

Meals and Entertainment, Auto and Travel Expenses Documentation Requirements

As a general rule, your company can deduct 50 percent of the cost of meals as a business expense if specific conditions are met. However, Congress has eliminated the 50 percent deduction for most entertainment expenses. Even if a meal or entertainment expense qualifies as a business expense, none of the cost is deductible unless strict and detailed substantiation and recordkeeping requirements are met.

Under guidance provided by the IRS, 50 percent of food and beverage expenses associated with operating a trade or business are deductible if the following requirements are met:

- the expense must be ordinary and necessary and paid in carrying on a trade or business;
- the expense may not be lavish or extravagant;
- the taxpayer or an employee must be present when the food or beverages are furnished;
- food and beverages must be provided to a current or potential business customer, client, consultant, or similar business contact; and
- if the food is provided during or at an entertainment activity, it must be paid for on a separate invoice.

The Internal Revenue Service requires that in the event of an audit, meal and travel expenditures must be documented in the following manner:

- Amount,
- Who was in attendance (name of person(s) present at the meal or travel),
- The business purpose of the meeting,
- The date and place of the meal or travel,
- The business relationship of the persons in attendance (customer, vendor, employee, etc.).

In the absence of the above documentation, your expenditures, upon audit, may be disallowed.

To meet the adequate records requirement, you must maintain an account book, diary, statement of expense or similar record, and documentary evidence that, in combination, are sufficient to establish each element required to be substantiated. You need not record information in the account book, diary, or similar record that duplicates information reflected on a receipt, as long as the account book and receipt complement each other in an orderly manner. Receipts alone without accompanying evidence are not adequate records. For example, gas receipts without an accompanying account book do not reflect the amount, time, place, or business purpose of business travel expenses.

It is important that you review your records to ensure that you have the documentation for these expenses. If you find that the documentation is not available, please notify our office to discuss the propriety of deducting these expenses.

If you should have any questions regarding the above, please do not hesitate to call.

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Charitable Giving Acknowledgement and Substantiation

Americans donate millions of dollars to charities every year. The Tax Code encourages charitable giving by allowing a deduction. However, there are strict acknowledgement/substantiation rules that must be followed in order for you to claim your deduction.

Acknowledgements

You must have an acknowledgement from the charity by the time you file your return for the contribution year to claim your deduction. In the event that you file your return late, you can claim a deduction only if you can prove you had the written acknowledgement in hand by the filing deadline or filing extension date.

A written acknowledgment provided by a charitable organization must include:

- the amount of any cash contributed and a description (but not necessarily the value) of any property other than cash contributed to the donee organization,
- a statement of whether or not the donee organization provides any goods or services in consideration, in whole or in part, for any of the cash or other property transferred,
- if the donee organization provides any goods or services other than intangible religious benefits, a description and good faith estimate of the value of those goods or services, and
- if the donee organization provides any intangible religious benefits, a statement to that effect.

Donations of less than \$250.

Cash. A donor of charitable contributions of cash, checks, or other monetary gifts, regardless of the amount, must substantiate any deduction for the gift with a:

- a bank record, or
- a written communication (including email) from the donee showing the name of the donee, the date of the contribution, and the amount of the contribution.

Noncash. If contributions of property are made and the claimed value of the property does not exceed \$250, the donor generally must obtain and retain a receipt from the donee charitable organization with the following information:

- the name and address of the charitable organization,
- the date and location of the contribution,
- a description of the property in sufficient detail under the circumstances (taking into account the value of the property) for a person not generally familiar with the type of property to understand that the description is of the contributed property, and
- for a security, the name of the issuer, the type of security, and whether it is publicly traded as of the date of the contribution.

A receipt is not required if the contribution is made in circumstances where it is impractical to obtain a receipt, such as by depositing property at a charity's unattended drop site. Even for small donations, however, the donor should maintain reliable written records with respect to each item of donated property that include the information required on a receipt.



Charitable Giving Acknowledgement and Substantiation - Continued

Donations of clothing and household goods. All donations of clothing and household goods are subject to all of the regular rules on substantiation, plus the taxpayer must prove that they are items in at least good condition. Only clothing and household goods in good condition or better qualify for a deduction.

Keep in mind that the fair market value of used clothing and household goods is usually much lower than the price paid when new. Valuation of these items does not lend itself to fixed formulas or methods.

Other donations, such as vehicles and boats, contributions through payroll deduction or larger gifts of property have special rules and/or record keeping requirements. If you should have any questions regarding these requirements or any of the other requirements noted above, please do not hesitate to call.

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Payee Statement Required to Claim Education Benefits

With limited exceptions, a taxpayer is not allowed to claim the American Opportunity credit, lifetime learning credit, or tuition and fees deduction unless he or she receives a copy of Form 1098-T, Tuition Statement, from the educational institution to which qualified tuition and related expenses were paid.

Educational institutions are generally required to file Form 1098-T, Tuition Statement with respect to each individual who is or has been enrolled for any academic period during the calendar year. Institutions use the form to report either the payments received or the amounts billed on a calendar-year basis.

The information statement must be furnished to the taxpayer or dependent by January 31 of the year following the calendar year in which the payments of qualified tuition and related expenses were received or the reimbursements, refunds, or reductions were made.

This effectively means that taxpayers claiming these education incentives will have to wait to file their returns until they receive a copy of Form 1098-T from the education institution, which could impact individuals who file early in the filing season in anticipation of a large refund; or who file early in order to provide accurate tax information for the Free Application for Federal Student Aid (FAFSA).

If you, or your dependents, pay qualified tuition and related expenses and can otherwise claim education tax benefits, please remember to include the Form 1098-T in your paperwork to us for preparation of your return. If you or your dependents did not receive Form 1098-T but believe the expenses may still qualify for a credit, please let us know. We can explore the possible exceptions to the 1098-T requirement.

In the meantime, if you have any questions about this rule or education benefits in general, please call our office.

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