

DEDUCTING TRAVEL & ENTERTAINMENT EXPENSES

When are T & E expenses deductible?

Expenses for business travel, meals, and entertainment – often referred to as

T & E expenses - must meet the following tests in order to be deductible. The expense must:

- Be incurred in a trade or business carried on by the taxpayer.
- Be ordinary and necessary to the business.
- Be common and accepted in the taxpayer's trade or business with a clear business purpose.

Business travel is fully deductible, whereas business meals and entertainment are only partially deductible. In addition, business must be conducted before, during, or after the entertainment/meal activity, and there is an expectation of income or other specific benefit.

What expenses are deductible?

Deductible travel expenses

- Travel by air, bus, taxi, train, or automobile.
- Lodging expenses.
- Baggage charges.
- Cleaning and laundry charges.
- Cost of temporary help.
- Rental car.
- Reasonable tips.
- Expense of transporting display or sample materials.
- Telephone calls.

Deductible entertainment expenses

- Transportation to and from an entertainment event.
- Tickets for entertainment, such as sporting events, theater, concerts (you cannot deduct fees to ticket agencies or scalper fees).
- Catering charges and room rental for entertainment activity.
- Food, beverages, and tip expenses for entertaining business clients at home with a meal.

Deductible meal expenses

- Food, beverages, taxes, and tips.
- Meals on business trips.
- Meals furnished to employees on the employer's premises.
- Transportation to and from restaurant.

Deductible automobile expenses

Taxpayers generally may use one of two methods for computing car expenses: the actual cost method or the standard mileage rate method. The standard mileage rate may not be used in certain situations; the actual cost method may be used by any taxpayer.

Expenses that are deductible under the actual cost method include the following:

- Gas and oil.
- Repairs, maintenance, tires.
- Insurance and licenses.
- Depreciation (including first year expensing election) subject to limits adjusted annually for inflation.
- Car loan interest (except employees).
- Car lease payments (special rules).
- Parking fees and tolls.

If the standard mileage rate is used, the taxpayer deducts the number of business miles driven times the current rate per mile specified by the IRS. The business portion of parking fees and tolls may be deducted in addition to the standard mileage rate.

Commuting expenses – travel to and from the job – are generally not deductible.

This information is general in nature and should not be used as the final authority. Contact us for further details and professional guidance in identifying and utilizing all the travel and entertainment deductions for which you qualify.

What recordkeeping is required?

T & E expenses must be substantiated by adequate records. An account book, diary, log, or expense record is required with the expense and business purpose recorded along with the time of the activity. Generally, documentation must include the following:

- Amount spent.
- Date, time, and place of expenditure.
- Business purpose of activity.
- Names and business association of individuals involved.

In addition, a receipt or other substantiation is required for all lodging expenses and for any meal or entertainment expenditure of \$75 or more.

- *Per Diem*. In some cases, per diem amounts may be used in lieu of documenting actual expenses for lodging and meals. Under the per diem method, the amount of the expense is considered to be substantiated. Actual substantiation of the time, place, and business purpose of the expense must still be provided.

T & E Deduction Checklist

Travel

- Local business travel
- Out of town business travel and lodging
- Investment seminar fees, travel, and meal expense

Meals

- Business meals for yourself while away from home overnight on business
- Meal with employee, colleague, business contact, customer or client, with business discussed before, during, or after
- Meal with employee, colleague, business contact, customer or client, with no business discussion
- Lavish and extravagant portion of a business meal
- Beverages, snacks, and certain meals provided to employees while at work
- Food and beverages provided to the public to promote business.

Entertainment

- Entertaining a client or customer, with significant business discussion
- Entertaining a client or customer, with no business discussion
- Tickets to sporting or cultural event connected with significant business discussion
- Excess price paid for ticket (scalper fee or luxury box)
- Entertaining customer or client at home with significant business discussion
- Entertaining employees at company picnic, Christmas party, etc.
- Business gifts of no more than \$25 per recipient
- Samples and promotional items provided to general public for business purposes