

Tax Information for Small Businesses

CONSTRUCTION - Travel & Entertainment IRC Sections 162 & 274

Categories of Travel & Entertainment

- Local Transportation
- Out-of-Town Travel
- Meals and Entertainment Expenses
- Gifts

Business Trips

- Getting from one workplace to another
- Visiting clients or customers
- Going to a business meeting
- Getting from your home to a temporary workplace when you have one or more regular places of work

Standard Mileage Rate

- Multiply business miles by a predetermined rate per mile
- Includes costs for depreciation, garage rent, gas, insurance, lease payments, licenses, oil, registration fees, repairs, and tires
- Does not include parking fees, tolls, and car loan interest

Standard Mileage Rate Not Allowed

- When car is used for hire (taxi)
- When operating two or more vehicles simultaneously
- When depreciation or Section 179 was taken in a prior year
- Claimed actual costs on a leased car after 1997

Actual Vehicle Costs

Multiply the business usage percentage against the total of depreciation, garage rent, gas, insurance, lease payments, licenses, oil, registration fees, repairs, and tires.

Commuting

- Transportation costs between your home and your regular place of business are not deductible.

- If there is no regular place of business, the first and last business trips of the day are not deductible.

Out-of-Town Travel Tax Home

Generally, your tax home is your regular place of business, regardless of where you maintain your family residence.

TAX HOME

You may have a tax home even if you do not have a regular place of business.

Your tax home is where you reside IF you answer 'yes' to all of the following three questions:

- Do you conduct part of your business in the same area where you spend the night?
- Do you duplicate your living expenses when you are away from that home for business?
- Do you often use that home for lodging, or have a member of your family living in that home?

Transient

- A transient does not have a regular place of business nor a regular residence.
- As a transient, no travel expenses can be claimed.

Example of Transient

Not Transient

Keith works for various contractors in the same city where he lives. Several of the contractors send him out of town on jobs that last a few weeks. While Keith is away from his home, the costs are deductible.

Transient

Larry worked in several different cities during the year. He did not maintain a home in any city. Larry is a transient and he cannot claim any of the costs associated with his travel.

Temporary or Indefinite Travel

- Temporary job assignments are expected to last under a year. Travel costs are deductible.
- If the job is expected to last more than a year, the job is considered indefinite and travel costs are not deductible.

Examples of Temporary vs. Indefinite Travel

Example 1: Job expected to last 18 months, but actually lasted 10 months

Temporary: Not considered temporary travel

Indefinite: Job expected to last over a year. Travel costs are not deductible

Example 2: Job expected to last 9 months, but actually lasts 15 months

Temporary: Deduct travel costs until the expectation changed to over a year

Indefinite: After expectation changed, travel costs are no longer deductible

Standard Meal Allowance

- Use the standard amount of \$30 per day instead of actual cost of meals
- Subject to 50 percent meal limitation
- Includes room service, dry cleaning, and tips
- Utilize $\frac{3}{4}$ of allowance or \$22.50 for travel days

Per diem rates

- Includes standard amount of \$55 for lodging and \$30 for meals or \$85 per day
- Cannot be used by self-employed traveler, but can be used for employees
- Higher rate cities can be found in Pub. 1542

Flat Rate Payments for Travel

- Many contractors pay their employees a flat rate for lodging and meals that is lower than the per diem amount
- 40 percent of the payment should be allocated towards meals and 60 percent should be allocated towards the lodging
- Meal amount subject to 50 percent limitation

Example of Flat Rate

- Vince pays \$40 per man each day to cover lodging and meals for out-of-town jobs
- The meal allowance is \$16 per day ($\$40 \times 40\%$)
- The lodging is \$24 per day ($\$40 \times 60\%$)

Meals and Entertainment

- Directly-related Test:
 - Entertainment took place in a clear business setting or you engaged in business during the entertainment, and there was a reasonable expectation of business results.

- Associated Test:
 - Entertainment directly precedes or follows a substantial business discussion.
- Entertainment cannot be lavish or extravagant
- Cannot deduct membership dues for clubs organized for business, pleasure, recreation, or other social purposes
- Deduct only 50 percent of expense
- No quid pro quo agreements

Entertainment Example

Ralph and Norton contract jobs with one another. They go to lunch everyday. Ralph agrees to pay for lunches on Mondays and Wednesdays. Norton pays on Tuesdays and Thursdays. These meals would not be deductible, because they represent a quid pro quo agreement.

Gifts

- You can deduct no more than \$25 for business gifts you give directly or indirectly to any one person during the tax year.
- Spouses are jointly limited to \$25 per year to any one person, even if they own separate businesses.

Thank You!