

GUEST COLUMN

Don't Miss Those Tax Deductions

Careful record keeping can save your company a lot of money

By Martin H. Abo

IT'S CRIMINAL TO TAKE business-tax deductions to which your company is not entitled, but it's a darn shame to miss those that are lawful. Here are some guidelines to recording the proper tax deductions for such items as travel, entertainment and business meals.

Note: Endless tampering by Congress with tax law makes it essential to review your tax planning with a professional adviser.

The law requires you to keep records supporting deductions for business travel, entertainment and gifts. Generally, estimates are not permitted. Here's what you need.

1. The amount of the expenditure for travel, meals, lodging, entertainment or gifts.
2. The time and place of the travel and entertainment or the date and description of the gift.
3. The business purpose of the expense or the business benefit derived or expected to be derived as a result of the expenditure.
4. The business relationship with the person entertained or receiving the gift.

As long as it is an ordinary and necessary business expense, the cost of entertainment may be deductible if it is "directly related" to business or directly precedes or follows business discussion and was "associated with" the conduct of your business. An exception is made for a taxpayer traveling away from home on business, in which case the cost of a meal alone or with persons who are not connected with his business will qualify as a business meal.

All travel and entertainment should be recorded in a diary or account book "at or

near the time" when they occur. Records and receipts should be retained for at least three years after the due date for filing the tax return on which you claimed the deduction. Except for expenditures for lodging and transportation, receipts are not required for expenses up to \$75.

Business meals and entertainment are only deductible to the extent of 50 percent of their cost, and deductions are not allowed for lavish or extravagant meals. The cost of beverages served apart from meals is covered by the rules for business meals. Meals or beverages served in a taxpayer's residence qualify as business meals on a clear showing that the expenditure was commercially motivated.

Business gifts are deductible only to the extent of \$25 per year per recipient.

Pay attention to properly identifying the type of expense you are recording: It's a shame to see fully deductible expenses such as those for hotels mistakenly lumped with 50 percent deductible items like meals and entertainment.

It is important to adopt a simple recordkeeping system that works for you. Maintain a diary that details any expenses incurred as well as the information necessary to support the deductions. Many already maintain some sort of appointment book, so you may need only to get in the habit of jotting down the additional information and saving receipts.



Even if not required, I suggest retaining documentary evidence that can substantiate other nonelements of the expenditure or elements of related expenditures. For example, a restaurant receipt is not required where the expenditure is less than \$75. Nevertheless, such a bill establishes the time and place of the meal, supporting the related parking and transportation costs.

Another helpful technique is to minimize the use of cash to pay for deductible expenses. A canceled check or a credit card slip can do something that cash can't: refresh one's recollection of an expenditure's unrecorded elements.

While the 1986 Tax Act made an employee's nonreimbursed business expenses deductible only to the extent they exceed 2 percent of his adjusted gross income based on his personal tax return, the employer is not subject to such a limitation. He can claim the entire deduction as long as the business purpose is properly documented. This is why I suggest business owners submit such items for reimbursement by their business—even if it means reducing their regular draws or compensation.

Please understand that what's outlined above is meant to serve as a mere guideline in making sure you get every legitimate deduction you're entitled. In other words, what is one person's pleasure may be another's business! u

Martin H. Abo, is a principal with Abo and Co., Certified Public Accountants—Litigation & Forensic Consultants, with offices in Voorhees and Morrisville, Pa. A CPA and CVA (certified valuation analyst), he can be reached at (856) 489-5559 and at marty@aboandcompany.com.