

# **BURR BUSINESS SERVICE**

## **Bookkeeping & Income Tax Service**

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## **IMPORTANT CLIENT INFORMATION**

A first step in avoiding costly hassles with the IRS is identifying potential problem areas. As a recent government report confirmed, one frequent source of audit conflict between the IRS and small businesses is the documentation of travel and entertainment expenses.

The IRS often has the edge in these fights and wins because the tax law spells out detailed rules about how these expenses must be verified and documented. Most companies try to comply but often fall short and end up drowning in paperwork.

Fortunately, that's one problem for which some relief has arrived. Until now, you had to have a receipt to verify any travel or entertainment expense of \$25.00 or more. No receipt, no deduction. Since October 1, 1995, however, that figure tripled. For costs incurred on or after that date, you usually will not need a receipt for expenses under \$75.00.

Although this is a big break, it does not mean that all recordkeeping can be ignored. Receipts are still needed for all lodging expenses even if the cost is under \$75.00, unless the company pays traveling employees only the IRS-approved per-diem rate. Those incurring the expense will still have to record the time, place, business reason, and amount of each travel and entertainment expenditure, unless a per-diem is used, in which case amounts do not have to be recorded at all.

With this in mind, you may want to consider reviewing your travel and entertainment recordkeeping and substantiation procedures as you adjust your record keeping practices to take into account this IRS \$75.00 rule.

Setting up separate procedures for your own internal tracking of expenses probably makes sense, too. For example, you may want to require employees to show you receipts for expenses costing less than \$75.00 before okaying them, even though you no longer need to keep them for audit purposes.

Please call if you have any questions on the rules or would like us to review and update your travel and entertainment recordkeeping procedures.

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