

Meals and Entertainment, Auto and Travel Expenses Documentation Requirements

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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 transitional guidance provided by the IRS, 50 percent of food and beverage expenses associated with operating a trade or business continue to be deductible after 2017 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.

One exception to the 50-percent limit is for business meals provided by a restaurant in 2022. This is only an exception to the 50-percent limit, all other requirements above still apply.

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

1. Amount,
2. Who was in attendance (name of person(s) present at the meal or travel),
3. The business purpose of the meeting,
4. The date and place of the meal or travel,
5. 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.

Adequate documentation is also required for auto and travel expenses. The Internal Revenue Service requires written documentation of miles driven and their business purpose. These requirements may be met by maintaining a mileage log or an appointment book.

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.

Here's what you need from charitable organizations to claim your deductions:

1. If your contribution is an outright donation of \$250 or more made in cash or by check, the organization must indicate the amount that you gave and state that you received nothing in return (or designate that a certain amount did benefit you, in which case that portion is not deductible).
2. If your contribution is an outright donation of \$250 or more of property, or cash and property, the organization must describe the property and state that you received nothing in return. It does not have to put a value on the property it received.

Cash donations of less than \$250. All donors of charitable contributions by cash, check or other monetary gift must retain records that each charitable contribution was actually made, regardless of the amount. To fulfill this burden, a donor has two choices on what paperwork to retain:

1. A bank record; or
2. A receipt, letter or other written communication from the donee indicating the name of the donee organization, the date the contribution was made and the amount of the contribution.

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

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

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