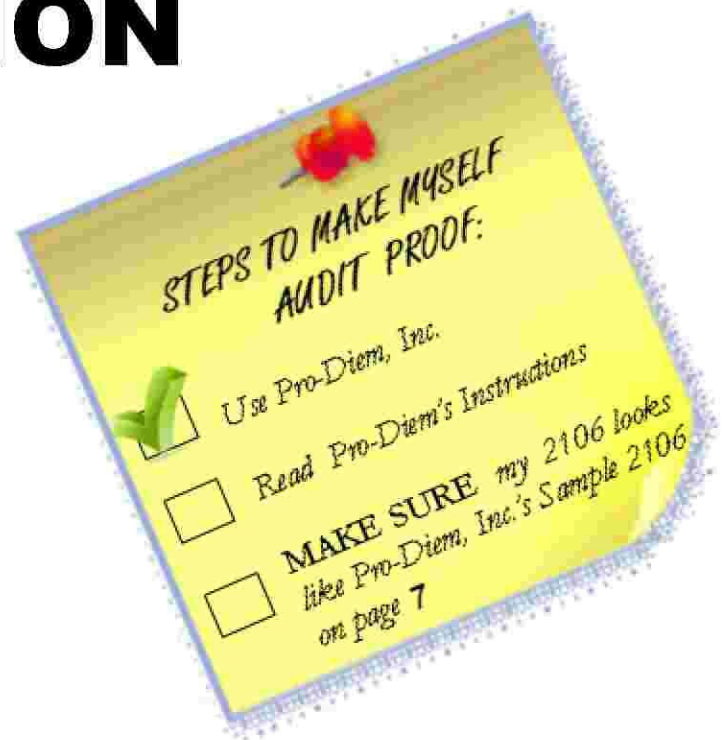




PRO-DIEM, INC.

The Travel Expense Experts

2012 INSTRUCTION MANUAL



****** Very Important! Please Read and
Give to Your Tax Person ******

These instructions are VERY important! Please take a moment to read and provide a copy to any tax preparer you may be working with. We want to provide you with excellent per diem calculation, as well as providing you and your tax preparer with the necessary information needed to follow the ever changing and confusing rules for people in the transportation business.

www.pro-diem.com



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The Purpose and Benefit of Using Pro-Diem, Inc.

Pro-Diem, Inc., uses only the meal and incidental portions of the published government rates making our service ideal for you, the pilots and flight attendants tending our skies.

We give you a TRUE calculation, taking your actual flight times into consideration. What you receive from us is NOT a rough work up of your layover cities. You will see the exact rates and times that were used to calculate each day of travel. Even more importantly, the IRS can see EXACTLY how the figures were derived! Feedback from IRS employees has confirmed Pro-Diem has developed the best possible report to accompany your tax data.

The computer program we have written takes into consideration the rules regarding the number of hours required for layovers, various daylight savings times around the world, adjustments necessary when crossing the international dateline and flight times. These factors are correctly applied to the proper layover city, including instances of multiple flight legs. If a rate for a city is not available, we check to see if a county rate is available rather than shorting you by giving you the "other" rate for non-listed cities. Our breakdown is to the minute - keeping with standard business practices in the airline industry, and using $\frac{3}{4}$ day rule for partial days as required by law. This gives you the greatest tax savings possible.



PRO-DIEM, INC.

The Travel Expense Experts

Letter From the President

Dear Crewmember,

Thank you for using our service. We value you as a client, and look forward to serving you for many years to come!

As you already know, our company specializes in computing the maximum government allowed per diem rates you are allowed to claim on your taxes for expenses without receipts. Our service provides you with a detailed hard copy of your exact federal meal and incidental allowance, leaving no guesswork as to where the "magic number" comes from.

Due to the many requests we receive for a copy of our poster to share with your friends and place on bulletin boards, we've included one on the final page of these instructions for your convenience. Thanks to all of you who spread the word about Pro-Diem, Inc. We hope you love our service and will consider sharing the poster with your fellow crew members.

If you have any questions, please do not hesitate to call our office. We are happy to assist you and answer any questions regarding your travel expense calculation.

Wishing you blue skies,

Aundrea Reel
President
Pro-Diem, Inc.
7157 Colleyville Blvd. Suite 103
Colleyville, Texas 76034
817.421.8389
www.prodiem.com

Report Definitions

DATE/TIMES:

L Date = Local Date

DEP TIME = Departure Time

ARR TIME = Arrival Time

FLT TIME = Flight Time

All dates and times have been converted to base local calendar date and time. A date may vary from your company report if an error was encountered. If this occurs in your report, the total time away from base will still be the same. Occasionally, we encounter trips in which company reported total times are incorrect. Should we encounter a discrepancy in your total hours, we will let you know so you may report the error to your company.

DEP CITY = Departure City

ARR CITY = Arrival City

LAYOVER:

The total time spent in a city, from arrival time to time of departure.

TAFB = Time away from Base. This is the total time you were gone from base from your first block out to you last block in.

LAYOVER CITY = Any time you met a legal rest period/layover you will see the city listed in this column

RATE DAY:

This is the maximum allowed government rate for a 24-hour period for the layover listed. If there are blank spaces in this column, it means that portion did not meet the requirements that constitute a rest period. Your total time away from base still accumulates and is added to the next layover meeting this requirement. If no layover meets this required rest period, then the total time goes back to the last rest period for that trip if applicable.

ADJ ¾ DAYS DEP AND ARR

This is the portion of the trip that a full day of travel was not made. In accordance with Rev. Procedures 2011-47 Sec. 6.04(1) partial days have been prorated to the 3/4-day (i.e. 6 AM first day and 6 PM last day). These days only occur on the first and last days of the trip because travel was less than a full day. The amounts are added back into your first and last day's totals after your time away from base has been verified. You can see the hours added or subtracted to your departure and arrival days to adjust those days to the ¾ day rule.

SUMMARY:

This sheet shows the total amount of government allowed meal and incidental expenses. For your convenience we have broken it down by month. **Place the total circled on this page in Column B, Line 5 of your Form 2106.**

DO NOT USE Form 2106EZ! You must use Form 2106.

Commonly Misunderstood Deductions

INCIDENTAL EXPENSES: According to the IRS, as published in the Revenue Procedures, Section 3.02(3) - (per Federal Travel Regulations, 41 C.F.R. 300-3.1), the definition is as follows:

The term "incidental expenses" has the same meaning as in the Federal Travel Regulations, 41 C.F.R. 300-3.1. The Federal Travel Regulations currently include as incidental expenses fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries; transportation between places of lodging or business and places where meals are taken, if suitable meals can be obtained at the temporary duty site; and the mailing cost associated with filing travel vouchers and payment of employer-sponsored charge card billings...

All of these amounts **are included in the total we provide**. You **cannot** split out your incidentals from this total because as a crew member, the IRS allows you to claim the ME&I amount only if you consider it a meal expense as a whole. As you are subject to the **Department of Transportation** (D.O.T.) hours of service limits you are allowed to claim the larger percent difference on form 2106 Column B.

We Recommend You Keep Good Records

You MUST keep records! If you are ever audited and cannot provide breakdown of what you claimed and receipts for those items over \$75.00, you will be disallowed unproven items. It could cost you thousands of dollars in expense money.

Tip # 1: If your cell phone has a memo or record feature, dictate job related expenses into it and save until you have a chance to make note of them!

Tip #2: With a pen, write receipt amount and the item on back of store printed receipt. If you ever need the copy for an audit at a later date you will be shocked to learn that the ink on all of your store receipts has disappeared and you no longer have anything to show for your expenses much less any idea of what they might have been!

Review our list of suggested "other" deductions. We provide these **suggestions** for your column A deductions on form 2106 as a guide only. We try to ensure these are correct but recommend you check with your tax consultant for advice as other factors may apply. Items must be used for your job. Clothing must identify you as a crew member.

Don't forget to deduct your fee to Pro-Diem for the report we did for you last year. This is added to your tax preparation fees on Schedule A.

PRO-DIEM, INC. IS the KEY to MAXIMIZING your return and making your deductions AUDIT PROOF!



How to Avoid an Audit

We know how important it is to clear up any possible questions or problems **BEFORE** they have a chance to occur. That is **why we offer free IRS support to clients** who used our calculation on their original tax return for the year in audit. If you are ever selected for an examination – Call us immediately so that we can help you. We will provide you expert audit support for free. We are proud of our 100% approval rating with the IRS.

In nearly twenty years of providing per diem, we have gained substantial name recognition with the IRS. On the rare occasion a Pro-Diem, Inc. client comes across an agent who is not familiar with the specific rules regarding those in the transportation industry, we are glad to explain the procedures and regulations and provide necessary documentation, helping them gain approval.

For those of you facing an audit and are **using our service because of your audit**, we offer the same services for a **\$200 fee**, which includes the processing of your report for the necessary year being examined. We will walk you through the process of resubmitting the needed forms and help ensure that, by using our service in future years, you will be able to avoid any recurrence of an audit. It is our goal for you to get it right the first time you file your taxes.

Avoiding the Most Common Mistakes...

- ✚ **Do not use Form 2106-EZ.** You must use Form 2106 as it allows for the reporting of the non-taxable per diem you were paid.
- ✚ **Do not put your numbers in the wrong places on Form 2106.** Do not assume the form makes sense— follow our example. Turbo Tax may place numbers in unusual places if the interview questions are not answered correctly.
- ✚ The per diem total allowed and the non- taxable per diem paid amounts will go in Column B **NEVER in Column A**. If you do not have the non-taxable per diem you were paid listed on your W-2, **YOU WILL HAVE TO FIND THE AMOUNT**. It can usually be found on your final pay check stub listed under “per diem”.
- ✚ **Do not leave Line 7, Column B blank!** If the non-taxable per diem paid is not on your W-2 you will have to find it! Call us if you need help.
- ✚ Multiply by the **correct percentage** in Column B, Line 9. You are allowed the DOT Percentage – 80% for the past four years.
- ✚ Put all of your “other” airline job related expenses on Line 4, Column A. Keep a record of what this total includes. **Unless** you have another business requiring you to be a LEGAL commuter, you probably will not have anything listed in Column A in any row except for Row 4. **Do not claim “commuter” expenses just because you do not live at base!** You must prove it is not a luxury that you do not to live at base and commute. This includes such things as an income producing non hobby business which requires your active participation.



Where do the numbers go? Sample of where to place them!

Your Form 2106 should look exactly like ours. Use YOUR numbers on your actual tax form. These numbers are just for demonstration purposes. Pilots and Flight Attendants are subject to the D.O.T. hours of service limits. This means than on line 9 in Column B you will use 80% for 2011, 2010, 2009 & 2008. You **MUST** use Form 2106 NOT 2106EZ!

W-2

NOTE

PRO-DIEM TOTAL - Per diem allowed for trips flown

SUMMARY	
Month	Per Diem Amount
JANUARY:	\$1,209.50
FEBRUARY:	\$1,150.50
MARCH:	\$1,209.50
APRIL:	\$909.36
MAY:	\$1,041.12
JUNE:	\$1,094.47
JULY:	\$713.31
AUGUST:	\$889.50
SEPTEMBER:	\$1,035.41
OCTOBER:	\$1,053.50
NOVEMBER:	\$216.44
DECEMBER:	\$1,305.25
TOTAL	\$14,039.57

Important! If you do not have a **"Non-Taxable" per diem amount listed on your W-2**, in Box 12 Code L, it doesn't mean that you do not have to claim one on your taxes! The amount is not required by law to be listed by your airline on the W-2, but it is required by law that you subtract the non-taxable amount paid to you from what we calculate. You may need to locate the amount on a year-end paycheck or add the non-taxable

Remember that what you are paid in per diem towards the allowed amount must be deducted! Not doing so will get you an audit!

Yes DOT! 80% for 2010

Place this amount (combined totals 9A & 9B) on Schedule A Line 20 or 21 depending on the year.

NOTE: This is where you put your **"OTHER"** job related expenses. These can include (but are not limited to) luggage, uniform expenses, union dues, passport fees etc. For suggestions and help on organizing these **"OTHER"** items, we recommend using our **"EXPENSE TRACKER"** spreadsheet. It is a free template that you can use to enter these amounts. It totals, groups and graphs categories. It is available to you for free on our website, <http://www.pro-diem.com>, compliments of Pro-Diem. (Available in Microsoft Excel and Microsoft Works formats only)

Instructions For Use:

These are VERY important! Please take a moment to read and provide a copy to any tax preparer you may be working with. Although we value all of the new clients we get in the audit process, we would rather help you before you get an audit! We find that most audits are caused by people making the same common mistakes. Please read our instructions and follow them. We want to provide you with excellent per diem calculation, as well as providing you and your tax preparer with the necessary information you need to follow the ever changing and confusing rules for people in the transportation business.

In order to deduct meal and incidental expenses, you must file Form 1040 along with Schedule A—Itemized deductions, and Form 2106 - Employee Business Expenses. **YOU CANNOT USE 2106 EZ.** Because Form 2106 is year specific, you should verify you have the proper form for the year you are processing. **Please review the attached sample of number placement on form 2106** and be sure you have completed yours correctly.

1. Copy your Pro-Diem, Inc. **per diem report total** to Line 5 Column B, and carry total down to Line 6 Column B.
2. Copy your non-taxable per diem **amount from your W-2**, to Line 7 Column B carefully. If this amount is not on your W-2 you will have to obtain it from your company or check stubs.
3. On Line 8 Column B enter the sum of Line 6 B minus Line 7 B.
4. On Line 9 B enter the sum of Line 8B multiplied by the D.O.T. percentage for the year you are submitting. For Form 2106 for 2011 you should have a figure equal to **80% of the difference** between what you were paid in per diem and what you are allowed to claim for expenses. The D.O.T. percentage was also 80% for 2010, 2009 & 2008.
5. Enter your “other” expense amounts (See checklist for details) in Column A on Line 4. **Most crew members will not have anything on lines 1-3 Column A** unless they are able to legally claim commuter expenses.
6. Carry the total of Line 6 Column A down to Line 9 Column A.
7. Add the totals from Line 9 Columns A & B and place on Line 10 Column B.
8. The Figure from Line 10 Column B is then placed on your Schedule A Line 20 or 21 depending on the year you are doing.



HOT Topics and What's New for 2012

Rev proc 2011-47 – This is the latest Revenue Procedure detailing this deduction. This year the IRS created ***Special Rates for transportation workers***. It allows the use of a special standard meal allowance if you work in the transportation industry, so instead of using the rates for each locality of travel, you “may” claim a standard meal allowance of \$59 a day (\$65 for travel outside the continental United States). This **RARELY** is better than using the rates for each locality of travel. What does this mean to you? It means that in order to ensure you are getting the highest possible deduction, Pro-Diem will also calculate what your expenses would be if the standard Transportation Rates are used. We will compare and give you the report with the highest total. We will also call you and explain what the difference was!

This typically is seen at commuter airlines flying consistently to very low rate domestic cities. It doesn't happen often, but we are committed to providing you with your highest allowable per diem and believe it is our duty to check both methods for you!



***You are in good hands with
Pro-Diem, Inc.***

*We have over 18 years of
expertise specializing in per diem
rules and calculation!*

YOU CAN COUNT ON US TO STAND BEHIND OUR SERVICE!

Thank you for using our per diem calculation service. We look forward to serving you for many years to come. If you are happy with our service, **please tell your fellow crew members about us**. We hope you find the information we provide informative and complete. Should you or your tax professional have any questions, please call us. We are always available to answer questions. Because of increased IRS scrutiny of travel expenses, we want you to know we fully support our service. You can rest easy knowing that if you are ever audited, you can give us a call and we will be glad to help at no extra charge. We are proud of our 100% approval from the IRS for 17plus years we have been in business

Frequently Asked Questions

Are tips included in the Meals and Incidental (M&IE) expense rate?

Yes. The meals and incidental expense (M&IE) rate does include taxes and tips in the rate, so crew members CANNOT claim them as an additional expense item. We have consulted the office of Income Tax and accounting in Washington and discussed this issue specifically with the author and his reviewer of the Revenue Procedure. They informed us that they feel tips to the van/shuttle drivers are part of what they consider the “incidental” portion of the Meals and Incidental expense amount. The incidental portion is included in our total and cannot be claimed as an additional expense item.

What is the definition of Meals & Incidental Expenses?

The Federal Travel Regulation (www.gsa.gov/fttr) Chapter 300, Part 300-3, under Per Diem Allowance, describes incidental expenses as:

“A. Fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries. B. Transportation between places of lodging or business and places where meals are taken, if suitable meals cannot be obtained at the temporary duty site. C. Mailing cost associated with filing travel vouchers and payment of Government charge card billings”.

How often are M&IE expense rates re-evaluated?

CONUS RATES: The GSA conducts nationwide meals studies to more accurately reflect actual prices charged by restaurants in areas frequented by federal travelers. Based upon data received from more than 9,000 restaurants, the CONUS M&IE tiers range from \$46 - \$71.

OCONUS RATES: The Department Travel Management Office and Department of State establishes the OCONUS rates for all foreign and non foreign locations. They change based on the exchange rate fluctuating +/- 3% or a local government office requesting a resurvey.

What is the M&IE reimbursement rate during the first and last travel day?

On the first and last travel day, Crew Members are only eligible for 80 percent of the total M&IE rate.

Can I go back and amend previous year's taxes?

Those of you interested in amending a prior year's income tax report can generally submit up to three years previous. It is normally a simple two-page process, and we will supply you with the necessary forms. It is, more often than not, well worth the effort! The data submission process is usually the same. If your data is no longer available to you online, you can usually obtain it by calling your payroll department. Our fee is the same for all years.

What about my “other” expenses?

Your job related expenses can really add up. If you are like most people in the airline business, you can use every deduction you can get these days. The IRS is scrutinizing these amounts more than ever before. **Don't throw away your money by not keeping track of what you have spent.**

Employee Business Expenses

► See separate instructions.
► Attach to Form 1040 or Form 1040NR.

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 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			

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			

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

Cat. No. 11700N

Form **2106** (2011)

Checklist for "Other" Expenses

Work related and Uniform Expenses

Enter dollar values below:

\$		\$	
	FAA medical exam		Home dry cleaning expenses of uniform
	Passport application fees		Alterations
	Passport photo		Belt
	Foreign visa costs		cleaning / dry cleaning (per week)
	Education fees for second language (check IRS guidelines)		cleaning / laundering (per week)
	Union dues		Uniform essential clothing (i.e. jacket, pants, dress, sweater, skirt, blouses)
	Logbook or organizer		Epaulets
	Batteries		Scarves
	Bid service fees (Do not include services available to the general public, job required)		Hat
	Cockpit and jet bridge key		Coat
	Company business cards		Shoes
	Headset for cockpit		Support hose
	Corkscrew		Repairs of shoes
	Manuals		Uniform accessories - (airline logo items and wings)
	Flashlight		ATM fees on layovers out of banking area
	Kit bag		Drug Testing expenses
	Luggage		Foreign Visa Expenses
	Garment bag		Business related long distance calls
	Currency converter		Professional publications
	Special company assessments (i.e. merger etc.)		Voltage converter
	Pager rental fee (job required)		Mail expenses (company related)
	Flight supplies/equipment		luggage tags
	Safety equipment (job required)		Pager (for job related use)
	Portable electronics (i.e. clock, blow dryer)		ATM fees on layovers
	Door alarm		

(Do not forget: You must subtract what you were reimbursed from your company from items.)

We also offer a FREE Expense Tracker for your use. Visit our website (www.prodiem.com) for details. Be sure to review our checklist for "other" expense items that you may be able to deduct. **Place these into your Column "A" Line 4 on form 2106.** These are **in addition** to what we calculate for your Column "B" expenses.

We provide these suggestions for your column A deductions on form 2106 as a guide only. We try to ensure that these are correct but recommend that you check with your tax consultant for advice as other factors may apply.

PRO-DIEM, INC.



Expert Per Diem Calculation

For Pilots and Flight Attendants

**DON'T GIVE UP YOUR
HARD EARNED TAX BREAK!**

**The best CPA's in the
country insist their
clients use Pro-Diem
to calculate their
per diem allowance!**

- IRS Proven with 100% approval
- Easy to use
- We take data electronically or by snail mail
- Fast turnaround
- In business since 1993
- Free audit support
- Streamlined paperless submission through our website

If you itemize on your taxes Pro Diem can help you save hundreds or even thousands off your tax bill by using our service to calculate your travel expenses correctly.

We do a true calculation of your layover cities. We stretch your amount to the greatest possible penny by taking in consideration rules required regarding the number of hours required for a layover, daylight savings times, crossing the date line, application of rates to multiple flight legs and adjusting first and last to 3/4 day rule. We understand and know what to claim in regard to training. The processor assigned to your report manually checks for errors and missing information. We proudly stand behind our work and provide audit support!

**The #1
choice of airline
Crew Members**

PRO-DIEM, INC.

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