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**GELMAN, ROSENBERG
& FREEDMAN**
CERTIFIED PUBLIC ACCOUNTANTS



Maximizing Deductions

for travel, entertainment, meals and automobile expenses

Contact Gelman, Rosenberg & Freedman

**GELMAN, ROSENBERG
& FREEDMAN**
CERTIFIED PUBLIC ACCOUNTANTS



4550 Montgomery Avenue • Suite 650 North
Bethesda, MD 20814
301/951-9090 • Fax: 301/951-3570
info@grfcpa.com • www.grfcpa.com



Reporting Employee Travel, Meals, Entertainment and Gift Expenses and Reimbursements

Reporting business expenses on your tax return depends on the employer's reimbursement policy and accounting provided. This chart summarizes some common arrangements. The information presented is not intended to be legal or tax advice.

Type of Reimbursement Arrangement	Employer Reports on Form W-2	Employee Reports on Form 2106
Accountable plan with:		
Actual expense reimbursement		
➤ Adequate accounting <i>and</i> excess returned	➤ Not reported	➤ Not reported
➤ Adequate accounting and return of excess both required <i>but</i> excess not returned	➤ The excess amount as wages in Box 1	➤ Not reported
Per diem or mileage allowance up to the federal rate*		
➤ Adequate accounting <i>and</i> excess returned	➤ Not reported	➤ All expenses and reimbursements only if excess expenses are claimed. Otherwise, form not filed.
➤ Adequate accounting made <i>but</i> excess not returned	➤ The excess amount as wages in Box 1. The amount up to the federal rate is reported only in Box 12 – not reported in Box 1.	➤ All expenses (and reimbursements reported on W-2, Box 12) only if excess expenses are claimed. Otherwise, form not filed.
Per diem or mileage allowance exceeding the federal rate*		
➤ Adequate accounting up to the federal rate only <i>and</i> excess not returned	➤ The excess amount as wages in Box 1. The amount up to the federal rate is reported only in Box 12 – not reported in Box 1.	➤ All expenses (and reimbursements reported on W-2, Box 12) only if expenses in excess of the federal rate are claimed. Otherwise, form not filed.
<i>*Note: Employees related to the payor within the related-party rules of Code Section 267(b), using a 10 percent common ownership standard, cannot use per diem substantiation methods. Please contact our firm if you have questions.</i>		
Nonaccountable plan with:		
➤ Either adequate accounting or return of excess, or both, not required by plan	➤ The entire amount as wages in Box 1	➤ All deductible expenses
No reimbursement plan		
	➤ N/A	➤ All deductible expenses

Deductions for Travel, Meals and Entertainment

0% Deductible

50% Deductible

100% Deductible

Business Trips, Conventions, Meetings Within the United States (*Note: Special rules apply to foreign travel.*)

- Lavish or extravagant expenses
- Meals and entertainment (80 percent deductible for transport workers, subject to Department of Transportation hours-of-service limitations)
- Hotel, transportation expenses
- Luxury water travel (cost in excess of twice the federal per diem rate, subject to certain exceptions)
- Tips for meals and entertainment
- Cleaning and laundry
- Business luncheons at clubs
- Cost of meeting rooms
- Registration fees
- Tips (other than for meals and entertainment)

Customer Entertainment (*Proper documentation includes records of who, what, where and how much and records of business relationships. Receipt is required for expense of \$75 or more.*)

- Business gifts in excess of \$25 per person per year
- Restaurant meals – requires a member of your business to be present
- Cost of travel to entertainment events
- Lavish or extravagant expenses
- Night clubs, social events, sporting events, theater, sporting trips, etc.
- Entertainment and meal expenses billed to customer, if record provided to customer
- Cost of entertainment facilities
- Food at any of the above events
- Holiday cards and decorations
- Facility operating costs
- Tips for meals and entertainment
- Food provided to the general public (in nature of advertising)
- Skyboxes – cost in excess of regular nonluxury box seat
- Note: All entertainment requires active business discussion before, during or after the entertainment event.*
- Business gifts costing \$25 or less per person per year

Cruise Ships

- Costs in excess of \$2,000 per employee per year
- Full cost if ship is not U.S. registered
- Full cost if any port of call is outside United States or its possessions
- Minor exception for use as transportation



- Up to \$2,000 per employee per year if all requirements are met:
 - Business convention or meeting
 - Ship registered in United States and all ports of call in United States or its possessions
 - Proper documentation attached to tax return

Dues

- Business luncheon clubs
- Specific business entertainment expenses at clubs (such as the cost of business entertainment meals with customers)
- Professional organizations and business leagues
- Airline and hotel clubs
- Trade associations, boards of trade
- Golf, athletic, social and country clubs
- Chambers of commerce
- Civic organizations
- Public service organizations

Deductions for Automobiles

Two methods are used to calculate automobile expenses for business use: (1) actual expenses or (2) standard mileage rate.

Actual Expenses: Depreciation, licenses, repairs, gas, oil, tires, insurance, tolls, parking fees, lease fees, rental fees.

Standard Mileage Rate: 51¢ per mile, Jan. 1, 2011-June 30, 2011, and 55.5¢ per mile beginning July 1, 2011. Certain expenses such as tolls and parking fees are deductible using the standard mileage rate or under actual expenses.



Documentation for Auto Mileage: To substantiate auto deductions, you should keep a log to show where, why and whom you visited each day, as well as the number of miles driven.

Employer/Employee Expenses

- Meals provided in employer-sponsored eating facility (if 50 percent or fewer employees meet the convenience-of-employer test)
- Meals and entertainment included in employees' compensation
- Meals and entertainment included in Form 1099 for nonemployees
- Recreational expenses for non-highly compensated employees
- Employee holiday parties, annual picnic, sports teams and expenses
- Cash gifts to employees required to be included in compensation
- Noncash gifts to employees – value in excess of \$25 – required to be included in compensation (exception for employee award programs)
- Meals provided in employer-sponsored eating facility (if more than 50 percent of employees meet the convenience-of-employer test)



Maximum Depreciation on Automobiles*/Trucks/Vans

Automobiles

Trucks/Vans***

Deprec. year:	Standard*	100% additional**	Standard*	100% additional**
1st year	\$3,160	\$11,160	\$3,360	\$11,360
2nd year	5,100	5,100	5,300	5,300
3rd year	3,050	3,050	3,150	3,150
4th year	1,875	1,875	1,875	1,875
5th year	1,875	1,875	1,875	1,875
6th year +	1,875	1,875	1,875	1,875

* Vehicles defined as having GVW under 6,000 lbs. Automobiles use unloaded GVW; trucks use loaded. Vehicles heavier than 6,000 lbs. are not subject to these limits.

** 100 percent bonus depreciation is available for vehicles acquired after Sept. 8, 2010, and before Jan. 1, 2012.

*** Refers only to trucks, vans or SUVs built on a truck chassis.

The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.