

It's your business

## Deducting business travel & entertainment expenses



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.
- Serve a clear business purpose and be directly related to the active conduct of the trade or business.

Business travel is fully deductible; business meals and entertainment are only partially deductible.

Furthermore, a company representative must be present during a business meal, and substantial and bona fide business discussion must take place directly before, during, or after the meal.

## What expenses qualify for deduction?

### Deductible travel expenses

- ▶ Travel by air, bus, taxi, train, or automobile.
- ▶ Lodging expenses.
- ▶ Baggage charges.
- ▶ Cleaning and laundry charges.
- ▶ Cost of temporary help during business travel; e.g., secretarial help or telephone answering service.
- ▶ Reasonable tips.
- ▶ Expense of transporting sample cases or display materials.
- ▶ Telephone calls.

### Deductible entertainment expenses

- ▶ Transportation to and from an entertainment event.
- ▶ Tickets for entertainment, such as sporting event, theater, concert.
- ▶ Nightclub cover charges.
- ▶ Catering charges and room rental for entertainment activity.
- ▶ Entertaining business clients at home.

### 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 – that is, travel to and from the job – are generally not deductible.

**Note:** The rules on what T & E expenses may be deducted contain many restrictions and exceptions. This brochure gives a very general overview. For specific application in your business, contact our firm for details.

# What recordkeeping is required?

T & E expenses must be substantiated by adequate records. An account book, diary, log, expense record, or the like should be kept. The expense and the business purpose must be recorded at or near the time of the activity. Information that must be recorded varies with the kind of expenditure but generally includes 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 expenditure exceeding a certain limit.

In some cases, per diem amounts may be used in lieu of keeping track of actual expenses for away-from-home lodging, meal, and incidental expenses. 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.

## Business Travel & Entertainment

### - A Deduction Checklist -



Type of expense	Deductible percentage		
	100%	50%	0%
<b>TRAVEL</b>			
Local business travel.	✓		
Out of town business travel and lodging.	✓		
Travel as a form of education.			✓
Investment seminar fees, travel, and meal expenses.			✓
<b>MEALS</b>			
Beverages, snacks, and certain meals provided to employees while at work.	✓		
Food and beverages provided to the public to promote business.	✓		
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.			✓

Type of expense	Deductible percentage		
	100%	50%	0%
<b>ENTERTAINMENT</b>			
Entertaining employees at company picnic, holiday party, etc.		✓	
Business gifts of a nominal amount.		✓	
Samples and promotional items provided to general public for business purposes.		✓	
Entertaining a client or customer, with significant business discussion.		✓	
Entertaining customer or client at home with significant business discussion.		✓	
Tickets to sporting or cultural event connected with significant business discussion.		✓	
Entertaining a client or customer, with no business discussion.			✓
Excess price paid for ticket ("scalper" fee or luxury sky box).			✓



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