



Meals and Incidental Expenses

If you travel away from home for business and stay overnight, you are allowed to deduct certain expenses connected with that travel. This is true whether you are an employee or self-employed. The deduction that causes most problems and questions from IRS is the meal and incidental expenses. Therefore, it is important to know what amounts can be deducted and what records should be kept to justify the deductions.

Substantiation Rules

Substantiation of the meals will require identification of the date, time, cost and business purpose. If another person is involved, that person must also be identified. A logbook is the easiest way to keep track of this information. You should keep your receipts to back up your deduction.

Actual Expenses

In order to use the actual expenses amount for meals, you must provide all of the substantiations listed above. A deduction may be reduced if the meal amount is considered lavish or extravagant.

If an employee is related to his employer (spouse, sibling, lineal ancestor or descendent, more than 10% owner of a corporation, or certain fiduciaries), the actual expense method must be used.

Standard Meal Allowance

The standard meal allowance is based on the federal per diem rates for the specific area of travel. This can be used by everyone except certain related employees as outlined above.

IRS publishes a list of the rates for various areas of the United States in Publication 1542, Per Diem Rates. The basic meal and incidental rate is \$39 per day unless the area is identified as a higher cost area.

If you are traveling outside of the continental United States, you will need other information to calculate your meal allowance. These rates vary widely, and it will be necessary to provide your tax preparer with the actual dates and location of your travel in order to correctly determine the deduction.

If you travel to more than one area in a day, the allowed amount is determined by the area where you stop for sleep and rest. The incidental expenses included with this amount are laundry and dry cleaning expenses, and fees and tips for waiters, baggage handlers, and similar service providers. Taxi fares and telephone costs can be deducted separately.

Partial Days

If you are away from home overnight but not for an entire 24-hour period, the standard meal allowance must be prorated for each partial day.

The most common method used for this calculation is to break the day into 6-hour quarters (midnight to 6 a.m., 6 a.m. to noon, noon to 6 p.m. and 6 p.m. to midnight) and allow the per diem for each quarter that you are away from home.

Limitations

A taxpayer is allowed to deduct expenses for meals when away from home overnight or entertaining a client. Whether the amount is determined by actual expenses or through the use of a standard meal allowance, the actual deduction is limited to 50% of the expense. Transportation workers are allowed to claim 75% of their expenses for 2006 and 2007, eventually increasing to 80% by 2008.

Transportation Workers

Individuals who are subject to Department of Transportation (DOT) hours of service limitations can deduct a higher percentage of their meal expenses when they are away from home overnight. They are also entitled to a higher per-diem rate of \$52 per day.

The percentage is 75% for tax years beginning in 2006 and 2007, rising to 80% for 2008 and later years.

Individuals subject to the hours of service limitations include certain employees in the airline industry, interstate truckers and bus drivers, railroad workers, and merchant mariners.

Lodging

Just a word about lodging expenses. An individual may **not** use the federal per diem amount for lodging; the deduction must be claimed for **actual** expenses. The only exception would be if the employer chooses to reimburse the employee on the per diem (including the height/low rate) basis.

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