

Substantiating Travel and Entertainment Expenses

Have you ever had an expense report returned unpaid along with a request for more supporting information on a travel and entertainment (T&E) expense item? This is a common occurrence because of stringent IRS documentation requirements to support T&E expenses. ***Even though there may be no question as to the deductibility of an expense, it may be disallowed by the IRS for lack of substantiating documentation.*** The information in this article should help you and your employees adequately substantiate your T&E expenses and avoid future documentation requests from the accounting department or, worse yet, the IRS.

Substantiation Requirements - Substantiation rules apply to expenses incurred for either business or investment purposes such as: (1) overnight travel, including meals and lodging; (2) meals, entertainment, and recreational activities; (3) local transportation expenses; (4) gifts; and (5) the use of property such as an automobile, cell phone, or computer for a business purpose. IRS rules disallow a deduction for these expenses unless you maintain adequate records to substantiate the:

Expense amount.

Time and place the expense was incurred.

Business purpose of the expense.

For gifts, a description of the item given and the business relationship you maintain with the person receiving the gift.

For entertainment expenses, your relationship to the person or persons entertained.

Documentary evidence (paid bill, written receipt, or similar evidence) is required to substantiate all T&E expenses of \$75 or more. However, a written receipt is always required for lodging while traveling away from home, regardless of the amount. ***A credit card statement is not sufficient documentary evidence of a lodging expense.*** Instead, a hotel bill showing the components of the hotel charge is required. For transportation charges, documentary evidence is not required if not readily available (e.g., cab fare). Although the IRS requires documentation of T&E expenses only when they are at least \$75, many businesses set a lower threshold for their own internal reimbursement

purposes.

The Per Diem Method - Rather than pay for actual expenses, an employer can use a per diem allowance to reimburse employees for business travel expenses incurred while away from home. The per diem amount can be at or below the applicable federal per diem rate, a flat rate or stated schedule, or in accordance with an IRS-specified rate or schedule. The amount deemed substantiated by the IRS for each calendar day (or partial day) is the lesser of the employer's per diem allowance or the amount computed at the federal per diem rate for the locality of travel.

The maximum per diem amounts deemed substantiated under the IRS guidelines are those that apply to federal employees. There are two separate rates for each locality: a rate for lodging and a rate for meals and incidental expenses.