



Travel, Meals and Entertainment

Tax and Business Update

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Recordkeeping for T&E

Expenses for travel and entertainment (T&E) cannot be estimated. The taxpayer must be able to prove (1) that the expense incurred is deductible and (2) the amount. Usually, entries on an expense report or log, along with canceled checks or bills to support claimed expenses are adequate to support a deduction.

Requirements for Documentary Evidence	
Type of Document	Requirements
Hotel Receipt	<ul style="list-style-type: none"> Hotel's name and location. Dates taxpayer stayed there. Separate amounts for charges such as lodging, meals and telephone calls. <p>Caution: A credit card statement alone is not sufficient evidence for a lodging expense.</p>
Restaurant Receipt	<ul style="list-style-type: none"> Restaurant's name and location. Number of people served. The date and amount of the expense. If a charge is made for items other than food and beverages, the receipt must show that this is the case.
"Ticketless" Airfare	Copy of an email or fax of the airline itinerary/receipt.
Canceled Check	<ul style="list-style-type: none"> A canceled check along with a bill from the payee or other evidence that there was a business purpose. A canceled check by itself does not prove a business expense.
Situations where documentary evidence is not needed	<ul style="list-style-type: none"> Meals or lodging expenses for business travel that is reimbursed by the taxpayer's employer under an accountable plan, if the employer provides a per diem allowance for those expenses. Expenses, other than lodging, that are less than \$75. Transportation expense for which a receipt is not readily available.

Per Diem Reimbursements

Instead of reimbursing actual expenses, employers can use a per diem allowance to reimburse employees for business travel expenses away from home.

If the employee substantiates the time, place and business purpose of the travel, the amount will be deemed substantiated, up to the lesser of:

- 1) The per diem allowance paid or
- 2) The amount based on the federal per diem rate for the locality of travel.

If an employer's per diem rate exceeds the federal per diem rate, the excess is taxed to the employee and subject to payroll and withholding tax.

Employees who are not reimbursed by their employers and self-employed individuals can also use the per diem method to compute their deductions for meals and incidental expenses (M&IE) when traveling on business. However, they can't deduct a per diem amount for lodging—they must deduct actual expenses.

Who Can Use Per Diem Rates?			
Taxpayer	M&IE and Lodging	M&IE Only	IE Only
Self-employed taxpayer	No	Yes	Yes
Employer reimburses unrelated employee	Yes	Yes	Yes
Employer reimburses more than 10% owner	No	Yes	Yes
Unreimbursed employee	No	Yes	Yes
Payer reimbursement to partner	Yes	Yes	Yes

50% Limit on Meals and Entertainment

With some exceptions (see below) the deduction for meals and entertainment expenses is limited to 50% of the amount that otherwise qualifies for deduction.

Meals and Entertainment Costs Not Subject to the 50% Limit		
Expense	Description	Example
Advertising	Meals or entertainment provided to the general public to advertise or create goodwill.	Distributing free food and beverages to the public; sponsoring a TV or radio show.
Meals/entertainment sold to customers	The taxpayer is in the business of furnishing meals and entertainment.	Restaurants deduct the full cost of meals served to customers; night clubs deduct performer costs.
Charitable sports event	A ticket to a charitable sports event (including a meal) if: <ul style="list-style-type: none"> • The event's main purpose is to benefit a qualified charitable organization, • The entire net proceeds go to the charity and • The event uses volunteers to perform substantially all the work. 	The cost of a charity golf tournament package, including dinner after golfing.
Nonemployee prizes and awards	Meals and entertainment costs reported to a non-employee recipient on Form 1099.	As a sales promotion, a business holds a drawing and awards a customer a dinner cruise.
Meals and entertainment for the benefit of employees	Costs for recreational, social or entertainment gatherings that primarily benefit rank and file (rather than highly compensated) employees.	Company outings (such as a summer picnic) and banquets or other gatherings (such as the annual Christmas party) for employees and their guests.
De minimis fringe benefits	Costs of benefits that are tax-free <i>de minimis</i> fringe benefits.	Employers provide their employees with free coffee and soft drinks or subsidized meals (on a nondiscriminatory basis) in a cafeteria on or near the employer's business premises.
Meals furnished on the employer's premises for the employer's convenience	The cost of such meals are fully deductible, even though they are excluded from the employee's income.	Paramedics are furnished meals in a hospital cafeteria so that they will be available to respond to emergency calls.

Notes



The handout is designed to provide accurate information regarding the subject matter covered. However, before completing any significant transactions based on the information contained herein, please contact us for advice on how the information applies in your specific situation.
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