

TRAVEL AND ENTERTAINMENT EXPENSE DEDUCTIONS

Travel and entertainment expenses are generally deductible as long as they are ordinary and necessary and are not lavish or extravagant. However, further restrictions and limitations exist, including the following:

1. The travel and entertainment must be substantiated to be deductible; who, what, where, when, why and amount. Employee allowances not requiring accountability must be reported as wages (not travel) and are subject to normal employment taxes.
2. Only 50% of the amount spent for meals and entertainment is deductible¹. Also, no deduction is allowed for club dues (civic club dues, such as Rotary, are allowed).
3. Entertainment expenses must be directly related to or associated with the active conduct of a corporation's trade or business.
 - a. Directly related to requires (i) more than a general expectation of deriving income or other business benefit, (ii) a business meeting, negotiation, discussion or other business transaction other than entertainment, (iii) the principal character of the activity must be business, (iv) the entertainment must occur in a location reasonably possible to conduct business.
 - b. Associated with requires a clear business purpose for the expenditure, such as obtaining new business or encouraging the continuation of an existing business relationship.

¹ Exception: For certain transport workers, 75% of meals are allowable.

VEHICLE EXPENSE DEDUCTIONS

Current Internal Revenue Service regulations require taxpayers to substantiate business usage for all vehicles for which a deduction is taken including automobiles, sport utility vehicles, vans and light-duty trucks. The regulations do not require written evidence, although it is considerably more valuable than verbal evidence alone should your return be examined. Additionally, mileage information (total miles, business miles, commuting and other personal-use miles) is required to be reported on the income tax return if vehicle expenses are claimed.

Mileage records are not required for vehicles that are unlikely to be used for personal purposes, such as delivery trucks with seating only for the driver, flat-bed trucks, dump trucks, etc.