16

FORMS .....
- Form 1040 18
- Schedule A (Form 1040) 20
- Schedule B (Form 1040) 21
- Form 2106 22
- Resource Page – Helpful links to more information 24

PROLOGUE

The Texas Society of Certified Public Accountants is pleased to present the *State Legislator's Guide for 2017 Income Tax,* uniquely prepared for members of the Texas Legislature.

Answering specific questions concerning income tax laws as they relate to your position as an elected official, the *Guide* does not cover tax matters that are considered basic (such as medical expenses, interest and contributions) or those that do not necessarily relate to your position (such as capital gains or losses, business income and expense, and rental income).

We suggest that you contact your CPA for answers to questions not addressed in the *Guide*, consultation on other tax or accounting questions, and/or assistance in tax return preparation.

We wish to give special thanks for the review of this *Guide* to:
Renae Lynne Duncan, CPA, Atchley & Associates LLP

Jim Oliver, CPA
2017-18 Chairman
Texas Society of Certified Public Accountants

Stephen G. Parker
2018-19 Chairman-elect
Texas Society of Certified Public Accountants

AUTOMOBILE/TRANSPORTATION EXPENSES

As an elected official, you may incur expenses that are, in part, deductible business expenses for federal income tax purposes. These expenses may exceed any expense reimbursement allowance received. Consequently, the tax benefits of the related business deductions may be your only means of recovering a portion of your out-of-pocket costs.

In general, to be permitted a deduction, you must show that the expenditure is reasonable in amount and meets strict substantiation requirements. The expenditure also must be related directly to your business as a state legislator. *STATE LEGISLATORS' GUIDE FOR 2017 Income Tax* outlines the type of business expenses deductible for federal income tax purposes.

Form 2106 is used to report all employee business expenses that include business-related expenses for:

- travel,
- transportation,
- meals,
- lodging and
- entertainment

Generally, employee business expenses are deductible only if the actual expenses exceed any per diem or reimbursement allowance received. Also, when employer allowances exceed actual expenses incurred and paid by the legislator, income recognition may result. However, employees are deemed to incur substantiated business expenses equal to the lesser of the state's per diem amount or the federal per diem amount. In general, because the state's allowance does not exceed the federal amount, you will not report taxable income as a result of any per diem amounts received from the state assuming the expenses were paid by the legislator personally. Expenses incurred that exceed your per diem allowance may be deductible as miscellaneous itemized deductions and be reported on your 2017 Form 2106.

Expenses that are entirely unreimbursed can be deductible as miscellaneous itemized deductions. These expenses may include advertising, dues and office-at-home expenses.

Note: *For examples to help you properly report your tax deductible expenses on your federal income tax return, refer to Schedule A (Form 1040) p.20 and Form 2106 on p. 22.*

AUTOMOBILE/TRANSPORTATION EXPENSES

The State of Texas reimburses you for mileage accrued while traveling from your home to Austin while the Legislature is in session, but other mileage you incur may be reimbursed only partially. Therefore, your actual expenses may equal or exceed your reimbursement for mileage.

If your expenditures exceed your reimbursements, you can deduct your excess expenses. Either the actual expense method or the standard mileage rate method can be used to compute this business deduction.

ACTUAL METHOD

The first method for computing the deductible amount is called the "actual method." The deduction is computed on Form 2106, Part II, Section C, lines 23-29, by totaling these automobile expenses:

- depreciation
- gas and oil
- repairs and maintenance
- license fees
- insurance

Total automobile expenses are multiplied by your business percentage. Your business percentage is computed each year by dividing total business miles traveled by total miles driven during the year (Form 2106, Part II, Sec. A, lines 11-21).

If you use the actual method, you should record your odometer reading at the beginning and end of the year, in addition to recording your business mileage.

STANDARD MILEAGE RATE METHOD

The second method is called the "standard mileage rate method." Under this method, the allowable deduction for car expenses is computed on Form 2106, Part II, Sec. B, line 22. The deduction is computed by multiplying the number of business miles driven by the standard mileage rate. The 2017 standard mileage rate is 53.5 cents per business miles.

To compute the standard mileage deduction, subtract the beginning odometer reading from the ending to give you the total miles traveled for each business trip. Add all business mileage and multiply the total business miles by the standard mileage rate. The result will give you the total deduction under this method.

ALTERNATING METHODS

The standard mileage rate method should not be used if the actual operating costs exceed the deduction allowed under the standard mileage method. Also, if you wish to use the standard mileage rate method, you must elect this method in the first year the automobile is used for business purposes. You cannot switch to the standard mileage method once you have used the actual method to calculate your automobile deduction. Fortunately, election of the standard mileage rate method in the first year does not

prohibit switching to the actual method in a later year. If you switch to the actual method, subsequent depreciation deductions are calculated using a five-year straight-line depreciation method. (See "Depreciation", p. 7)

RECORDKEEPING

Whether you use the actual method or the standard mileage rate method, you must be able to substantiate your deduction with adequate records or with sufficient evidence corroborating your own statement. The Internal Revenue Code (IRC) requires substantiation for amount of expense, time and place of the travel, and business purpose of the expense.

Adequate records may be in the form of account books, diaries, logs, receipts, trip sheets and expense reports. This information should be recorded at or near the time of the actual travel, i.e., when you have full knowledge of the details. Information in an account book or other record does not need to duplicate documentary evidence such as a receipt — as long as the two forms of evidence complement each other in an orderly manner.

Written evidence is more valuable than oral evidence for documenting expenditures. A diary or log book completed at the time of travel is the most complete and accurate evidence.

On your 2017 income tax return you will be required to provide the initial date your automobile was placed in service for business purposes, the total number of miles driven during the year, and the percentage of business use. You also will be asked whether evidence exists to support the business use claimed on the return and whether that evidence is in writing (Form 2106, Part II, Sec. A, lines 11-21).

Deducting actual automobile expenses requires detailed recordkeeping of both business mileage and specific expenditures to justify the amount of the deduction. Taking the standard mileage deduction is less burdensome since the chief factor is business mileage.

DEDUCTIBLE MILEAGE

As a member of the Legislature, you will probably incur a great deal of business mileage in your home district, in addition to traveling to and from Austin. All travel to club meetings, speaking engagements and other events is tax deductible if your attendance is important to your political position. In addition, mileage incurred while investigating facts concerning possible legislation is deductible. This mileage can be substantial, particularly if your district covers a large area.

It is important to note that mileage from your permanent residence to your place of business (i.e., your office in your home district) is considered a nondeductible commuting expense. Commuting is not business use regardless of the work performed during the trip. For example, a business telephone call made on a telephone installed in your automobile while you are commuting to work does not transform the character of the trip from commuting to business. This is also true for a business meeting held in a car while you are commuting to work. However, you may deduct the cost of transportation between two places of business, provided such trips are necessary to discharging business at both locations. Such deductions would include travel between your legislative office and another state office or other place of business.

You also may deduct the mileage you incur in going from your living quarters in Austin (if this is not your permanent residence) to either the state Capitol or any other location, provided the purpose of the travel is related directly to legislative business. From time to time, you may ride with someone else and not directly incur any travel expense yourself. Under these circumstances, you cannot deduct any mileage expense for that travel.

If you travel to Austin by bus or airplane, the reimbursement you receive should be reported on Form 2106, Part I, line 7. The expense incurred should be deducted on Form 2106, Part I, line 3. You cannot deduct both the amount of mileage you would have incurred if you had driven to Austin and the actual cost you incurred traveling commercially.

Campaign expenses specifically are nondeductible. Therefore, it is essential that you distinguish between travel expenses that are:

- directly related to a campaign for re-election (nondeductible); and
- directly attributable to serving your constituency and, therefore, directly related to the business purpose of fulfilling your obligation as an elected state official (deductible).

Travel expenses that normally would be deductible business expenses (i.e., travel expenses incurred while meeting with constituents to explain activities of the state Legislature) may be considered nondeductible campaign expenses if incurred before a primary or general election. To obtain proper deductions, the entries in your log should document adequately the "business" or "campaign" nature of your travel.

OPERATING EXPENSES

The cost of operating a car includes gas and oil, lubrication, washing, repairs, parking, license, insurance, tires, and supplies. If you use the actual method, all of these expenses should be considered when computing your total automobile deduction.

If you use the standard mileage rate method, the only expenses that should be deducted – in addition to the standard rate allowances – are parking fees and tolls. The state and local sales taxes on the purchase of an automobile used for business are not deductible. However, the portion of the taxes relating to the business use of the automobile can be added to the basis of your automobile for depreciation purposes.

No deduction is allowed for personal interest. This includes interest paid on a car loan by a taxpayer who uses the automobile in his role as an employee.

The cost of operating a car does not include the cost of purchasing the car or its accessories, such as an air conditioner or radio. Also, replacements that prolong the life of the vehicle or increase its value are not included. These costs must be capitalized and are deductible through depreciation if you use the actual method.

DEPRECIATION

If you use the actual method, each year you may deduct a portion of the business cost of your car. Automobiles placed in service after 1986 are subject to the Modified Accelerated Cost Recovery System (MACRS) depreciation rules. Under MACRS, the business cost of your car must be written off over a five-year period. Under either method, depreciation begins in the first year that the automobile is used for business purposes. To compute your MACRS deduction, multiply the business cost by the applicable percentage shown in Table 1.

In calculating your depreciation deduction using MACRS, a half-year convention must be applied in both the years of acquisition and disposition. This is done by taking into account only half of the otherwise allowable depreciation for the year. For the year of acquisition, the convention is built into Table 1. In the year of disposition, you will need to take half of the percentage listed for that year in computing your deduction. If the year of disposition also is the final year of depreciation, then no adjustment to the depreciation percentage is necessary, since the half-year convention already is taken into consideration for the first and final years.

TABLE 1

Applicable Percentage (Half-year Convention)

Year	5 Year
1	20.00%
2	32.00%
3	19.20%
4	11.52%
5	11.52%
6	5.76%

The MACRS rules also have implemented a mid-quarter convention that must be applied instead of the half-year convention if more than 40% of the total cost of all business property placed in service during the tax year was placed in service during the last three months of the year. Under the mid-quarter convention, all property placed in service or disposed of during the tax year is treated as being placed in service or disposed of at the mid-point of the quarter in which it was placed in service. To calculate your MACRS deduction using the mid-quarter convention, first compute your depreciation for the full tax year, then multiply by these percentages for the quarter of the tax year in which the property is placed in service (Table 2).

TABLE 2

Quarter of Tax Year	Percentage
First	87.5%
Second	62.5%
Third	37.5%
Fourth	12.5%

Note: *As mentioned earlier, Table 1 incorporates the half-year convention. Therefore, to calculate the full tax year depreciation for the first tax year you will need to use 40% (20% x 2) for your mid-quarter calculation instead of 20%.*

Under an alternative MACRS method, you may defer depreciation deductions by using a straight-line method over a recovery period of five years. The half-year and mid-quarter conventions discussed previously must be applied to this method as well.

Limitations also have been imposed on the depreciation deduction for luxury automobiles placed in service after Dec. 31, 1986. *(If a vehicle is four-wheeled, used mostly on public roads, and has an unloaded gross weight of no more than 6,000 pounds, the IRS considers the car a "luxury vehicle.")*. A summary of the luxury automobile depreciation deduction limitation follows:

MAXIMUM DEDUCTION FOR AUTOMOBILES PLACED IN SERVICE

Year	2008/2009	2010/2011	2012/2013	2014-2016
1	2960	3060	3160	3160
2	4800	4900	5100	5100
3	2850	2950	3050	3050
4	1775	1775	1875	1875

*Applies to succeeding years until business portion is fully depreciated.

IRS Publication 946 was not yet available as of the date for printing this guide. Please check the IRS website for the current version of Publication 946 for the amounts allowed for 2017.

If there is less than 100% business use of the automobile, the deduction is further reduced. The general rules discussed previously are applied first. Then the limits presented previously are imposed after applying your business-use percentage to the limit.

Example 1
$13,300 Automobile – 70% Business
Placed in service in 2017
MACRS Deduction

	.2000	X .70	x	13.300	=	1,862
Year 1	.3200	x .70	x	13,300	=	2,979
Year 2	.1920	x .70	x	13,300	=	1,787
Year 3	.1152	x .70	x	13,300	=	1,073
Year 4	.1152	x .70	x	13,300	=	1,073
Year 5	.1152	x .70	x	13,300	=	1,073
Year 6	.0576	x .70	x	13,300	=	536
						$9,310

Example 2
$40,000 Automobile – 70% Business
Placed in service in 2017
MACRS Deduction

Year 1	.70	x	$3,160	=	$2,212
Year 2	.70	x	5100	=	3,570
Year 3	.70	x	3,050	=	2,135
Year 4	.70	x	1,875	=	1,313
Year 5	.70	x	1,875	=	1,313
Year 6	.70	x	1,875	=	1,313
Year 18	.70	x	1,875	=	1,313
Year 19				=	388
					$28,000

Due to the complexity of the depreciation rules, we suggest that you consult your CPA regarding planning opportunities in this area.

LEASED AUTOMOBILES

An annual income inclusion is required for those who lease luxury automobiles for business use. The income inclusion, in effect, reduces the deduction for lease payments in order to apply the depreciation deduction limitations equally to both lessees and owners. To determine the amount to be included in your 2017 tax return, contact your CPA.

PREDOMINANT BUSINESS USE

In addition to the flat dollar deduction limitations imposed on luxury automobiles, the law also requires that more than 50% of your automobile use be for business purposes if you desire to use an accelerated method of depreciation (MACRS). If your automobile is used 50% or less for business, the alternative MACRS method must be used in calculating your depreciation. This requires the use of five-year, straight-line depreciation.

Mileage resulting from investment activities (i.e., the production of income) cannot be added to business mileage for purposes of meeting the 50% test. If the 50% test is met, however, mileage resulting from investment activities (other than attending investment seminars) can be included in computing the depreciation deduction.

If the 50% business–use test is met in the initial year but is not met in a subsequent year, some of the prior year's depreciation may be recaptured as ordinary income. This income is measured by the excess of depreciation actually claimed in prior years over the depreciation that would have been claimed under the five-year, straight-line method.

Since this recapture can occur after you have fully depreciated your automobile, you must maintain records for six years to show that your business use exceeds 50%.

There is also a predominant use requirement with respect to leased automobiles. If the automobile is not used predominantly for qualified business purposes during a taxable year, the lessee must add an additional amount to gross income in the first taxable year this occurs. This additional amount is dependent on business use, fair market value of the automobile, and the year of the lease in which the automobile first fails the predominant business-use test.

EXPENSE DEDUCTION ELECTION

There are two planning considerations with respect to the expense deduction election of which you should be aware:

- The expense deduction is allowable for your other business-use property such as office furniture, fixtures and equipment.
- When the depreciation calculated for an automobile in the year of acquisition is less than the luxury auto limitation, an expense deduction can be taken for the unused portion of the limitation amount.

The expense deduction election is not available unless the business use of the property is more than 50%. If the expense deduction is taken and the business use of the property falls below the 50% threshold, recapture of the expense deduction will be likely. Also, the standard mileage rate method may not be used in calculating your automobile deduction.

LIVING EXPENSES – MEALS AND LODGING

The tax law allows you a deduction for your living expenses incurred while away from home in the pursuit of a trade or business. While the Legislature is in session, the state reimburses you on a *per diem* basis for the cost of meals and lodging. If you are fully reimbursed for actual expenditures, it is not necessary to report anything on your federal income tax return.

As explained below, any *per diem* you receive in excess of actual expenses is not reported as taxable income. However, your expenses may exceed the *per diem* reimbursement. As with automobile expenses you must report all reimbursements and expenses on Form 2106, Part I, lines 3, 5 and 7 to calculate your allowable deduction. Your expenses — up to the amount of your total *per diem* for the year – will be fully deductible, and any excess will be treated as a miscellaneous itemized deduction subject to a 2% adjusted gross income (AGI) floor. This means that no deduction will be allowed until the aggregate of your miscellaneous itemized deductions exceeds 2% of your AGI.

Certain itemized deductions, including your miscellaneous deductions, also will be subject to a phase-out. In addition, a 50% limitation has been imposed on the deductibility of the unreimbursed cost of business meals. This limitation is applied prior to the application of the 2% floor noted above. More stringent requirements also have been imposed in testing the deductibility of food and beverage expenses. You are not allowed to deduct meal and beverage expenses unless you establish that the expenses were related directly to the active conduct of your trade or business, or – in the case of an expense directly preceding or following a substantial and bona fide business discussion – that the expense was associated with the active conduct of your trade or business. When you are traveling away from home on business and dine alone, you can claim a deduction for your meal. As with all other employee business expenses, you must be able to substantiate the expense by adequate records or other sufficient evidence corroborating your own statement.

There are two additional limitations on the deductibility of food and beverage expenses:

- No deduction will be allowed to the extent the expenditures for food or beverage are lavish or extravagant. Whether expenditures are lavish or extravagant will be determined based upon the facts and circumstances surrounding the expenditure.
- You or an employee must be present when food or beverages are provided in order for the expenditure to be deductible.

AWAY FROM HOME

The uncertainty of determining when you are "away from home" lies in the location of your "tax home." Your tax home may be your residence in your legislative district or it may be in Austin. This determination is made, in part, by the length of time you are required to spend at each location for business purposes.

If sessions of the Legislature are relatively short and you are not required to spend most of your time at the state Capitol for committee meetings and similar legislative business, your tax home may be your home district residence. In that case, your living expenses while in Austin are deductible. However, if your duties usually require you to remain at the Capitol most of the year, Austin may be considered your tax home. In this case, your living expenses while in Austin are not deductible.

ELECTION FOR STATE LEGISLATORS

Due to the uncertainty with respect to the tax home of a state legislator, the *IRC* provides for an election under which your home district residence automatically will be considered your tax home. This election is available to you if your place of residence within the legislative district you represent is more than 50 miles from the Capitol in Austin.

If you make the election, you are deemed to have expended a prescribed amount for living expenses during each legislative day. The deduction allowed under this election is computed by multiplying the number of legislative days by the state or federal *per diem* amount described below.

The phrase "legislative day" refers to:

- any day that the Legislature is in session (including any day in a recess period that lasts four days or less); and
- any day in which the Legislature is not in session but your presence is recorded formally at a meeting of a committee of the Legislature.

The amount $190 expended by a legislator making the election is the per diem amount allowed for employees of the executive branch of the federal government for living expenses while away from home and serving in Austin. A legislator makes the election by attaching a statement to the legislator's tax return for the taxable year for which the election is effective. Consult with your CPA concerning the making of this election.

The amount is $190 January 1 – December 31, 2017.

The amount deductible for living expenses under this election is in addition to any of your other business-related travel or business expenses (i.e., travel fares, telephone calls, telegrams, local transportation or even living expenses incurred on non-legislative days).

Suppose, as a state legislator, you do not make the election to use your home district as your tax home. You must use facts and circumstances to show that your home district is your tax home in order to deduct actual living expenses while in Austin for legislative business. Although your actual living expenses may exceed the *per diem* amounts deductible under the election, it may be difficult to support the position that your tax home is in your district rather than Austin.

PER DIEM REIMBURSEMENTS

This legislative expense reimbursement is intended to be equal to the federal *per diem* expense for Austin, and is intended to coincide with the tax-home election. The payments are available for each day you perform duties related to your legislative employment (including non-legislative days). Neither the reimbursements nor the federal *per diem* expense amount need be reported on your 2017 Form 2106, as they meet the IRS requirements for an employer accountable plan. In general, the payments will not be reported on your W-2.

Per the guidance given by the Texas Ethics Commission, a legislator may use political contributions to pay "reasonable household expenses in Austin" if the legislator does not ordinarily reside in Austin. If a legislator uses political contributions to pay for travel or living expenses related to state business and is reimbursed for those expenses from the state, that reimbursement must be deposited in the legislator's political account. The reimbursement rules can be extremely complex and burdensome to recipients of *per diem* allowances, especially in light of the numerous changes enacted by the Legislature. For more detail, consult your CPA and/or the relevant details of the General Appropriation Act.

OFFICE-AT-HOME

The *IRC* strictly limits the amount of otherwise allowable business office expenses that may be deducted with respect to an office at home. Even though an allocable portion of the depreciation, rent, utilities and other expenses would otherwise qualify as allowable business expenses, no deduction is permitted unless your home office meets certain requirements. Deductions such as interest and taxes are allowed even if you do not meet the office-at-home requirements. (Publication 587)

To obtain an office-at-home deduction, you must show that the deductions claimed for the cost of a home office are allocable to the portion of your home that is used:

- exclusively;
- on a regular basis; and
- in the case of an employee, for the convenience of the employer.

In addition, the home office must be used:

- as the principal place of business for your trade or business;
- as a place of business where constituents meet or deal with you in the normal course of business; or in the case of a separate structure not attached to your residence, that it be used in connection with a trade or business.

EXCLUSIVE USE

"Exclusive use" means that there can be no use of that room or separately identifiable portion of the dwelling unit for purposes other than business. Any personal use will cause a disallowance of the deduction.

ON A REGULAR BASIS

Use "on a regular basis" means that incidental or occasional use for business, even if it is exclusive use, will not suffice as a reason for a deduction. The home office must be a room or rooms used for frequently scheduled meetings with your constituents as their state legislator. Occasional meetings or telephone conversations with constituents are not sufficient to permit an office-at-home deduction under *IRC* Sec. 280A.

It is recommended that proper documentation of constituent meetings or other business use be retained to provide evidence as to the regular use of the office.

PRINCIPAL PLACE OF BUSINESS

For purposes of determining whether a home office is the principal place of business, there is no one objective formula that yields a clear answer in every case. The U.S. Supreme Court has held that although the ultimate determination depends upon the facts and circumstances of each case, the inquiry must be guided by two primary considerations:

- the relative importance of activities performed at each location where you conduct business; and
- the amount of time spent at each location where you conduct business.

For tax years beginning after 1998, the principal place of business includes a place of business that you use exclusively and regularly for the administrative or management activities if there is no other fixed location where you conduct substantial administrative or management activities.

DEDUCTION LIMIT

If you meet these restrictive provisions in performing legislative duties at your residence, a further limit is imposed. The office-at-home deduction cannot exceed your gross income from the Legislature reduced by:

- all other related business expenses; and
- the allocable portion of home office deductions that are otherwise deductible (i.e., mortgage interest and real estate taxes).

The deduction limit is imposed so that deductions for the business use of a home will not create a business loss or increase a net loss from business. The *IRC*, however, does provide for the carry forward of deductions that are disallowed by these provisions. Such deductions will be allowable only up to the amount of the income from the business in which it arose, whether or not the dwelling unit is used as a residence during such taxable year.

DEDUCTIBLE HOME OFFICE EXPENSES

Depreciation or rent: If the office-at-home requirements are met, depreciation or cost recovery on the house is allowed. If you began to use part of your home for business during 2017, you depreciate that part under the MACRS method of depreciation. Under MACRS, nonresidential real property is depreciated by the straight- line method over 39 years. In order to figure depreciation on the part of your home used for business you must know:

- the business use percentage of your home;
- the first month in the tax year that your home was used for business purposes; and
- the adjusted basis and fair market value of your home (excluding land at the time you began using it for business purposes).

To calculate the business-use percentage, divide the area used regularly for business purposes by the total area of the house. You then can determine the depreciable amount of basis applicable to the business-use area of your home by multiplying the business-use percentage by the total adjusted basis of your home. If you are renting a home or an apartment, multiply the business-use percentage of your residence by your annual rent to determine the deduction.

OFFICE-AT-HOME

For detailed instructions on calculating depreciation for the business-use portion of your home, refer to IRS Publication 587 or consult your CPA.

OTHER EXPENSES

Multiply the business-use percentage computed above by electricity, gas, insurance and other maintenance costs to determine the deductible portion of these expenses. Maintenance and repairs you incur with respect to the particular room(s) used for an office may be deducted in full without regard to the business-use percentage. However, certain repairs can sometimes be treated as permanent improvements and are not deductible.

Lawn care and landscaping are not deductible. You cannot deduct your telephone costs — the state will reimburse you for all telephone expenses related to your legislative work, including credit card calls, answering services, telegrams and private lines.

Whether or not you meet the office-at-home rules, you may depreciate the cost you incurred for office equipment and furniture used in performing your duties as a state legislator. However, if you use a computer in your home that is placed in service during the year and you want to calculate a depreciation deduction, the computer must be used:

- in a qualified business during the tax year; and
- in the case of an employee, it must be for the convenience of the employer and required as a condition of employment.

If the computer usage does not meet these requirements, no deduction will be allowed for depreciation on the computer. If the computer usage meets the above requirements and is used predominantly (more than 50%) for those purposes, then you can use an accelerated method (i.e., ACRS/MACRS) to compute your depreciation deduction. If use of the computer is 50% or less for a qualified business use, depreciation can still be taken but the Alternative Depreciation System (straight-line method) must be used. Most business property assets (i.e., computers, copiers, office furniture, etc.) normally used in a home office is either 5-year or 7-year property under MACRS. If the computer is used more than 50% in a qualified business when it is first placed in service and later falls below this requirement, you may be required to recapture as ordinary income any excess depreciation originally taken under an accelerated method.

Qualified business-use has been defined as use in your trade or business (as a state legislator).

The employee requirements have been interpreted as being met if the use is for a substantial business reason of the employer and the use of the property is required for the employee to perform his/her duties properly. If the employee requirements are applicable and are not met, no deduction for depreciation will be allowed.

No deduction is allowed for the use of a computer unless the use is substantiated by adequate records or sufficient evidence corroborating your own statement. This requirement is the same as that discussed in the "Recordkeeping" section on p. 13.

ENTERTAINMENT EXPENSES

Entertainment expenses are deductible only if such expenditures are both ordinary and necessary and can be established to be directly related to the active conduct of your trade or business (see Publication 463 for a detailed definition) or, in the case of entertainment directly preceding or following a substantial and bona fide business discussion, that the entertainment was associated with the active conduct of your trade or business.

The allowable deduction for entertainment tickets, skyboxes or other private luxury boxes is also limited. The deduction for tickets to entertainment events is limited to the face value of the ticket. The only exception is for tickets to certain charitable sports events. The deduction for skybox or other private luxury box rentals are limited if a box is rented for more than one event during a taxable year. The amount allowable as a deduction with respect to such events is limited to the face value of non-luxury boxseat tickets held for sale to the public. The excess cost of skyboxes is disallowed.

For entertainment expenses incurred, the 50% limit discussed in regard to meals under "Living Expenses – Meals and Lodging" will be applied as well. Then, the remaining 50% of unreimbursed entertainment expenses will be treated as miscellaneous itemized deductions, subject to the 2% floor noted earlier.

RECORDKEEPING

The nature and the possible significance of the amount expended for entertainment have caused increased scrutiny by the IRS for reasonableness and substantiation of entertainment expenses. To deduct your business entertainment expenses, you must keep adequate records to substantiate the expenses or sufficient evidence corroborating your own statements. Your records should show:

- the amount of the expenses;
- the time and place of the entertainment;
- the business relationship to the persons entertained.

Any expenditure for $75 or more also should be supported with a receipt.

ADVERTISING AND CAMPAIGN EXPENSES

ADVERTISING EXPENSES

Advertising and promotion expenditures are deductible as miscellaneous itemized deductions subject to the 2% floor if they are not considered campaign expenses. The IRS specifically bars a deduction for payments in connection with any attempt to influence the general public or part of the public with respect to legislative matters, elections or referendums.

However, as a public official, it is important that you support worthwhile business and community activities. You may deduct advertising that you, as a state legislator, are asked to purchase in trade journals, books or magazines published by various organizations in your district.

Advertising may include items distributed to your constituents. These articles might include calendars, pens or similar items bearing your address and phone numbers where your constituents might reach you. Of course, in order to be a deductible expense, these items should not be distributed too near to election dates or paid for with campaign funds.

The cost of holiday greeting cards to county leaders, precinct committee members, leaders in the community and other people politically related to you is a deductible advertising expense directly related to your business as a member of the Legislature.

All advertising during re-election campaigns should be paid for with campaign contributions since any personally funded expenses will not be deductible on your tax return.

CAMPAIGN EXPENSES

Expenses paid or incurred by a candidate running for election or re-election to a public office are not deductible as business expenses. Even though a public office is included in the definition of a "trade or business," campaign expenses are considered to be of a personal nature and nondeductible. Any positive effect on your other business interests is considered to be coincidental and secondary to your desire to be elected to public office.

INCLUDED EXPENDITURES

Campaign expenses include the cost of attending political conventions, contributions to the political party that sponsored your candidacy, expenses of successfully defending a contested election, filing fees, and the cost of legal fees paid in litigation over redistricting. As a candidate, you cannot deduct the cost of any defamation litigation for allegations published during the campaign, even though such statements may have damaged your professional reputation.

Additional details may be obtained from the Campaign Treasurer's Handbook, prepared by the Texas Society of Certified Public Accountants.

OTHER EXPENSES

There may be additional deductible expenses you might incur as a result of your position as a Texas legislator. These expenses, to the extent unreimbursed, could be treated as miscellaneous itemized deductions. Contact your CPA for answers regarding these types of expenses.

DUES

Dues for organizations that are helpful to you as a state legislator — for example, civic organizations in your community, block clubs and political organizations — are usually not deductible. No deduction will be permitted for club dues for membership in any club organized for business, pleasure, recreation or any other social purpose. Also, political contributions are not deductible.

BUSINESS GIFTS

Business gifts are deductible to the extent of $25 per donee per year. Records must show the cost and description of the gift, the date of the gift, your business reason for the gift, and the relationship of the recipient to you.

PAYROLL

As a member of the Legislature, you are allowed to hire such staff as you deem necessary, subject to the fiscal limitations of your monthly operating account if you are a House member, or your monthly staff salary budget if you are a Senate member. These employees are paid from state funds; therefore, no deductible expense is incurred.

However, if it is necessary to employ staff and pay them from personal funds, the compensation paid is deductible. In such cases you must obtain a federal identification number for each employee on your personal payroll and pay the proper payroll taxes.

SUBSTANTIATION

To receive the benefit from these business expenses on your federal income tax return, you must retain records and related documentary evidence to support such deduction. The most acceptable substantiation is a clear and accurate recording at the time of the expenditure in an account book, diary, statement of expense or similar record supported by adequate documentation. Estimates of amounts are unacceptable; amounts must be recorded exactly.

DOCUMENTATION

A receipt will usually serve as adequate documentation. It must contain enough information to establish the amount, date, place, business purpose and character of an expense. A cancelled check ordinarily will not constitute adequate documentary evidence since it does not show in detail the specific items required. However, a cancelled check along with a receipt generally will be sufficient to substantiate the amount and type of expenditure. Documentation is required to support all expenditures for lodging while traveling away from home and for any other expenditure of $75 or more.

The business purpose can be substantiated by noting the name, title and occupation of contacts, the type of activity, a description of the business benefit derived. The business relationship of the individuals contacted also must be noted.

If the group is large, you are not required to record names of each individual present if a class designation would indicate the business purpose (e.g., met with officers of the Texas Society of Certified Public Accountants).

If on IRS examination your support is found to be deficient or lacking, your personal statement must be corroborated with other evidence, such as records and witnesses. Your oral testimony alone is not sufficient to support a deduction. As noted elsewhere, no deduction will be allowed if you do not have adequate records to substantiate:

- traveling expenses, including meals and lodging while away from home, as well as local travel;
- entertainment expenses;
- business gifts; and
- ACRS/MACRS deductions for business use of certain property, including automobiles, aircraft and home computers.

You should retain these records and related documentary evidence during the period that your tax return is subject to examination. Normally, this period is three years from the date of filing the tax return in which you claimed the deduction. However, the statute of limitations is longer if you consent 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.

RECORDKEEPING REQUIREMENTS

TRAVEL, ENTERTAINMENT AND GIFTS

FACTORS TO BE PROVED IN SUBSTANTIATING ELEMENTS IN COLUMN 1

Elements to be substantiated	For travel away from home expenditures	For automobile travel and transportation expenditures	For entertainment expenditures	For gift expenditures
1	2	3	4	5
Amount	Amount of each separate expenditure for transportation, lodging and meals. Permissible to aggregate incidental expenses in reasonable categories, such as taxis, fees and tips, etc.	Cost of travel by automobile may be substantiated by using the standard mileage rate. Under actual method, amount of operating expenses must be substantiated.	Amount of each separate expenditure.	Cost of gift (limited to $25 per donee).
Time	Dates of departure and return for each trip, and number of days attributeable to business activities.	Date of travel must be noted in log. One entry can be made for round trip.	Date of entertainment or use of a facility for entertainment. (Duration of business discussion.)	Date of gift.
Place	Designation by name of city or other appropriate designation.	Destination and number of miles must be noted in log.	Name and address or similar designation of place of entertainment or place of use of a facility in connection with entertainment. Type of entertainment if not otherwise apparent. (Place of business discussion.)	Not applicable.
Description	Not applicable.	Not applicable.	Not applicable.	Description of gift.
Business Purpose	Business purpose of the trip so as to establish that expenses were related directly to the active conduct of your business.	Business purpose of the automobile trip must be noted in log. Name of driver must be noted if someone other than yourself is driving.	Business purpose of the entertainment so as to establish that expenses were related directly to the active conduct of your business. Nature of business discussion or activity of entertainment is other than business meals.	Business purpose for making the gift, or nature of business benefit derived or expected to be derived.
Business Relationship	Not applicable.	Not applicable.	Occupations or other information-such as names or other designations-about persons entertained that establishes their business relationship to taxpayer. (Identification of persons entertained who participated in business discussion).	Occupation or other information-such as name or other designation-about recipient that establishes business relationship to taxpayer.

With respect to a deduction for entertainment expenses (column 4), if the deduction is claimed on the basis that it was directly related to the active conduct of your business, only the factors not enclosed in parentheses must be proved. If the deduction is claimed on the basis that it was associated with the active conduct of your business and was directly preceded or followed by a substantial and bona fide business discussion, the factors enclosed in parentheses, as well as those not in parentheses, must be proved.

☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆

MONTH JANUARY 2017

MONTHLY SUMMARY

ENDING ODOMETER READING	20,446
BEGINNING ODOMETER READING	19,137
MILES DRIVEN	1,309

DATE	DESTINATION	BUSINESS PURPOSE/COMMENTS	BUSINESS MILEAGE	MILEAGE FOR PRODUCTION OF INCOME	TOLLS	PARKING
1/ /17	CITY COUNCIL MTG.	DISCUSS PENDING LEGISLATION	6			
1/ /17	AUSTIN	LEGISLATURE BEGINS	285			
1/ /17	HOTEL-TSCPA	DISCUSS PROPOSED LEGISLATION	8			
1/ /17	HOTEL-PUC	ATTEND RATE HEARING	10			

AUTOLOG SUMMARY

MONTH	BUSINESS MILEAGE	MILEAGE FOR PRODUCTION OF INCOME	TOLLS	PARKING
JANUARY	998			
FEBRUARY				
MARCH				
APRIL				
MAY				
JUNE				
JULY				

The more than 50 percent test must be computed separately for each automobile used.
A separate Autolog should be used for each car.

MILEAGE SUMMARY

(A) Odometer Reading Beginning of Year or Date of Acquisition 19,137
(B) Odometer Reading End of Year or Date of Sale _____
(C) Total Miles Driven for Year (B - A) _____
(D) Business Miles (From Autolog Summary) _____

E) Miles Driven in Connection With Production of Income (From Autolog Summary) _____
(F) Business Mileage Percentage (D/C) _____%
(G) Business Plus Production of Income Mileage Percentage (D+E)/C _____%

Form **1040** Department of the Treasury—Internal Revenue Service (99)

U.S. Individual Income Tax Return 2017

OMB No. 1545-0074 | IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 | See separate instructions.

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☐ Single

2 ☐ Married filing jointly (even if only one had income)

3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶

4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a

b ☐ **Spouse**

Boxes checked on 6a and 6b

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
- lived with you
- did not live with you due to divorce or separation (see instructions)

Dependents on 6c not entered above

d Total number of exemptions claimed

Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	**Taxable** interest. Attach Schedule B if required		8a
b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions 15a	b Taxable amount	15b
16a	Pensions and annuities 16a	b Taxable amount	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits 20a	b Taxable amount	20b
21	Other income. List type and amount		21
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Reserved for future use	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35		36
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B Form **1040** (2017)

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	
39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	
41	Subtract line 40 from line 38	41	
42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42	
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44	
45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46 ▶	47	
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credit. Attach Form 5695	53	
54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	54	
55	Add lines 48 through 54. These are your **total credits**	55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56	

Standard Deduction for—
- People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others:

Single or Married filing separately, $6,350
Married filing jointly or Qualifying widow(er), $12,700
Head of household, $9,350

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	
58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61	
62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your **total tax** ▶	63	

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2017 estimated tax payments and amount applied from 2016 return	65	
66a	**Earned income credit (EIC)**	66a	
b	Nontaxable combat pay election 66b		
67	Additional child tax credit. Attach Schedule 8812	67	
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: **a** ☐ 2439 **b** ☐ Reserved **c** ☐ 8885 **d** ☐	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶	74	

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75	
76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	76a	
b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
d	Account number		
77	Amount of line 75 you want **applied to your 2018 estimated tax** ▶	77	

Direct deposit? See instructions.

Amount You Owe

78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	
79	Estimated tax penalty (see instructions)	79	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

SCHEDULE A (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

▶ Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
▶ Attach to Form 1040.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.

OMB No. 1545-0074
2017
Attachment Sequence No. **07**

Name(s) shown on Form 1040 | 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 7.5% (0.075)	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):** a ☐ Income taxes, **or** b ☐ General sales taxes	5	
	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	
Note: Your mortgage interest deduction may be limited (see instructions).	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	Reserved for future use	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	
If you made a gift and got a benefit for it, see instructions.	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) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. 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% (0.02)	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 $156,900? ☐ **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. ☐ **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 ▶ ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2017**

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ Attach to Form 1040A or 1040.
▶ Go to *www.irs.gov/ScheduleB* for instructions and the latest information.

OMB No. 1545-0074

2017
Attachment Sequence No. **08**

Name(s) shown on return

Your social security number

Part I Interest

(See instructions 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.

			Amount
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 the instructions and list this interest first. Also, show that buyer's social security number and address ▶	1	
2	Add the amounts on line 1	2	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	4	

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

Part II Ordinary Dividends

(See instructions 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.

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

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

Part III Foreign Accounts and Trusts

(See instructions.)

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.

		Yes	No
7a	At any time during 2017, 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		
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
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 2017, 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		

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ **Attach to Form 1040 or Form 1040NR.**

▶ **Go to *www.irs.gov/Form2106* for instructions and the latest information.**

OMB No. 1545-0074

2017

Attachment Sequence No. **129**

Your name	Occupation in which you incurred expenses	**Social security number**

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 **didn't** involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Don't** include meals and entertainment.	3		
4 Business expenses not included on lines 1 through 3. **Don't** 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		

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

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

7 Enter reimbursements received from your employer that **weren't** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		

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 can't 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% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.)	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		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11700N

Form **2106** (2017)

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 2017	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?		☐ Yes ☐ No	
19	Do you (or your spouse) have another vehicle available for personal use?		☐ Yes ☐ No	
20	Do you have evidence to support your deduction?		☐ Yes ☐ No	
21	If "Yes," is the evidence written?		☐ Yes ☐ 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 53.5¢ (0.535). Enter the result here and on line 1	22	

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 and special allowance (see instructions)	31		
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	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		

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Resource Page:

IRS State Legislator Travel Fact Sheet
https://www.irs.gov/government-entities/federal-state-local-governments/when-state-legislators-can-deduct-living-expenses

IRS Standard Miles Rates for 2017
https://www.irs.gov/newsroom/2017-standard-mileage-rates-for-business-and-medical-and-moving-announced

Use of Per Diem

http://www.ethics.state.tx.us/guides/Gperdiem.htm

Form: 1040 https://www.irs.gov/pub/irs-pdf/f1040.pdf

Form: 1040 Schedule A https://www.irs.gov/pub/irs-pdf/f1040sa.pdf

Form: 1040 Schedule B https://www.irs.gov/pub/irs-pdf/f1040sb.pdf

Form: 2106 https://www.irs.gov/pub/irs-pdf/f2106.pdf

Publication 587 https://www.irs.gov/pub/irs-pdf/p587.pdf

Publication 463 https://www.irs.gov/pub/irs-pdf/p463.pdf