

2014 Maximizing Deductions



Allowable deductions for business expenses

Travel

Entertainment

Meals

Automobiles

Deductions for Travel, Entertainment, Meals and Automobiles



If you travel frequently as part of your job, it's essential at tax time for you to know exactly what's deductible and what isn't.

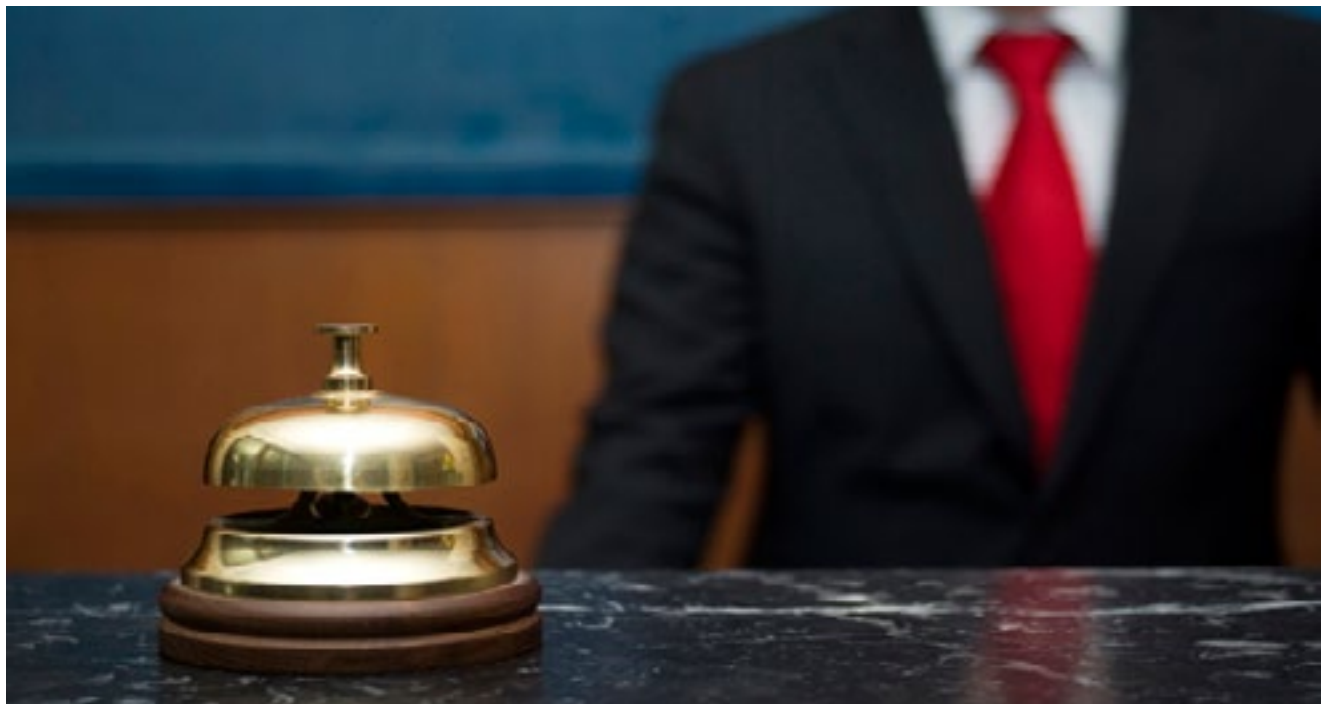
This is especially true if you aren't reimbursed – or aren't fully reimbursed – by your employer.

The following information shows you precisely what you can deduct on business trips, when you entertain customers and when you use your automobile for business purposes.

Business Trips, Conventions, Meetings

Within the United States – Special rules apply to foreign travel

0% Deductible	50% Deductible	100% Deductible
<ul style="list-style-type: none">◆ Commuting to your regular workplace◆ Lavish or extravagant expenses◆ Luxury water travel (cost in excess of twice the federal per diem rate, subject to certain exceptions)	<ul style="list-style-type: none">◆ Meals & entertainment (80 percent deductible for transport workers, subject to Dept. of Transportation hours-of-service limitations)◆ Tips for meals and entertainment◆ Business luncheons at clubs	<ul style="list-style-type: none">◆ Hotel◆ Transportation◆ Cleaning and laundry◆ Cost of meeting rooms◆ Registration fees◆ Tips (other than for meals and entertainment)



Customer Entertainment



0% Deductible	50% Deductible	100% Deductible
<ul style="list-style-type: none"> ◆ Business gifts in excess of \$25 per person per year ◆ Lavish or extravagant expenses ◆ Cost of entertainment facilities (generally, except for room rentals, which are 50%) ◆ Facility operating costs ◆ Skyboxes – cost in excess of regular nonluxury box seat 	<ul style="list-style-type: none"> ◆ Restaurant meals (A member of your business must be present.) ◆ Night clubs, social events, sporting events, theater, sporting trips, etc. ◆ Food at any of the above events ◆ Tips for meals and entertainment (All entertainment requires active business discussion before, during or after the event.) 	<ul style="list-style-type: none"> ◆ Cost of travel to entertainment events ◆ Entertainment and meal expenses billed to customer (if record provided to customer) ◆ Holiday cards and decorations ◆ Food provided to the general public (in nature of advertising) ◆ Business gifts costing \$25 or less per person per year

Proper documentation includes records of who, what, where and how much and business relationships. Receipt required if expense is \$75 or more.

Cruise Ships

0% Deductible

- ◆ 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

100% Deductible

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



Dues



0% Deductible	50% Deductible	100% Deductible
<ul style="list-style-type: none">◆ Business luncheon clubs◆ Airline and hotel clubs◆ Golf, athletic, social and country clubs	<ul style="list-style-type: none">◆ Specific business entertainment expenses at clubs (such as the cost of business entertainment meals with customers)	<ul style="list-style-type: none">◆ Professional organizations and business leagues◆ Trade associations, boards of trade◆ Chambers of commerce◆ Civic organizations◆ Public service organizations

Employee Expenses

50% Deductible

- ◆ **Meals provided in employer-sponsored eating facility** (if 50 percent or fewer employees meet the-convenience-of-employer test)



100% Deductible

- ◆ **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)
- ◆ **Certain fringe benefits**



Deductions for Automobiles



Two Methods of Calculating Auto Expenses

1. Actual Expenses

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

2. Standard Mileage Rate (rate per mile)

Driving Purpose	2014	2013
Business	56 cents	56.5 cents
Medical/Moving	23.5 cents	24 cents
Charity	14 cents	14 cents

To substantiate automobile deductions, you should keep a log to show where, why and whom you visited each day, as well as the number of miles driven.

Maximum Depreciation on Automobiles/Trucks/Vans

(2013 rates below. 2014 rates released by March 2014)

AUTOMOBILES		
Depreciation Year	Standard*	50% Additional**
1st year	\$3,160	\$11,160
2nd year	\$5,100	\$5,100
3rd year	\$3,050	\$3,050
Each year thereafter	\$1,875	\$1,875



TRUCKS & VANS ***		
Depreciation Year	Standard*	50% Additional**
1st year	\$3,360	\$11,360
2nd year	\$5,400	\$5,400
3rd year	\$3,250	\$3,250
Each year thereafter	\$1,975	\$1,975

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

** 50 percent bonus depreciation is currently not available for vehicles acquired after 2013.

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

Common Ways to Report Travel, Meals, Gift & Entertainment Expenses and Reimbursements

Type of Reimbursement Plan	Employer Reports on Form W-2	Employee Reports on Form 2106
ACCOUNTABLE PLAN WITH:		
<i>Actual expense reimbursement</i>		
◆ 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 I	◆ Not reported
<i>Per diem or mileage allowance up to federal rate*</i>		
◆ 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 I. The amount up to the federal rate is reported only in Box 12 (Code L) – not reported in Box I.	◆ All expenses (and reimbursements reported on W-2, Box 12, Code L) only if excess expenses are claimed. Otherwise, form not filed.
<i>Per diem or mileage allowance exceeding federal rate*</i>		
◆ Adequate accounting up to federal rate only and excess not returned	◆ The excess amount as wages in Box I. The amount up to the federal rate is reported only in Box 12 (Code L) – not reported in Box I.	◆ All expenses (and reimbursements reported on W-2, Box 12, Code L) only if expenses in excess of the federal rate are claimed. Otherwise, form not filed.
*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.		
NONACCOUNTABLE PLAN WITH:		
◆ Either adequate accounting or return of excess, or both, not required by plan	◆ The entire amount as wages in Box I.	◆ All deductible expenses
NO REIMBURSEMENT PLAN ◆ N/A		
◆ All deductible expenses		



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.