

MEALS, ENTERTAINMENT, TRAVEL AND AUTOMOBILE EXPENSE SUBSTANTIATION

As with all deductible expenses, tax laws require that deductions be substantiated for unreimbursed business meals and entertainment, travel, and use of an automobile. However, adequate documentation related to these expenses requires more than just a receipt. It is generally recommended that an account book, diary, log, or similar record at or near the time of incurring the expense be maintained to support these deductions.

Reasonable meals and entertainment expenses (which are subject to a 50% limitation) and travel costs are deductible if they are ordinary and necessary in the normal conduct of your business. With respect to meals and entertainment, business discussions must take place before, during, or after the event. If, however, a business trip takes you away from home for a night or more, the reasonable cost of meals is deductible even if you're not entertaining customers or clients.

As a general rule, the following information should be documented for each of these expenses: date, amount, place, names of the individuals participating, the nature of the business relationship, and the business purpose of the activity.

Automobile Expenses

The Tax Court has recently ruled that estimated expenses are no longer acceptable evidence to substantiate the business use of an automobile. Recording automobile expenses can be done in one of two ways: the actual cost method or the standard mileage rate method. Both methods require that you keep track of business miles and total miles driven during the year. When recording business mileage, the date, starting point and destination, and the business purpose of the trip should be recorded. Business related tolls and parking fees should also be documented: these expenses are fully deductible under either method.

Actual Cost Method

Under the actual-cost method, all auto expenses, including the cost of gas, tires, maintenance, insurance, allowable lease payments or depreciation, etc. should be recorded and documented. The allowable deduction is determined by dividing the total business mileage for the period by the total of all miles driven during the period and multiplying the result by the total expenses incurred. It is permissible to convert from the standard mileage method to the actual cost method in any year.

Standard Mileage Rate Method

If the standard mileage rate method is used, the number of total business miles driven during the period is multiplied by the standard mileage rate (55 cents per mile in 2009 and 50 cents per mile in 2010) to arrive at the deductible expense. It is not permissible to convert from the actual cost method to the standard mileage rate method if accelerated depreciation was claimed with respect to the vehicle.

Please contact us if you would like a complimentary Auto, Travel & Business Log or if you have any questions regarding these rules.