

The Accountants Group, Inc.

Summary of Record Keeping Requirements

This is only a summary of some very complicated and detailed IRS rules and regulations. Please refer to detailed instructions regarding record keeping available at www.irs.gov . These may be found in Publication: 334, *Tax Guide for Small Businesses*; 463 *Travel, Entertaining, Gifts and Car Expenses*; 535, *Business Expenses*; 552, *Record Keeping, Individuals*.

Meals (travel & business) & Entertaining expenses

These expenses are broken down into three categories

- ❖ Entertaining (0% deductible): Sporting events, concerts, shows, meals out of the office with employees (lunches, dinners) and no client/customer is present (see employee entertaining below)
- ❖ Business Meals (50% deductible):
 - Meals & drinks consumed when you are away from home overnight
 - Meals & drinks when a client/customer is present and you are able to discuss business (but there is no requirement that you actually do discuss business)
 - Meals & drinks consumed during an entertaining event but only if the expense is separately stated (a ticket to an event that includes meals & drinks but does not state a separate cost is Entertaining only)
 - Food & drinks consumed by employees on the business premises for the convenience of the employer.
- ❖ Employee Entertaining (100% deductible): Holiday parties, sporting events, shows etc. but only if there are no clients/customers present.

Records to keep:

- ❖ Written record showing the name of the restaurant or event, date of the event, amount spent and the business purpose.

- ❖ For business meals and entertaining include the name of the person entertained, the business relationship and, if there was a business discussion, a brief description of the discussion.
- ❖ You are required to have a receipt for amounts over \$75.00. However we recommend you obtain a receipt for all meals and entertaining expenses.
- ❖ For entertaining such as sporting events, golf, concerts, shows etc. show the name and business relationship of the individual. Drinks and meals are deductible if they are paid separately or separately stated on the invoice for the event. If they are included in the cost of admission they are not deductible.
- ❖ Giving someone tickets to a concert or sporting event is not an entertaining expense. It is a gift and the deduction is subject to a \$25.00 per recipient per year limitation.
- ❖ Please provide the total cost of the expense, we will adjust it to the deductible portion on your tax return.

Home Office:

- ❖ A daily log that shows the amount of time you spend working in the office and what you were doing. To qualify for the deduction the office has to be used "regularly" & "exclusively" used for business. Regularly is not defined but seems to indicate several days and a minimum of ten hours per week.
Please note, if you are deducting mileage from your home office to your other business locations you need to visit your home office before and after the business travel. The kinds of things that should qualify for the business use of your home are: telephone calls, bookkeeping, planning, scheduling, making appointments, research, billing and similar tasks.
- ❖ Take a date stamped photo showing the office or work area that you use exclusively for business. This can be a desk; it does not have to be a separate room. The term "exclusive" has been interpreted by the IRS and the courts as 100% business - absolutely no personal use.
- ❖ To compute the deduction, we will need to know:
 - The square feet of the office area and the total square feet of the living space of the house, not including hallways and bathrooms.

- How much you spent for homeowner's insurance, real estate taxes, mortgage interest, utilities, homeowner's association, the original cost of the house, the cost of any improvements to the office area and all other expenses related directly to the office.

Auto Use:

- ❖ You are required to have a contemporaneously maintained daily log (updated within a week of the event) showing where you went, the business purpose of the trip, who you met with and the mileage. You need this record whether you use Standard Mileage Rate or actual expenses to compute the deduction.
- ❖ We suggest you maintain a record of the actual expenses so we can determine if it is better to use actual expenses or the standard mileage rate.

Actual expenses include the original cost of the vehicle or the lease payment, gas, repairs, tires, maintenance, license, city sticker, car washes and anything else that has to do with the vehicle.

- ❖ In addition to either the standard mileage or actual expenses, you are also able to deduct interest, tolls and parking. Please provide these expenses separately from your auto expenses.

IRS Regulations define specific requirements that we must adhere to in order to provide advice that is to be considered federal tax advice for the purposes of avoiding penalties that the IRS might seek to impose. THIS DOCUMENT (and any attachments, enclosures or other accompanying materials), IS SPECIFICALLY INTENDED TO NOT QUALIFY AS FEDERAL TAX ADVICE AND IT SHOULD NOT BE RELIED ON TO AVOID IRS PENALTIES. Specific guidance regarding our providing federal tax advice is explained in our engagement letter