



Business Travel & Entertainment Expenses

Documentation Requirements

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General Rules

Travel and entertainment (T&E) expenses are deductible as business expenses, assuming they are (1) ordinary and necessary, and (2) not lavish or extravagant. Some of the restrictions and limitations imposed by IRS regulations with respect to T&E expenses, including the following:

1. Travel and entertainment must be substantiated to be deductible
2. Generally, the corporation can deduct only 50% of the amount otherwise allowable for meals and entertainment
3. Entertainment expenses must be directly related to or associated with the active conduct of the corporation's business

This article focuses on substantiation requirements for several common forms of T&E expenses. We will start with some general rules which apply to all forms of T&E and then delve into specific documentation requirements for individual types of T&E.

The general substantiation rules for all types of business T&E require that no deduction is allowed unless the taxpayer substantiates what we will call the "5 W's" - who, what, where, when, and why for each expense by providing **sufficient corroborating evidence** and keeping **adequate records** such as a log containing the following information:

1. The business relationship to the taxpayer of the persons involved. (Who)
2. The type or category of the expense. (What)
3. The time and place of the expense (When, Where)
4. The business purpose of the expense (Why)

These substantiation rules apply to expenses for business-related travel (including meals and lodging while away from home), local transportation expenses, entertainment and recreation activities, and business gifts.

In addition to meeting the above substantiation requirements, taxpayers generally must substantiate all travel and entertainment (T&E) expenses in excess of \$75 with a printed or written receipt.

important tip

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Specific Rules



Business Meals at 50%

In general, only 50% of the cost of business meals is deductible. To substantiate your business meals, keep your receipts and maintain a log providing the “5 W’s” for each expense.

important tip

only 50 percent of the cost of business meals is considered deductible

Other Meals at 100%

There are exceptions for which the cost is 100% deductible. These include meals provided at company sponsored employee activities such as a company picnic, a holiday party, or an employee outing. In addition, if the company provides free beverages such as coffee or tea to the employees, that is fully deductible.



Automobile Expenses

Employee’s Personal Auto Used for Corporate Business

You can choose to reimburse your employees for business mileage on their personal vehicle at any rate up to the IRS business standard mileage rate of 55.5 cents per mile for 2012.

Substantiation rules under this method require the employee to submit an accurate mileage log to the employer showing the mileage and the “5 W’s” for each instance of business use. The employer can then deduct 100% of the mileage reimbursement amount and the reimbursement is not taxable to the employee. A mileage log can be self-created (e.g. an excel spreadsheet) or purchased in most office supply stores.

Corporate Deduction for Employer-provided Autos

The corporation generally can deduct 100% of the operating costs when it provides a vehicle to its employees for business use. Normally, actual expenses must be substantiated rather than applying a mileage rate. When an employee uses a company vehicle for personal reasons, the value of that personal use is taxable and added to their W-2 at the end of the year. Personal use includes commuting to and from work. Each employee should keep a mileage log to document their business commuting and other personal mileage. Consult your Chortek tax advisor to calculate the taxable personal use of company vehicle.

important tip

bring a client or two with you to the country club if you want to deduct expenses such as meals or golf course fees



Country Club/Golf Outing with a Client

Dues paid to a golf or country club or any other social club is not deductible. In addition, the user of the club must keep track of business versus personal use of the club facilities. The personal portion of the dues is added to the employee’s W-2 at the end of the year.

If, however, you entertain or play golf with a client at a country club, expenses such as meals and fees to use the golf course or other recreational facilities are 50% deductible as entertainment. If you purchase tickets to a golf outing that is sponsored by and for the benefit of a charitable organization, then 100% of the cost of the tickets are deductible as a charitable contribution.

Save receipts and log or journalize the event, and if applicable, obtain a written charitable acknowledgement.

Hole Sponsorship

Amounts spent to sponsor a hole at a golf outing are 100% deductible as advertising and promotion expense.



Charitable or Civic Organization

Dues paid to civic and charitable organizations such as the Lion's, Rotary, or Kiwanis Clubs or professional organizations such as the Bar Association or the AICPA are 100% deductible. As always, keep your receipts and maintain an entertainment log to document the "5 W's".



Entertainment Facilities/Hunting/Boat Trip with Client

A taxpayer cannot deduct an expense connected with an entertainment facility. An entertainment facility is any property owned or rented and used for entertainment, recreation, or amusement. Examples of entertainment facilities include yachts, hunting lodges, ski lodges, and vacation homes. If the facility is used to the slightest extent for entertainment, it is considered an entertainment facility. Examples of non-deductible expenses are rent, utilities, maintenance and upkeep.

important tip

consider non-cash employee awards versus cash awards if you want to deduct the expense

If during such an outing, you stay at a non-entertainment facility such as a hotel with a conference room and attend a business meeting for which an agenda or attendance verification can be documented, then the cost of your lodging may be fully or partially deductible as business travel if you can separate the lodging expense from the entertainment expenses, and business days exceed non-business days during your stay.

Provided that a log or journal is kept and the “5 W’s” are documented, other costs incurred in entertaining a client while en route to, during your stay at, or returning from the entertainment facility are deductible entertainment expenses subject to the 50% limitation (e.g. meals, supplies, ammunition). Transportation to and from the venue are not subject to the 50% limitation. If an event such as a hunting, skiing, or fishing trip, or a boat cruise is sponsored by and for the benefit of a charitable organization, then all expenses related to the outing are 100% deductible.



Business Gifts

If you give a gift to a customer or client during the holidays or as a thank you, the deductible amount is limited to \$25 per person in any one calendar year.

Employee Awards

Cash Awards

Cash employee achievement awards must be added to the employee’s W-2 and are deductible by the company as compensation. Standard tax withholding rules apply.

Non-Cash Awards

Non-cash employee achievement awards are deductible provided the value does not exceed \$400 per each award and \$1,600 per employee per calendar year. In this case, the awards are not taxable to the employee. If the value of a non-cash award exceeds those thresholds, the excess amount must be added to the employee's W-2. This excess is then deductible by the company as compensation.



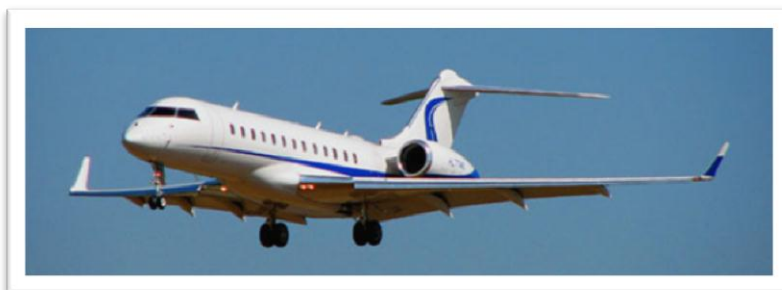
Cost of Tickets to Athletic Events/Skybox Rentals

When a company provides a business customer with tickets to an athletic event, the amount the company can deduct is generally limited to the face value of the tickets, and depends on whether an employee of the company attends the event with the customer. If no employee attends the event with the customer, the cost is deductible as either a business gift, subject to the \$25 limit, or as entertainment subject to the 50% exclusion. If an employee attends, the tickets must be considered entertainment. If the tickets are to an event which benefits a qualified charitable organization and the event is run by volunteers, the 50% exclusion does not apply, and the deduction is not limited to the face value of the tickets. Keep your receipt for the purchase of the tickets, a photocopy of the tickets, and document the "5 W's" for each event.

The deduction for lease of a skybox at a sports stadium or arena to entertain clients is partially deductible. The deduction is based on the average price of a regular seat to that event. Call your Chortek tax advisor for assistance in determining your deductible amount. To substantiate the deduction, retain a copy of your lease agreement and document the "5 W's" for each event.

important tip

if you want to splurge and get the skybox, good news — it's partially deductible



Out-of-Town Travel

When You Travel to an Out-of-Town Sales Call or Business Related Conference or Convention

You can deduct reasonable and necessary costs of an out-of-town business trip. This includes airfare, ground transportation, lodging and meals. If the trip is part business and part personal, you must allocate expenses between business and non-business days. Days considered 100% business include days in which you travel to and from your business destination, days in which business was your primary focus even if you engage in some personal activities after the business day, and weekends or holidays that fall in between business days. For meals and lodging, you can document your actual expenses or use an IRS approved per-diem rate for the city to which you travel. If you are a greater than 10% shareholder, you must use actual expenses for lodging, though the per-diem rate can still be used to document meals. Keep receipts to document your expenses and a log to document your business purpose.

important tip

feel free to bring your spouse or significant other along on business... but his/her expenses are NOT deductible

Luxury Travel

If you travel to your business destination on a luxury ocean liner or cruise ship, or if a conference or convention is held on such a ship, there is a limit to the deductibility of your expenses. Contact your Chortek tax advisor for assistance.

Travel Expenses for a Spouse or other Family Member Who Accompanies You

When you take your spouse or other family member along on a business trip, none of the additional expense related to their presence is deductible by the company unless they are an employee and have a bona fide business purpose for accompanying you on the trip.

Business Conducted During Primarily Non-Business Trip

If you conduct business activities during an out-of-town trip which is primarily non-business in nature, only expenses directly associated with the business activity are deductible. You cannot allocate any expenses to travel to and from your main destination or lodging at your main destination if your trip is primarily a non-business vacation where non-business days exceed business days.

Conclusion

This summary identifies some of the most common forms of business travel and entertainment and the documentation required to maximize your tax deduction. It is not meant to identify every exception or to be a travel and entertainment “bible.” It cannot prevent you from being audited. However, by following the simple, common sense approach of saving receipts and documenting each event in a log, journal, or diary, you will be prepared and have the answers if the IRS comes calling.

Chortek is a forward thinking accounting and business advisory firm built on a team of knowledgeable professionals in accounting, technology, forensic and litigation, and merger and acquisition who bring high value to clients’ business and individual financial needs.

For over 65 years, Chortek has helped closely-held businesses obtain their financial goals in this competitive, global marketplace. Our entrepreneurial spirit and strong desire to see our clients’ businesses grow drives our knowledgeable professionals to first listen to our clients’ needs and then support their goals with meaningful and forward-thinking advice.

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