

2018 Travel and Meal Expense Review

Dear Client:

Although the computer age and modern telecommunications have reduced the need for in-person contact, it is still sometimes necessary for businesses to send employees out of town on business, or to dine with clients and customers. How travel and meal expenses are handled can have an impact on your net income, your paperwork burden, and on the tax results for you and your employees.

Expenses for travel and meals are generally deductible to the extent they are directly related to, or associated with, the active conduct of the taxpayer's trade or business. A taxpayer may deduct a meal expense only if (1) the expense is not lavish or extravagant under the circumstances, and (2) the taxpayer or an employee is present. The deduction is generally limited to 50 percent of the cost, but there are many exceptions. Business expense deductions are eliminated for most entertainment costs and commuting benefits after 2017, as well as certain employer-provided meal expenses after 2025.

To ensure that employee reimbursement is not subject to payroll and withholding taxes, the business must maintain a fairly detailed recordkeeping system. For travel, employees must submit a written statement of the time, place, destination and business purpose of the trip and the amount of expenses incurred by category (e.g., travel, meals, lodging). For meals, the employee must submit a written statement showing time, place and cost of the event, who dined, and the business purpose of the meal. Finally, the employee must keep and turn in to the employer documentary evidence such as receipts for all lodging expenses, and for other travel expenses over \$75.

Because the recordkeeping can be onerous, the law provides some shortcuts, depending on the type and frequency of the travel and meal expenses. For example, the paperwork burden and the cost of travel expenses can be decreased by giving employees who travel for business purposes a flat daily allowance, a per diem, which varies by destination, to cover meals, lodging and incidental expenses. If the daily allowances do not exceed IRS-determined maximums, they are payroll and income tax free with a minimum of paperwork; all that is required is a record of the time, place and business purpose of the travel. To-the-penny accounting of expenses and corroborating receipts is not necessary.

Travel and meal expenses are particularly susceptible to challenge by the IRS. In addition, businesses may fail to deduct qualifying travel and meal expenses, or may be deducting these expenses improperly. We can perform a confidential review of your company's travel and meal expenses to ensure compliance with the complex rules that govern these deductions. Please call us to arrange an appointment at your earliest convenience.

Sincerely,

Hettick Accounting & Tax, LLC